# HSBC Bank (UK) Pension Scheme

# (The “Scheme”)

# UK Stewardship Code Report 2022

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# Foreword

We are delighted to present our second annual stewardship report, produced in line with the 12 principles of the UK Stewardship Code. We are committed to practise effective stewardship by holding our investment managers to account, and to participate in initiatives and collaborations at the policy and regulatory level.

Our emphasis over the last few years has been to develop policies, frameworks, and mechanisms to better manage and mitigate the risks associated with climate change and we have reached the point where these can be implemented to help us achieve our sustainability goals, including our net zero ambition.

We believe in continuous improvement and aim to incorporate leading industry practices into how we exercise our stewardship responsibilities. In 2022 we reasserted our investment beliefs, explicitly focusing on systemic risks that we cannot diversify away from in our investment strategy. We have adopted a universal owner mindset that underpins this view and which helps to guide our decision-making and where we deploy our resources.

Additional systemic risk priorities that we cannot avoid in our investment strategy include the risks associated with biodiversity and nature-related losses, including anