PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PUTTING THE SPOTLIGHT ON SOCIAL FACTORS
BEST PRACTICE CASE STUDIES

FEBRUARY 2024

ABOUT THE PENSIONS AND LIFETIME SAVING ASSOCIATION

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, and law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

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CONTEXT

We have worked with members to develop a set of best practice case studies. We know that while social factors are being considered by our members in their investment approaches, general understanding and knowledge can still be limited in this area, and some find social factors confusing to navigate. Our June 2021 consultation response, "Consideration of social risks and opportunities by occupational pension schemes" found that:

- There is concern around the lack of focus on social factors compared to environmental factors.
- There is concern that the current approach to 'E' and 'S' is not holistic. There is significant crossover and more needs to be done to consider environmental and social issues as one.
- We know that some still do not have a clear policy in place on how to address social issues in their investment approach.
- There is a lack of understanding on how to navigate complex measurement metrics to identify how well investee companies perform on social issues.

We know that many of our members are doing excellent work and are successfully investing with impact while maximising member returns. These case studies demonstrate best practice across the investment cycle, from helping to highlight how to approach investing with impact, through to specific examples that demonstrate what opportunities are available. Through making changes to investment and stewardship strategies, the pensions industry can play a leading role in investing with impact.

INTRODUCTION

The 'S' in ESG, social factors, cover a wide range of topics such as modern slavery, health and safety, working conditions and remuneration and they present enormous opportunity. As these case studies highlight, when considering social factors, the objective should be to ensure that consideration is given to how action is taken to address inequalities or inequities that exist within an organisation's sphere of influence.

Social factors are just one strand of 'ESG' and in an ideal world, 'E', 'S' and 'G' would be considered holistically. However, in recent years, environmental factors have largely dominated the ESG agenda. They have been a high government priority, are subject to rigorous reporting requirements and are perceived to be simpler to understand and act upon. Despite that, we know that social issues have always been on the investment and stewardship agenda for our members. Additionally, an increase in focus on key issues in the public domain, such as diversity and inclusion, modern slavery and human rights, has meant that the public is asking more of their pension scheme; they are asking how their money is being invested.

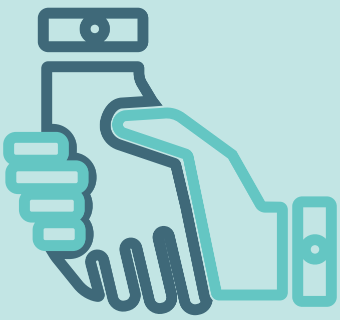
As a result, trustees are increasingly finding themselves playing a much more active role to consider ESG factors with their fiduciary duty to members. In the Government's 2022 response to their consultation on the Consideration of social risks and opportunities by occupational pension schemes, the Minister for Pensions at the time, Guy Opperman, emphasised the importance of social factors and identified it as an area of risk management that pension schemes could strengthen. We were encouraged by the narrative that trustees who fail to consider financially material social factors would be deemed to not be fulfilling their fiduciary duty. Additionally, we were pleased to see the establishment of the DWP taskforce on social factors, of which we have been a member, and have supported the group to develop a Guide on Considering Social Factors in Pension Scheme Investments.

Despite these positive announcements, the ESG landscape is changing quickly as global economies look at ways to stimulate growth in the post-pandemic era and to combat, among other things, the cost-of-living crisis that many face. In the UK, we have seen this manifest in less focus on ESG policies, as demonstrated by the Government emphasising the importance of pension funds in supporting UK growth. In some other parts of the world, it is more akin to an ESG culture war where both sides of the political spectrum have hardened in their position to either see more decisive action being taken, or to have less intervention where actions to prioritise ‘E’ and ‘S’ issues are perceived to be damaging.

At the PLSA, we and our members have long championed the importance of socially responsible investing. These case studies provide tangible examples that intend to support members as they navigate the challenges and opportunities that social factors present and seek to keep social issues at the centre of pension schemes’ thinking among a plethora of competing priorities.

With thanks to:

- Scottish Widows
- Railpen
- AXA Investment Managers
- Franklin Templeton
- Legal & General Investment Management
- Nest



SCOTTISH WIDOWS

ABOUT US

We are a major insurance, investment and long-term savings provider, who manage and support many Defined Contribution contract-based and trust-based pension schemes.

We believe Stewardship is integral to our business and investment philosophy. As a large UK asset owner, we want to ensure we play our part, not only in the responsible oversight of our own assets, but in driving industry-wide transition for better long-term outcomes for our customers and clients, benefiting our economy as a whole.

Social factors are central to our responsible investment approach. Our work on climate ensures consideration of people through a focus on the 'just transition'. Similarly, our work on board diversity includes the broader societal implications of a lack of diversity and inclusion at organisations. In addition, we felt it was important to focus on a standalone social factor to increase activity on the topic and affect change at companies.

OUR APPROACH

In 2022, we chose human rights as our social factor stewardship theme. Human rights form the basis of good business practice and risk management. It is broadly accepted that companies have a responsibility to respect human rights, including in supply chains and business relationships, and this is articulated in international law.

We felt the topic offered opportunity to engage not only on risk management processes to address a company's adverse human rights impacts, but also on broad systemic issues such as inequality and freedom of association and tangible issues such as living wages, which was easy to communicate to members.

Human rights is a broad topic and therefore, for our own direct engagement, we conducted portfolio analysis to prioritise companies to engage with. We began with identifying the target industries adopted by the Business & Human Rights Resource Centre. We then took a range of third-party data sources including the World Benchmarking Alliance and KnowTheChain benchmarks, and from MSCI, which included individual company scoring on human rights performance. We mapped each third-party data point to our own portfolio in the high-risk industries we had identified, concentrating on our top 500 holdings based on AUM and standardised scoring to easily compare across portfolio companies.

Our approach left us with 27 companies, representing £5.8bn AUM, to conduct further company research on and engage with directly. We have had a good level of engagement with companies and will continue to monitor, engage and escalate through voting over the next couple of years.

ALTERNATIVES APPROACHES

While social data is more nuanced and qualitative than carbon emissions, there are lots of sources available to asset owners to use. For more resource-constrained asset owners, rather than use a combination of data sources like we did, asset owners can use single benchmarks such as those from the World Benchmarking Alliance, mapped against top holdings, to create a simple list to engage.

COLLABORATIVE APPROACHES

Our stewardship approach includes both direct engagement and collaboration with other investors. For asset owners with smaller teams and less resource, collaborations can be a good way to engage with companies more efficiently.

- **ShareAction Good Work Coalition** is currently focused on Ethnicity Pay Gap reporting, living wages and insecure work. Investors can sign letters of support and meet with companies. ShareAction decides the sectors for engagement which means investors only need to check companies in scope against their own holdings.
- **The FAIRR Initiative** has been engaging on the topic of labour risk in the agricultural space for the past three years, focusing on three key areas to elevate worker voice: health and safety, fair working conditions, and worker representation. Investors can sign letters and engage with companies with the support of a highly knowledgeable team.
- **Labour Rights Investor Network** is a new network organised by a group of unions globally, coming together to support investors to engage on freedom of association and collective bargaining. Investors can access resources on stewardship and hear from the employees of big firms, such as Starbucks and Amazon, to inform their engagement activity and compare experiences of engaging with other investors.

ENGAGING ASSET MANAGERS

As asset owners, it is often our asset managers which have closer relationships with companies and are engaging more widely. Providing oversight of asset managers is an important part of an asset owner's role. In 2022, we had deep dive sessions with our asset managers on human rights to understand their approach and escalation methods.

There is an increasing number of social shareholder resolutions at companies' Annual General Meetings (AGM). Examples of votes we directed in 2023, supporting resolutions, are listed below. For asset owners without voting rights asking managers how they voted and why, is a good way to understand their approach and test their commitment to the topic.

- Starbucks - To request that the Board assess worker rights commitments.
- Walmart Inc - To request the Board to prepare a report to shareholders on Human Rights Due Diligence.
- Meta Platforms Inc - To request the Board to report to shareholders on human rights impact of targeted advertising.
- Amazon.com Inc - To request that the board report to shareholders on warehouse working conditions.

ENGAGING MEMBERS

There are lots of topics within social factors which can engage members. The Scottish Widows app has a 'Have Your Say' function where questions on ESG are uploaded every month for members to answer. We've asked our members a range of social related questions over the year which supports and informs our approach. Some examples are below:

- 91% of members surveyed[1] thought it was important to protect workers right to collective bargaining.
- 89%[2] of members surveyed thought investors should push companies to pay the higher rate of wages from the Living Wage Foundation.

1. 178 members responded to this question in our June 2023 Have Your Say questions.
2. 130 members responded to this question in our April 2023 Have Your Say questions.

HOUSING AND REAL ESTATE INVESTMENT IMPACT REPORT

BACKGROUND

As well as forming part of Scottish Widows' net zero commitments, our Loan Investments & Shareholder Assets team work to invest the Scottish Widows' annuity fund to help deliver positive, real-world change.

By investing our annuity funds to support clients across a range of sectors, we align to our wider purpose of 'Helping Britain Prosper' and provide long-term funding to support the transition to a more sustainable, low carbon economy.

Since 2015, we have been investing in a number of key sectors, including c.£2.6bn of lending from our £20bn annuity fund to our real estate and social housing clients. While significant focus has been given to monitoring and reporting of emissions for this book, we were keen to develop a clearer understanding of the 'Social' impact which could be attributed to these investments.

THE GOOD ECONOMY

During 2023, Scottish Widows commissioned specialist impact advisors The Good Economy (TGE) to develop a framework which could be used to measure and report on the social impact of the housing and real estate portion of its loan book. Ultimately, the aim was to provide insight into the real-world impact for people and places delivered through Scottish Widows' lending activities in these sectors.

IMPACT ASSESSMENT FRAMEWORK

IMPACT PATHWAY

A fundamental part of developing this framework was defining an Impact Pathway – this was intended to provide an overarching model communicating how the activities of Scottish Widows translate to real-world outcomes.

It's worth noting that in this context Scottish Widows is a debt investor, investing money from its annuity fund into organisations operating in the housing and real estate sectors.

This is relevant as it means that Scottish Widows' ability to directly influence outcomes on its loan book is more limited and our approach here is somewhat different to other aspects of our stewardship activity.

In respect of this book, Scottish Widows' influence relates to the decisions we make regarding which companies we provide capital to (along with the terms and conditions relating to that capital). Ultimately, the impact of our lending is derived by the real-world outcomes delivered by our clients, which are facilitated by the investment we provide.

As such, Scottish Widows is part of a larger chain of organisations and factors, all of which combine to influence the outcomes delivered. The Impact Pathway is intended to map out the causal logic of this chain.

ACTIVITIES	OUTPUTS	OUTCOMES
Activities of Scottish Widows as a debt investor	Outputs resulting from Scottish Widows' lending activities	Outcomes resulting from the activities of borrower organisations
Identify and assess opportunities Understand objectives, structure, negotiate and invest Build and maintain relationships Monitor performance	New homes built Investment to improve existing buildings Propereties available for rent Businesses can expand their operations Build positive relationships with clients Positive endorsement and repeat lending	People employed People have a home to live in People utilising the product/ service

IMPACT AREAS

Working with Scottish Widows, TGE identified four key impact areas. These are the areas through which Scottish Widows' lending contributes towards positive impact and can be summarised as:

- **Partner for long-term business growth -** Scottish Widows maintains long-term relationships with clients, and partners with responsible businesses who aim to implement sustainable practices, and in some cases, to generate positive impacts.
- **Support the provision of quality rental homes -** High quality rental homes are delivered with a range of specific purposes based on the needs of the local area.
- **Facilitate essential goods and services -** Scottish Widows invests in businesses that facilitate essential goods and services within the UK, supporting the communities where its pension and annuity customers are from.
- **Support quality jobs -** Jobs are maintained and grown across the operation and expansion of businesses, benefitting the local and national economy, as well as creating positive social impact.

It was these impact areas that formed the basis for developing the social impact framework. Underpinning each impact area, TGE identified further supporting metrics which were then used to analyse and measure the impact of the book.

RESEARCH AND CONCLUSIONS

Once the key areas of impact had been identified and agreed, TGE embarked on a more detailed analysis of the book, designed to quantify the social impact of the loans. Using a mix of quantitative and qualitative techniques, they gathered a range of data to inform their overall impact assessment. This included: analysis of the loan portfolio, review of key loan documentation, interviews with staff and clients, as well as a client survey.

Key findings from the report include:

- 69% of homes financed located in the 40% most deprived local authorities in terms of housing deprivation.
- c. 57k full-time equivalent jobs supported across Scottish Widows' commercial portfolio.
- 45% of the estimated direct jobs fall within local authority areas where the need for 'good jobs' is higher.

RECOMMENDATIONS AND NEXT STEPS

Following their analysis of the existing book, TGE provided a series of recommendations intended to help Scottish Widows continue to improve their focus in this important area. These recommendations cover a range of topics regarding the geographic spread of the portfolio and the level of 'quality' jobs supported but, as is often the case in respect of ESG, one of the key themes was around availability, collection and analysis of relevant data.

While the availability of robust data for ESG can sometimes be challenging, the direct lending nature of these investments does allow Scottish Widows to potentially obtain better quality data direct from clients. The team will be working through appropriate options for this, and in support of some of the other recommendations, during 2024.

Full details of the approach taken, analysis of the book and recommendations can be found in Scottish Widows: Housing and Real Estate Impact Investment Report 2023[3].

3. The Good Economy 'Scottish Widows: Housing and Real Estate Investment Impact Report 2023', The Good Economy 2023 <https://adviser.scottishwidows.co.uk/assets/literature/docs/ge117.pdf>.

AXA INVESTMENT MANAGERS

ABOUT US

We are a responsible asset manager, actively investing for the long-term to help our clients, its people and the world to prosper. Our high-conviction approach enables us to uncover what we believe to be the best global investment opportunities across alternative and traditional asset classes, with £732 billion in assets as at the end of September 2023.

At end of December 2023, we employed over 2,700 employees around the world, we operate out of 23 offices across 18 countries and are part of the AXA Group, a worldwide leader in insurance and asset management.

www.axa-im.co.uk

AXA IM'S APPROACH TO SOCIAL IMPACT INVESTING

The AXA ACT Social Progress strategy is part of AXA IM's listed equity impact range. It has a dual objective of seeking to deliver long-term financial return while investing in companies that deliver a positive and measurable impact on society. From an impact perspective, the Social Progress strategy seeks to contribute to improving living standards for all. As there are many facets to improving people's lives, we have structured our strategy around four key investment themes, underpinned by several underlying sub-themes. We believe these will be key drivers of social progress over the coming years.

AXA ACT SOCIAL PROGRESS STRATEGY INVESTMENT THEMES

INCLUSION	HEALTHCARE SOLUTIONS	PROTECTION
Financial Access	Testing & Equipment	Cybersecurity
Essential Infrastructure	Wellbeing	Personal Security
Entrepreneurship	Treatment	Insurance

TECHNOLOGY ENABLERS

Software & Services	Semiconductors

Source: AXA IM, January 2024. For illustrative purposes only.

The strategy invests in listed companies that make a direct contribution to these four themes, mainly through the products and services they offer but also through their operational behaviour.

These companies stand out by addressing key unmet social needs across developed and emerging regions, either by identifying access to historically underserved markets, or by offering innovative solutions that significantly enhance people's lives.

INCLUSION

Under our *Inclusion* theme, we are looking for companies that widen access to financial products and services such as affordable loans for small businesses or digital payment solutions that are transforming financial flows in emerging markets. Inclusion can also be improved by providing the technology and infrastructure to connect people, and in turn can provide access to a range of life-enhancing services from healthcare to education. This theme also looks for companies that support small business owners, the self-employed and people who are balancing work and family commitments.

HEALTHCARE SOLUTIONS

Providing affordable, quality *Healthcare Solutions* for all requires investment in biotechnology, pharmaceuticals and equipment to drive medical innovation and improve treatment. We aim to identify companies that are supporting these efforts to improve patient outcomes, and are actively lowering barriers to access. In addition, we invest in companies that help people live healthier lifestyles through diet, exercise and hygiene in order to prevent illness and disease.

PROTECTION

To improve protection, we aim to invest in companies enabling physical safety on the road and at work, as well as protection against financial loss caused by accidents, injuries, illness, and natural disasters. We also invest in companies that provide software and applications that protect against cybercrime, which can cause irreversible damage to companies, their clients, and stakeholders.

TECHNOLOGY ENABLERS

The *technology enablers* theme covers companies that underpin the investment themes by providing the technology required for others to innovate, broaden reach and operate efficiently.

OUR INVESTMENT PROCESS

The UN Sustainable Development Goals (SDGs) align well with our own investment themes, and so we find them a useful guide to structure our stock-selection process. Our investment process therefore begins with a screening of the global investment universe through an SDG lens. A quantitative screening based on external data identifies companies with products and services or best-in-class operations which have a material impact on any of the 10 investable social SDGs.

Deeper analysis reduces the number of candidates to a Social Investable Universe of around 150 stocks. These 150 stocks contribute to at least one of our four social investment themes as well as demonstrating solid strategic positioning and ability to deliver long-term profitability.

The final portfolio invests in 35 to 50 companies that we believe will deliver a positive and measurable impact, are high quality with strong management teams, and have a resilient financial structure.

Each company must go through a detailed financial assessment by our portfolio managers as well as an independent impact assessment from an impact analyst. We believe in-depth impact research, when integrated into our traditional company and financial analysis, is a powerful tool to identify potential long-term winners, which can create a self-reinforcing relationship between the generation of impact and financial return.

AXA IM'S IMPACT RESEARCH FRAMEWORK FOR LISTED EQUITIES

As a member of the advisory committee of the Global Impact Investing Network (GIIN), AXA IM contributed to the Guidance for Pursuing Impact in Listed Equities published in March 2023. Our impact investment analysts use this proprietary impact research framework to assess the contributions of companies to social objectives and the United Nations' Sustainable Development Goals. This framework is based on five pillars.

IMPACT INVESTMENT FRAMEWORK

INTENTIONALITY	Our research seeks to identify companies that demonstrate intentional, strategic commitment to generate positive impact in social or environmental areas.
MATERIALITY	We seek to identify companies offering solutions with positive outcomes that are of material significance to the beneficiaries and are also important for the company. We pay attention to the proportion of a company's revenues that align with the SDGs or the EU taxonomy. We also consider a variety of other factors, such as the severity of the issue being addressed, the number of beneficiaries (particularly among underserved people), and the extent to which a firm is a leading provider relative to its peers.
ADDITIONALITY	Our research seeks to to identify companies offering the best and most accessible solutions, for example through innovation, new technologies, lower prices, or better distribution. We also assess the extent to which corporate practices, behaviour and operations are leading, influencing and shaping others' approaches.
NEGATIVE EXTERNALITIES	We assess how companies are addressing the negative externalities of their activities which may undermine their positive impact.
MEASURABILITY	We expect companies to measure and report data and KPIs on the social and environmental impact of their activities. Impact is more difficult to measure than environmental, social and governance (ESG) factors because of the lower degree of data availability and standardisation. We often encourage companies to enhance their impact reporting and we track the evolution of these KPIs.

Source: AXA IM, January 2024. For illustrative purposes only.

As part of this process, we identify and track a range of key performance indicators (KPIs) for each company, which allow us to measure their societal contribution and the progress of such contributions over time.

AXA IM FINANCIAL FRAMEWORK FOR LISTED EQUITIES

In order to be able to achieve our dual objective of delivering positive impact and financial returns we have set clear financial criteria for our portfolio companies. We aim to invest in the 'winners of the transition'; companies that have a strong competitive advantage, ability to grow in a profitable way, have proven execution capabilities and appropriate balance sheets. We believe that these companies will be able to drive the changes needed as they have the funds and resources to grow and innovate.

STOCK EXAMPLES

As described above, the strategy is designed to select companies that contribute to at least one of the four investment themes and sub-themes. Some companies in the portfolio may align with multiple themes, as the themes are closely interlinked and often synergistic.

For example, several of the companies we currently invest in create societal value by tackling obesity, an increasingly prevalent condition that increases the risk of debilitating and deadly diseases and is set to cost the world $4.3tn annually by 2035[4]. While ultimately tackling the same issue, each company helps in a different way and is contributing to other issues besides obesity, and therefore is aligned with different sub-themes.

Two companies battling obesity in different ways are Planet Fitness, which comes under Wellbeing and Novo Nordisk, which comes under Treatment. The former, a low-cost gym operator, contributes by providing wider access to the opportunity to exercise which helps prevent obesity. The latter is a pharmaceutical company that is leading the market in the treatment of obesity and diabetes.

4. World Obesity Federation 'World Obesity Atlas 2023', World Obesity Federation (2023) <https://www.worldobesity.org/resources/resource-library/world-obesity-atlas-2023>.

PLANET FITNESS

- Planet Fitness is a low-cost fitness gym chain providing affordable gym membership and a 'judgement free' approach to often first-time gym goers, helping widen access to services which improve health and wellbeing.
- It is one of the largest gym operators in the USA with over 18 million members. It mainly operates a capital-light franchise model with over 2,200 franchises.
- It has expanded rapidly and has proven a savvy operator in its ability to develop and operate low-cost gyms while maintaining investment, whether to refresh the equipment of its gyms or to develop digital tools for its members' convenience.
- The firm is having to adapt its business model to a higher cost environment, but we believe Planet Fitness's member growth continues to show the appeal and resilience of its gyms. We also still see a long runway for expansion domestically as well as in adjacent markets. Planet Fitness resonates particularly well with the young adult demographic, which also appears more health conscious than previous generations.

INTENTIONALITY

Below-industry average pricing and targeted **client base profile** show strategic commitment to breaking down social and financial barriers in fitness.

MATERIALITY

One of the **largest and fastest growing** fitness centre operators in the US by **number of members and locations. Its digital subsciption service** has converted **20%** to a brick & mortar member.

ADDITIONALITY

Democratises fitness by encouraging a **variety of groups** to get more active through **low-cost membership** and a **'Judgement Free Zone®. 20%** of stores are located in **low-income areas. 40%** of members are **first time gym goers.**

NEGATIVE EXTERNALITIES

A minor controversy around allegations of preferential treatment granted by an insurance partner.

MEASURABILITY

Reports on relevant **environmental and diversity KPIs,** in addition to reporting on KPIs regarding **the profile of its client base** which links clearly to its goal of increasing access to fitness.

KPIs MONITORED

	2020	2021	2022
Number of gym members (millions)	13.5	15.2	17.0
Share of stores in low-income areas (household annual income,$50,000)	13%	20%	20%

Source: AXA IM, Planet Fitness ESG Report 2022. Stock shown for illustrative purposes only should not be considered as advice or a recommendation for an investment strategy. KPIs are not indicative of future results.

STRUCTURAL GROWTH

Growing awareness of the health benefits of a more active lifestyle. We see a long runway for expansion domestically and in adjacent markets

COMPETITIVE POSITIONING

One of the largest gym operators in the USA with a focus on providing affordable gym membership and a ‘judgement free’ approach

OPERATING LEVERAGE

Planet fitness has had to adapt to a higher cost environment, but we believe member growth continues to show the appeal of its gyms

MANAGEMENT QUALITY & EXECUTION

Craig Benson has served as interim CEO since 2023

FUNDING & BALANCE SHEET

Mainly operates a capital-light franchise model which has expanded rapidly

VALUATION

Slightly high valuation but justifiable

Source: AXA IM, December 2023. Stock shown for illustrative purposes only and should not be considered as advise or a recommendation for an investment strategy.

NOVO NORDISK

- Novo Nordisk provides therapies to diabetic people and is one of the largest manufacturers of insulin globally. The diabetic population, particularly in the case of type 2 diabetes, is very large in size and continues to grow at a rapid pace across regions. Today it is estimated there are 540 million people worldwide living with diabetes and treatment is essential to prevent severe health complications[5].
- Through analysis and engagement carried out with our impact analyst team, we believe that Novo Nordisk's accessibility policies are reasonably good, particularly when it comes to providing access to low-income countries. Novo Nordisk has continued to invest in research and development and developed an effective treatment for obesity (GLP-1 class). Like diabetes, obesity is a global issue. It is estimated that 650 million people are obese and that obesity accounts for 4.7 million premature deaths per annum[6]. Novo Nordisk has a majority share of the significantly underpenetrated GLP-1 market, which is seeing strong adoption, with only one other major pharmaceuticals company (Eli Lilly) on its heels for now.
- Given the robust clinical data and growing body of evidence linking obesity treatment with broader improved health outcomes (reduced incidence of cardiovascular incidents, positive effect on chronic kidney disease), we expect continued adoption of these therapies at a fast rate.
- We also see promising assets in Novo Nordisk's pipeline around second- and third-stage obesity drugs as a broader range of treatments, which are more convenient and customised, will become available in the future.
- AXA IM is currently engaging with Novo Nordisk with two key objectives:
  - Encouraging the company to publish the breakdown of insulin sales by type of patient and their medical coverage in the US
  - Gaining understanding of the risks around the possible misuse of Ozempic.

5. IDF Diabetes Atlas 'IDF Diabetes Atlas 10th edition', IDF Diabetes Atlas (2021) <https://diabetesatlas.org/atlas/tenth-edition/>.
6. Ibid.

novo nordisk®

INTENTIONALITY

The company has implemented access and affordability initiatives, such as the Changing Diabetes in Children partnership.

MATERIALITY

A market leader in diabetes medications, a chronic, life-threatening disease with an increasingly high number of patients diagnosed across regions.

ADDITIONALITY

R&D expenditure has led to pioneering new treatments including Wegovy, for treating obesity as well as next generation treatment for hemophilia, growth hormone deficiency and Alzheimer's disease.

NEGATIVE EXTERNALITIES

There have been allegations of price fixing against the company as well as several competitors and Pharmacy Benefit Managers. AXA IM have engaged with the company on this issue.

MEASURABILITY

The company shows a high level of transparency and accountability, AXA IM continue to engage on this topic.

KPIs MONITORED

	2019	2020	2021
YoY change in total US insulin portfolio sales weighed average: % change in **Net** price	-17.4	-27.7	-10.2
Children reached through Changing Diabetes in Children (cumulative, thousands)	25.7	28.3	**31.8**

Source: AXA IM, Novo Nordisk, October 2022. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation for an investment strategy. KPIs are not indicative of future results.

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Counterparty Risk: Risk of bankruptcy, insolvency, or payment or delivery failure of any of the Sub-Fund's counterparties, leading to a payment or delivery default.

Geopolitical Risk: investments in securities issued or listed in different countries may imply the application of different standards and regulations. Investments may be affected by movements of foreign exchange rates, changes in laws or restrictions applicable to such investments, changes in exchange control regulations or price volatility.

CAPITAL AT RISK

The value of investments, and any income from them, can fall as well as rise and investors may not get back the amount originally invested.

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FRANKLIN TEMPLETON

ABOUT US

Franklin Templeton is one of the world's largest global asset management firms and offers its clients global strength and investment specialism through its specialist investment managers. Franklin Real Asset Advisors (FRAA) is one such specialist investment manager and has been investing in private real estate markets globally for over 36 years, FRAA are a dedicated multinational team with real estate professionals in six global offices.

franklintempleton.co.uk

INTRODUCTION

THE ISSUES

Lack of investment in civic assets

Europe suffers from chronic underinvestment in social infrastructure: the physical assets that enable delivery of social services in a community, including healthcare and education facilities, social and affordable housing, and buildings related to justice, emergency, and civic services.

Lack of institutional-quality investment opportunities

For private capital to address the investment shortfall in social infrastructure, institutional-quality funds are required which are: diversified, of scale and offer a high standard of transparency through impact reporting.

THE SOLUTION

FRAA launched Franklin Templeton Social Infrastructure strategy in late 2018. It is pan-European in scope, investing in physical real estate assets that facilitate essential social services and thereby help to build strong communities. The strategy has matured and now totals over Euro 812.6m (GAV) invested in 33 properties (with a further 3 exchanged), in eight countries with diversified exposure across healthcare, education, housing, justice and emergency and civic sectors.

The strategy aims to achieve a dual return:

1. An attractive financial return of 5% above EU Core Inflation (Harmonized Index of Consumer Prices (HICP)) on a rolling five-year basis.
2. An Impact Return that supports eight UN Sustainable Development Goals (SDGs).

The measurement of progress towards targets is based on the Impact Reporting and Investment Standards (IRIS). FRAA developed a world-class, proprietary impact management and measurement framework aligned with global standards including the International Finance Corporation's Operating Principles for Impact. FRAA sought independent verification of its impact process by BlueMark, a third-party auditor.

PROJECT LAGOON

LOCATION	Lido di Venezia, Italy
PLOT	104,963m²
AREA	32,963m²
CONSTR.	1949 (Nursing Home) 1953 (Hospital)
DEAL TYPE	Asset Deal
PRICE	€23.6m

TRANSACTION SUMMARY

- Healthcare asset consisting of both a hospital and nursing home located on the barrier island, Lido di Venezia. The island is situated between the Venetian lagoon and the Adriatic Sea just 900 metres away from Venice.
- The hospital, the San Camillo Hospital (68% of net lettable area), operates a 115 bed facility specialising in the rehabilitation of cranial & spinal trauma, neuropathies, Parkinson's Disease, and other motor-function disorders. The Stella Maris Nursing Home (27% of net lettable area) operates 215 beds including 64 that are currently operated within the hospital building. The property includes a vacant building (5% of net lettable area), holds a concession to private beach access which both healthcare facilities utilise for patient rehabilitation, and also contains a currently unused excess land plot totalling c. 20,000 m2.
- Upon acquisition the two operators, (i) **the Mantellate,** a religious order specialising in operating healthcare & educational assets who will operate the hospital, and (ii) **CODESS Sociale,** a business specialising in nursing care who will operate the nursing home, will enter into separate 30 year fully-indexed double net leases with no break and rent level of €1.04 million and €0.7 million, respectively, corresponding to a 7.37% gross initial yield.
- Upon lease signing, the tenants will immediately enter into a pre-agreed capex plan of €3 million each aimed at (i) extending the existing nursing home in order to consolidate all beds in one building and (ii) renovating the research facilities at the hospital and improving the quality of its rooms.

TRANSACTION BACKGROUND

- Seller is a religious order, the Camilliani, who currently operate both the hospital and nursing home. The purchase is structured as a simultaneous 3-party transaction in which the strategy buys the real estate and the two new operators, the Mantellate and CODESS Sociale, will buy the healthcare operations and enter into a pre-agreed lease whose terms have already been agreed to in principle.

INVESTMENT THESIS

- Acquisition of a healthcare asset at an attractive entry yield of 7.37% with favourable long-term, fully indexed break-free leases.
- The property is being purchased below replacement cost. Its price of €716/m2 compares to an estimated alternative use value of c.€3,000/m2 for residential properties in the area.
- Possible upside from redevelopment and lease-up of currently vacant building and unused land plot.
- The asset presents high impact opportunity from the aligned long-term capital contribution, the agreed implementation of a capex plan with the operators, and the opportunity to increase the social infrastructure use at the asset.

IMPACT

ASSET SCORING

COMMUNITY SCORING

	1	2	3	4	5
Initial					
Projected					

ENVIRONMENTAL SCORING

	1	2	3	4	5
Initial					
Projected					

FT CONTRIBUTIONS

Aligned, Long-Term Capital – Through buying the property and leasing it out to two healthcare operators, the strategy is providing the capital needed to ensure the asset remains as a high quality social infrastructure asset in the community. **The healthcare facilities were at risk of being closed as the initial intent was to market the property as a residential redevelopment.**

Function Enhancements – The strategy has coordinated a pre-agreed tenant-financed capex plan of €3 million each focused on function enhancements that will increase service quality.

Purpose Driven Development – The strategy will have the opportunity to redevelop and lease up the vacant building and land plot.

Stakeholder Partnerships – The Region of Veneto and the Head of Real Estate for the Church are keen to collaborate with the strategy in the future. The strategy will also seek to partner with CODESS Sociale and pursue the purchase of the Carlo Steeb Nursing Home which is currently operated by CODESS Sociale and owned by the municipality.

IMPACT OPPORTUNITIES

- **Short-Term:**
    - Lease Finalisation & Capex Plan – By acquiring the asset, the strategy is providing capital aligned with keeping the asset operational as a healthcare asset which is a positive impact outcome from a community perspective. The strategy will work to finalise and sign the lease agreement with the future tenants. The lease terms will include impact reporting by the tenants. Post-transaction, the tenants will engage in a capex programme which will create impact by enhancing the assets' quality of service.
- **Medium-Term:**
    - Purpose-Driven Development – Seek opportunities to redevelop and lease up the vacant building to a social infrastructure user and to develop the unused land on the property and lease to a social infrastructure user.
- **Long-Term:**
    - Stakeholder Partnerships – The strategy will seek collaboration on other social infrastructure deals with the Region of Veneto and the Church. The opportunity to acquire the Carlo Steeb Nursing Home may also arise.

PROJECT DON

Dublin Social Housing Forward Purchase

THEORY OF CHANGE

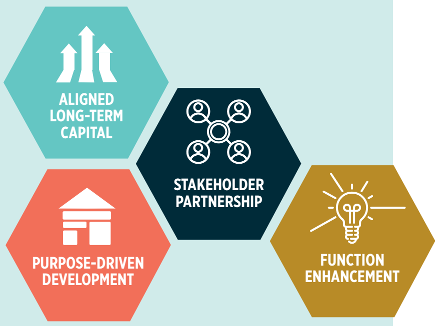
Throughout Dublin, there are currently nearly 30,000 households on the waiting list to receive access to social housing. By working with the developer and the local city councils to ensure the sites are constructed and utilised as social housing, we are acting as a catalyst to help meet demand for this form of housing.

1. CHALLENGE

As of 2020, there were 61,880 households across Ireland on the waiting list for social housing[7]. The four Authorities representing the Dublin area (Dublin City, Dun Laoghaire-Rathdown, Fingal and South Dublin) represent 43.1% of these households showing that a large portion of demand is centered in the Dublin area.

2. CONTRIBUTIONS (PRIMARY)

- The main contribution made by the strategy with this investment is the provision of capital to secure the production of and preserve the availability of social housing for use by the respective city councils. The strategy's participation in this system allows for the city councils to work towards their goals of increasing supply of social housing to meet the high demand in Dublin and Ireland more broadly.



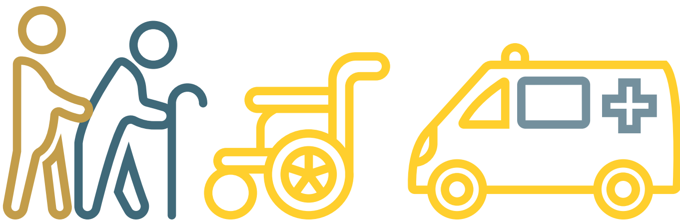
7. The Housing Agency 'Summary of Social Housing Assessments 2020', The Housing Agency (2021) <https://www.housingagency.ie/sites/default/files/2021-03/SSHA-2020.pdf>.

- Environmental upgrades and stakeholder partnerships will build off each other. We intend to engage with both the residents and city councils to identify opportunities to work together to improve the outcomes experienced by all stakeholders, including the planet. We hope to create opportunities to educate and support residents in a way that allows them to minimise utility consumption.

3. OUTCOMES

We are increasing the amount of affordable housing available for a region with high demand and aim to optimise the asset's environmental performance in the process.

COMMUNITY SCORING						ENVIRONMENTAL SCORING					
	1	2	3	4	5		1	2	3	4	5
Initial	■	■	■	■	■	Initial	■	■	■	■	□
Projected	■	■	■	■	■	Projected	■	■	■	■	□



PROJECT THAMES

Special Education Needs (SEN) School Portfolio

THEORY OF CHANGE

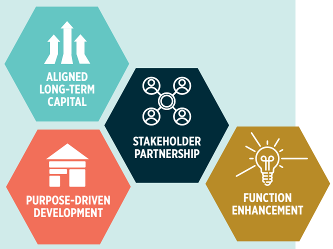
Independent schools have been able to grow the number of students that receive specialised education, health and care plans at significantly higher rates than state operated schools over the past decade. By supporting a high-quality tenant to take over the operations of these sites and preserving them for the long term, we are ensuring that these services will continue to be provided.

1. CHALLENGE

In 2019, 15% of the roughly 9 million students in the UK were identified as having special education needs[8]. Independent schools are often funded by local education authorities and play an important role in providing care and education for students with special education needs.

2. CONTRIBUTIONS (PRIMARY)

- The strategy will work with the Tenant to acquire the assets and sign a long-term lease with them to ensure that these high-quality services remain available to the community for the long term.
- The strategy intends to assist Chatsworth Schools to expand one of the sites. The target would be to begin this construction within 2.5 years of acquisition and the currently discussed output would create an additional 30 seats at the asset.



8. Office for National Statistics 'Special educational needs in England' Office for National Statistics (2023) <https://explore-education-statistics.service.gov.uk/find-statistics/special-educational-needs-in-england>.

- The Tenant has been highly receptive to partnership discussions and has been supportive of initiatives we have engaged with them on thus far. Because of this, we are optimistic that deeper and more impactful partnerships will develop at these sites over the long-term.
- The Tenant is working to refurbish both sites in this portfolio and has expressed interest in evaluating opportunities to optimise environmental performance of the sites. Given their support towards ongoing initiatives, we are optimistic that they will be supportive of environmental enhancements at these new buildings.

3. OUTCOMES

The strategy seeks the preservation of key assets within the community. They are critical assets within the community in their current state and we seek to build on that community value by bringing in an aligned partner.

COMMUNITY SCORING						ENVIRONMENTAL SCORING					
	1	2	3	4	5		1	2	3	4	5
Initial	■	■	■	■	□	Initial	■	■	□	□	□
Projected	■	■	■	■	□	Projected	■	■	▨	▨	□

IMPORTANT INFORMATION

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 This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market.

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LEGAL & GENERAL INVESTMENT MANAGEMENT

ABOUT US

We are the global asset management business of Legal & General groups. Our purpose is to create a better future through responsible investing. We strive to achieve this through a strong sense of partnership with our clients, working together to achieve positive long-term outcomes. We draw on industry-leading expertise to innovate constantly across public and private assets, index and active strategies. And we are a responsible investor, rising to the challenges of a rapidly changing world. Our purpose is rooted in three key principles: partnership, expertise and sustainability.

ABOUT US CONTRIBUTORS

CASE STUDY 1

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CASE SUDY 2

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ESG – CONSIDERING THE 'S' IN ESG

LGIM has been investing on behalf of our defined contribution (DC) clients in direct property for some time. We recently entered the broad category of illiquid investments through an allocation to private credit within the Target Date Funds, one of Legal & General's key default funds. After a successful first endeavour, the goal is to incorporate a broader range of private-market assets during 2024. These will be used as an essential part of the earlier stages of the Target Date Fund strategies and focus on high levels of growth.

As long-term investors, we believe we have a pivotal role to play in driving positive change through our investment decisions and active engagement with all our key stakeholders – investors, occupiers, borrowers, local communities and partners across our supply chain. As a long-term real asset investor and asset owner we feel we have a responsibility and fiduciary duty to invest in assets which, we believe, will deliver a more resilient and responsible future.

Six core pillars underpin our strategic focus, providing an overarching framework to support ESG-related initiatives and support the wider business priorities. Three of the six core pillars have a specific social factor focus: social impact, circular economy and health and wellbeing.

Managing ESG and climate-related risks is critical to our investment process. Failing to adapt to physical and transition climate risks may result in stranded assets, asset depreciation, reputational or litigation risks. However, we also believe that we can generate positive social and environmental outcomes and, where possible, we take an impact-led approach to ensure our investments create additionality. Identifying synergies across these pillars is fundamental to achieving our long-term responsible investment and sustainability objectives leading, we believe, to better risk management, the ability to identify sustainable investment opportunities and contributing to positive outcomes for all our stakeholders.

Great recent examples of ESG-related initiatives for the funds that will be held within the Target Date funds include:

BUILD TO RENT

Creating a strong sense of community and a 'lifestyle' choice for residents is integral to our development in Walthamstow. We recognised the importance of developing part of London that was once an old, underused industrial area, and worked closely with the council's planning and regeneration teams to curate a space that local people would benefit from. The scheme includes 20,000 sq. ft. of commercial accommodation, providing much needed space to creative and start-up businesses in the area. Influenced by the creative culture of the local borough; Waltham Forest, the development's aim is to 'harbour' local creative talent to enliven the ground floor and waterside through accommodating a microbrewery, local food store and spaces to support small to medium sized start-up businesses. With Legal & General having invested £180 million into housing within the borough, the scheme demonstrates London Borough of Waltham Forest's commitment to the wider regeneration of the local area, showcasing its dedication to social impact investment and is an excellent example of local authorities and developers working together to reshape a local area, providing not only housing but creating sustainable community regeneration, including investment to support local businesses and to protect and develop the surrounding wetlands.

All residential and commercial occupiers are invited to engage on social impact activities on-site and within the community. These activities are planned frequently in line with our events and charity policy. For example, we held a series of 'Live Well' pop-up markets across our portfolio in 2023, which involved local, eco-friendly traders and producers. The events were very successful, with over 600 people attending in total, with the food and drink and live music on offer appealing the most to our residents. This shows how our schemes foster local communities that represent more than just living with us as tenants.

AFFORDABLE HOUSING

There is a supply and demand imbalance within the affordable housing market, with only 50,000 affordable homes having been developed per annum over the last decade, compared to an estimated housing need of 1.6 million for that period[9]. This imbalance has resulted in over 1.2 million families across England being on local authority waiting lists. Due to the chronic shortage of stock in the market, properties leased in the affordable sector have benefitted from a low vacancy rate. To meet the housing need, it is estimated that £10 billion of equity investment is required per annum and at present only 0.7% of existing affordable housing is owned by institutional investors[10]. We believe this creates a large-scale and lower-risk opportunity, which has a significant and tangible impact on society, especially for those in need of housing who need financial assistance.

Legal & General has been investing in affordable housing for over five years. During this time, we have committed over £1 billion[11] to the sector across social rent, affordable rent and shared ownership. We are a registered provider and therefore grant tenancies directly to occupiers – this means that we are regulated by the Regulator of Social Housing, who has awarded us a V1G1 rating (the highest rating) after its first in-depth assessment.

9. Simon Century, Jayson Parmar 'Delivering a Step Change in Affordable Housing Supply', British Property Federation, Legal & General (2022) <https://bpf.org.uk/our-work/research-and-briefings/delivering-a-step-change-in-affordable-housing-supply/>.
10. Ibid.
11. As at 30 September 2023.

We are in the process of launching a commingled vehicle for institutional investors to commit to the sector, thus externalising our capabilities and providing scope for further development of much-needed housing. The Fund will exclusively acquire properties in areas of high affordable housing need. We will require rented properties to be in regions with at least 500 households on local authority social housing waiting lists at the point of investment, and in so doing, direct social impact to areas in most need. We conduct ongoing detailed affordability testing – assessment ensures rents are affordable for customers and enables them to comfortably cover payments while meeting other household expenses – this is informed by local market comparators including quarterly market rent data.

Legal & General Affordable Homes (LGAH) has built a strong reputation as a high-quality affordable housing developer and landlord. A recent independent assessment by The Good Economy, a leading independent impact advisory firm, found that LGAH is making strong progress against its twin aims of increasing the supply of affordable, sustainable housing and raising the service standards within the sector.

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GENDER AND ETHNIC DIVERSITY

At LGIM, we consider a broad range of social factors in our stewardship work, from gender and ethnic diversity to human rights and income inequality. For this case study, we will focus on gender and ethnic diversity, both of which have been areas of focus for us for many years; we will also outline in more detail our current campaign on ethnic diversity.

IDENTIFYING BEST PRACTICE

We believe a diverse mix of skills, experience and perspectives is essential for a company and its board to function and perform optimally. The business case and evidence are clear; improving diversity allows companies to benefit from harnessing all available talent, with potential positive impacts on performance. We believe more diverse organisations can make better strategic decisions, show potential for growth and innovation, and exhibit lower risk – all significant measures for investors[12].

We use our influence to raise standards on a range of issues across capital markets – first through demanding corporate transparency and disclosure, and then through informed and targeted action to improve practices. In terms of best practice, we set out our expectations for companies regarding diversity in our Diversity Policy, published on our website (LGIM's diversity approach and expectations - policy document - categorisation). As a responsible investor, we commit to push the companies in which we invest globally to ensure the underrepresented gender makes up a minimum of a third of their boards and executive leadership teams. We also commit to encourage companies to include at least one person from an ethnically diverse background on their boards, and over time within their executive leadership teams. For companies falling short of our expectations, we will vote against the re-election of the relevant director (often the Chair of the Board, but in some countries the Chair of the Nomination Committee) at their next AGM, publishing our rationale on our vote disclosure website (VDS Dashboard (issgovernance.com)), which is publicly available.

We also endeavour to further our understanding of the impact of social factors on our DC savers. The uncertainty of the past few years has exacerbated financial, social and health inequalities across British society. There has been a renewed focus on who is being impacted differently, first by the pandemic and now by the cost-of-living crisis. Ethnicity remains one of the main fault lines for inequality. In late 2022, we conducted research (the-ethnicity-pensions-gap-report.pdf (lgim.com)) to address the issue of ethnic inequality in retirement savings, with a sample size of over 4,000 UK adults. We investigated the size of today's ethnicity pensions gap and its key causes, as well as examining ways to minimise inequality in retirement.

The findings are stark - minority pension pots average less than half the size of their white British peers. Before conducting this research, we had anticipated that the already substantial ethnicity pensions gap would have been intensified by the events of the past few years and we sought to find out where the particular pressures are along the retirement savings journey. While our results are statistically valid for British minority ethnicities, we recognise that, with a variety of groups represented, there can be no 'one size fits all' solution. Instead, we believe

12. Credit Suisse Research Institute 'The CS Gender 3000 in 2019: The changing face of companies', Credit Suisse (2019) <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/the-cs-gender-3000-in-2019.pdf>.
INvolve, Centre for Economic and Business Research 'The Value of Diversity' (2018) <https://cebr.com/reports/cebr-research-with-involve-on-the-value-of-diversity/>.

that by identifying some of the main drivers we can take practical action and seek to improve retirement outcomes for everyone.

Data on diversity continues to evolve – while in the area of gender diversity we are able to source data of sufficient quality and scope for us to be able to include four metrics in our LGIM ESG Score[13], data on ethnic diversity is not yet at a stage where we can incorporate it into our scoring system in this way. Nevertheless, we are still able to conduct campaigns using the data on ethnic diversity available to us on US and UK companies and checking this data individually with companies. By increasing company transparency and disclosure on ethnic diversity, we should also be contributing to the reliability and scope of data. We explain the structure and progress of our ethnic diversity campaign below.

IDENTIFYING HOW TO MANAGE AND MITIGATE CHALLENGES – OUR ETHNIC DIVERSITY CAMPAIGN

Since 2020, we have been engaging with companies on their commitments to ethnic diversity and have demanded transparent reporting. Our expectation was that, by 2021, companies would set ambitions related to the ethnic composition of their organisation, throughout the workforce, with a particular emphasis at the board level, which we believe generally sets the tone from the top. Our specific expectation was for FTSE 100 and S&P 500 companies to have at least one ethnically diverse board member by 2021.

Ahead of the proxy voting season in 2022, we revisited our campaign data. Of the 79 companies we started engaging with in 2020, by March 2022, 51 had added at least one ethnically diverse director since September 2020 (with a total of 54 ethnically diverse directors added - p.69: Active Ownership report 2022 (lgim.com)).

The 2022 AGM season was the first voting season during which we placed votes against specific companies due to a lack of board-level ethnic diversity. By the end of 2022, we voted against one company, *Universal Health Services, for lack of ethnic representation. In November 2022, we wrote to a further six laggards and two previous targets (including Universal Health Services) that were identified as having no ethnic diversity at board level, to remind them of our expectations and that voting sanctions would be applied in 2023 if diversity were not improved.

In 2023, we voted against three companies due to a lack of board-level ethnic diversity: *Caesars Entertainment, *Dish Network Corporation and *The UNITE Group Plc. We pre-declared the votes against on our pre-declaration blog (LGIM's voting intentions for 2023 (lgimblog.com)) in order to be transparent about the application of our voting policy and increase pressure on these companies to meet our minimum expectations. We are pleased to note that Universal Health Services was not subject to a vote sanction in 2023, following the appointment of a new director to the board, meaning that they now meet our minimum expectations regarding ethnic diversity at board level.

We have widened our scope for ethnic diversity to include the FTSE 250 and Russell 1000 indices. Our expectation for the companies in these additional indices is identical (one ethnically diverse board member) but, in line with the UK's Parker Review, we allow these smaller companies more time to meet our expectations and will therefore expect compliance by the end of 2024.

13. (women on the board; women at executive level; women in management; women in the workforce, sourced from Refinitiv – https://esgscores-lgim.hugue.nots.co.uk/srp/documents-id/dc2ca5ef-933d-4748-b221-7085515bfa04/Methodologyforratingcompanies.pdf).

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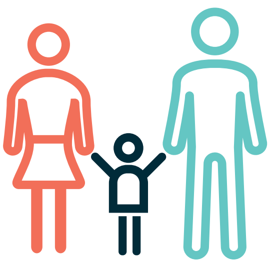

RAILPEN

RAILPEN

ABOUT US

We are entrusted with the safeguarding and investment of around £34 billion on behalf of the Trustee of the railways pension schemes and its 350,000 members. It's a privilege we take seriously and we carefully consider the investment decisions we make on behalf of the scheme. We're focused on helping members achieve their retirement goals securely, affordably and sustainably and consider ESG factors fundamental in helping us achieve this. We believe that our investments in real assets thrive when we can have a positive impact on local wellbeing; economically, socially and environmentally.

MONKWEARMOUTH NHS MENTAL HEALTH FACILITY

In 2022, Railpen, working in partnership with the developers Argon PDS/SRM Capital Ventures, launched a new project to redevelop a mental health facility within the grounds of Monkwearmouth NHS Hospital in Sunderland. The existing building at Monkwearmouth hospital is around 90 years old and had been earmarked for demolition as it is considered functionally and economically obsolete.

MENTAL HEALTH SUPPORT IN SUNDERLAND

Following research with locals within Sunderland (carried out by NHS Sunderland Clinical Commissioning Group[14]) a need to improve local mental health provisions was identified. The research showed that 48% of general survey respondents felt the Covid-19 pandemic had a significant impact on their mental wellbeing, with service users and carers stating a much higher impact at 94% and 72% respectively. Almost half of service users and carers described the experience of accessing mental health support as fairly or very difficult.

The NHS Foundation Trust provides a wide range of mental health, learning disability and neuro-rehabilitation services to a population of 1.7 million people across the Northeast of England, including community mental health services and crisis support. A review by the commissioning group[15] published in December 2020 found that:

- 11.3% of people have long-term mental health problems.
- Suicide rates of 12.4 per 100,000 people (10.1 UK national rate).
- For under 18's, hospital admissions for mental health were 183.3 per 100,000 – a significant increase from the UK national average of 88.3.

This demonstrates a startling need for improved mental health facilities in the area.

MONKWEARMOUTH MENTAL HEALTH FACILITY

Railpen are delivering a new 35,000 sq ft modern, state of the art, environmentally friendly space designed to BREEAM[16] 'excellent' standards. Railpen felt that this was an opportunity to provide a long-term stable income for the pension scheme, while contributing to a much-needed local service.

This redevelopment enables the NHS to expand vital services, supporting people of all ages with their mental health needs, delivered safely and effectively in the heart of Sunderland. The new building sits at the centre of the site and is surrounded by new greenspace to further enhance the benefits to local people. The design also incorporated an outdoor garden space for the use of staff working inside the hospital, who often work in highly pressured and emotionally charged conditions.

14. NHS Sunderland Clinical Commissioning Group 'Adult Mental Health Research Report', NHS Sunderland Clinical Commissioning Group (2021) <https://nenc-sunderland.icb.nhs.uk/wp-content/uploads/2021/07/Adult-mental-health-research-report-BSL.pdf?x23114>.
15. NHS Sunderland Clinical Commissioning Group 'Mental Health Desk Review', NHS Sunderland Clinical Commissioning Group (2020) <https://nenc-sunderland.icb.nhs.uk/news-media/publications/item/mental-health-desk-review/>.
16. BREEAM, first published by the Building Research Establishment in 1990, is the world's longest established method of assessing, rating, and certifying the sustainability of buildings.

The redevelopment provides a tangible societal benefit by enhancing and modernising hospital facilities and improving accessibility to mental health services, allowing the NHS Trust to provide a significantly enhanced range of specialist services for the local community. We're looking forward to completion in early 2024.

RAILPEN'S APPROACH TO THE 'S' IN ESG

Sustainable Ownership is what we call Railpen's broader approach to incorporating material sustainability considerations into the investments we manage on behalf of our members. This includes financially material social issues like diversity, labour relations and modern slavery. We do this to help secure our members' futures.[17] When considering new real assets or place-based investments specifically, we seek opportunities which align with our values, consider ESG risks and opportunities, and look at the wider impact on the world in which we, and our members, live in. We carry out in-depth analysis to ensure that we are investing in alignment with the Trustee's investment beliefs.

Railpen is an investor for the long-term. The Long Term Income Fund (which includes Monkwearmouth mental health facility) predominately invests in economically, socially and physically relevant assets that support climate action, promote energy efficiency, provide essential city infrastructure, encourage innovation and support well-being for communities. We are considering how the UN's Sustainable Development Goals (SDGs) framework could act as a valuable tool in identifying the overall impact of our property portfolio and our natural alignment to sustainable investing.

Ahead of investing, we utilise a range of tools we developed to identify idiosyncratic ESG risks particular to those assets, and systemic risks. We develop an ESG materiality map – for Monkwearmouth hospital, this consisted of two phases – the construction phase and delivery and ongoing use. We develop an ESG analysis report which assesses the key risks and opportunities and provides recommendations. This analysis is provided as part of the investment case for the relevant investment committee to review and is incorporated into our decision-making process. Following investment, we consider a sustainable value creation plan where we determine the approach for measuring, monitoring and managing ESG-related factors. This helps us identify a relevant set of KPIs and tools to support ongoing monitoring.

Our fiduciary duty is at the heart of our approach, and we strongly believe that the consideration of ESG factors is a fundamental factor in helping us achieve our purpose of securing our members' futures.

17. Further information, and case studies, on some of our other work to consider material social issues can be found in our 2022 Stewardship Report.

CAMBRIDGE CITY DEVELOPMENTS

Railpen is one of the biggest investors in property within Cambridge. As long-term investors, we have a vested interest in the future of the spaces and communities in which we work. Alongside our long investment horizons, our approach to creating a cluster of assets places us in a prime position to deliver on social initiatives which support local organisations, businesses and communities.

Cambridge tops the Centre for Cities[18] league as Britain's most unequal city. Railpen's developments sit at the heart of Cambridge's most under-served neighbourhoods.

We're developing three large-scale projects:

- A mixed use residential, office and community space: Devonshire Gardens.
- A state-of the-art office development with community space: Botanic Place.
- A retail, office and lab site with community spaces and gardens for locals: The Beehive Centre.

Beginning our work with thorough analysis has significantly helped to inform and direct our focus on areas that matter most to local communities. It provides a robust benchmark enabling us to assess our impact over the longer term and, in time, we'll align our framework to wider UN Sustainable Development Goals. We anticipate that, once businesses begin to occupy these new sites, we'll be able to support them in furthering the social impact work we're delivering. An estimated £305m of social value will be derived through the delivery phase with our contractors across these three projects.

While our primary goal remains to ensure the success of our developments to provide long term income to the railways pension schemes, we believe creating thriving local economies is of benefit to the schemes, to local people, and to the wider UK economy – all of which help us to deliver our purpose to secure our members' futures.

UNDERSTANDING COMMUNITY NEEDS

We sought to understand the challenges within the communities surrounding our sites. Each project commissioned detailed social impact assessments, utilising the National Social Value Measurements Framework (National TOMs – themes, outcomes and measures) across five key themes:

1. Jobs
2. Growth
3. Social
4. Environment
5. Innovation

18. Centre for Cities 'Cities Outlook 2018', Centre for Cities (2018) <http://www.centreforcities.org/wp-content/uploads/2018/01/18-01-12-Final-Full-Cities-Outlook-2018.pdf>.

We considered the Greater Cambridge Local Plan and its strategic objectives, as well as data from the English Indices of Multiple Deprivation (IMD) to help inform our approach. We incorporated factors such as income, employment, education, skills and training, health, crime, barriers to housing and the living environment. A mixture of quantitative analysis of existing datasets, alongside qualitative research with locals helped to build a thorough assessment, which informed our approach.

Our analysis identified key themes including access to green space, areas for socialising and community spaces for young people and children, jobs and skills, income and employment, and diversity.

We looked at three phases – the construction phase, the management of the estate and 10 to 20 years of occupation to understand the social and local economic value we may be able to deliver.

ADDRESSING SOCIAL CHALLENGES

While we sought to understand the local social challenges, we were keen to ensure we prioritised areas where we could have a materially meaningful impact. We identified several local organisations and charities we could work alongside to enhance access to community spaces, education and skills development and provide support for local businesses.

SPACES FOR COMMUNITY AND BELONGING:

- Within our designs, we have incorporated community spaces including edible gardens and a community kitchen, pavilions, youth centres, play spaces and wetlands and extensive planting and initiatives to improve biodiversity – helping locals to enhance their relationship with the environment and nature.
- At The Beehive Centre, we have run co-design workshops with Cambridge Youth Panel to develop iGlu, an inclusive facility for young people to socialise, relax and access advice and support.
- We are developing a 'Makers Lab' with Cambridge Science Centre which will serve as a distinctive STEM educational resource offering hands-on learning, workshops and space to develop skills for all ages – from local schools to youth groups and evening events for adults.
- Working with CamSkate, we are incorporating skateable landscaping across many of our sites to suit a full range of ages and abilities.
- To ensure everyone feels a sense of belonging, we are working with Make Space for Girls – made up of local women and girls to co-design external spaces, as well as Red2Green – an organisation which supports people with learning disabilities and neurodiverse needs.
- At Botanic Place, we have appointed Motionspot, inclusive design specialists, to ensure ergonomic design solutions are incorporated.
- We are supporting the Edge café – who promote community-led recovery for individuals with specific challenges, supporting them towards a more enriched life.

ENHANCING ACCESS TO SKILLS, EDUCATION AND JOBS:

- Our proposals across these three new sites will create over 8,000 jobs across a range of skills and levels of experience.
- Working with Form the Future, we are providing a unique opportunity to develop new ways to connect young people, schools and businesses together. Employer engagement projects will support work placements, summer programmes and internships for local people.
- Throughout the construction phases, we will provide apprenticeship and training opportunities, as well as full time positions to local people via our construction partners.
- With Cambridge Launchpad, we are engaging with with local schools to provide interactive learning and workshops to incorporate their ideas and create a greater sense of connection to our developments.
- In conjunction with Indie Cambridge, we are working to support local independent businesses with space at The Beehive Centre.
- Railpen's new long-term partnership with local community charity, Abbey People, supports the most vulnerable and excluded groups in Cambridge. We are sponsoring the Abbey food hub, working to inspire people from underrepresented backgrounds to consider careers in Life Sciences, creating opportunities and reducing barriers to work, and developing a community volunteering programme for Railpen and its partners.

There are numerous other initiatives we are embarking upon to ensure our developments are truly inclusive and provide societal and economic benefits.

NEST

ABOUT US

Nest was established in 2010 as part of the auto enrolment programme to help people save for retirement. More than one in three workers in the UK saves with Nest, making it the UK's largest pension scheme by members. With more than £35bn in assets under management, Nest is operating at scale as a high-quality, low-cost pension scheme helping over 12.5 million members save for their retirement. Our strong social purpose and role as a responsible investor is embedded throughout the whole corporation, which means in addition to providing better investment outcomes for our members we also seek to make a positive difference to the society and world our members live in.

TACKLING FORCED LABOUR THROUGH STEWARDSHIP AND SCREENING

INTRODUCTION

The scheme has considered social factors within its investment strategy since inception in 2013 and this strategy has evolved into a multifaceted process aimed at achieving our responsible investment objectives. Social factors have historically received less attention than environmental and governance factors within the investment industry. Social factors have predominantly lacked quantifiable metrics and regulatory frameworks, leading to potentially more subjective and inconsistent decision making. However, awareness has been growing on issues such as diversity, equity & inclusion, labour issues and digital rights, whilst at the same time, data availability and frameworks have improved. There continues to be increasing evidence that these social factors are financially material and can impact investment returns over the long-term if not appropriately managed. This past year, we prioritised a number of social themes that we believed were material to our portfolio and could have an impact on the retirement outcomes of our members – all of which are highlighted in our 2022/2023 responsible investment report.

SOCIAL INTEGRATION

Nest takes a number of measures to identify and address social risks within our investment portfolio, including both stewardship and integration. To mitigate our exposure to social risks in some of our investments, we implemented a United Nations Global Compact (UNGC) screen within our emerging market equities fund. The UNGC aims to mobilise the global business community to contribute to sustainable development; the principles cover key areas such as human rights, labour standards, environmental protection, and anti-corruption measures. Companies that breach these principles may face legal, reputational, and operational risks. We require our fund manager to screen our portfolio, using a third-party data provider of their choice, and identify companies that have been assessed as violating or having potentially violated one or more of the UNGC principles. By having a screen in place, Nest can assess the social risks associated with the investment and work with fund managers to make informed decisions when breaches occur. Our reasoning for adopting the UNGC screen for this fund, was due to relaxed regulations in many emerging markets. As a result of the screen, we divested from several companies which were given a UNGC fail flag, found to have very severe direct involvement in Uyghur forced labour.

TARGETED STEWARDSHIP

Although the UNGC screen was effective in flagging companies involved in forced labour, we believe being a responsible investor goes beyond mere screening and Nest is actively engaging with companies to address this issue. Stewardship and policy work allows us to focus on addressing root causes and promote sustainable outcomes through open dialogue and advocacy. We decided to escalate our strategy to address the risks of Uyghur forced labour in our investments and joined the Investor Alliance For Human Rights (IAHR) – Uyghur forced labour engagement initiative. Over the past year the engagement has been focused on the automotive sector as a result of the published Driving Force report, which found there to be more than 100 international automotive parts and car manufacturers exposed to forced Uyghur labour made goods. We chose a select number of automotive companies to engage with that were mentioned in the Driving Force report. To identify which companies to prioritise engagement with, we:

- Assessed companies' ESG performance using data gathered through our own research and from ESG data providers.
- Identified which companies were particularly material to our portfolio based on the ownership percentage.
- Identified the largest companies in the sector in terms of number of employees and market cap.

We have had meetings with BMW, Ford, General Motors, Tesla, and Toyota to get further insights into their due diligence processes and push for greater transparency within their supply chains.

We believe that persuading automotive companies to have more transparent supply chains will help identify areas where forced labour might exist. In addition, putting in place robust due diligence processes surrounding supplier audits, customs data, payment interactions, and grievance mechanisms can help prevent cases of forced labour. We have seen some positive outcomes from our engagements such as the use of new tools to better monitor and manage risks in supply chains.

FORWARD LOOKING FOCUS

Tackling forced labour – through long-term engagement with companies – will continue to be a priority for Nest, recognising the negative outcomes this issue has for workers and communities, as well as the regulatory and reputational risk to companies.

Regulatory risk linked to Uyghur forced labour will continue to be important for companies to manage, both in the US and in the EU. In the US, the Uyghur Forced Labor Prevention Act was enacted in 2021 and prohibits the import and sale of goods that have been made with Uyghur forced labour. Similarly, in the EU, a proposal has been made to ban products made with forced labour, including Uyghur forced labour, which will impact numerous major global organisations directly and indirectly through their supply chains. To mitigate regulatory and reputational risk across our portfolio we have expanded the UNGC screen to other segregated mandates, including our developed market equities fund. We will also continue to engage with companies in our developed market equity fund to encourage them to improve transparency and monitor their supply chains to eliminate the use of forced labour.

NOTES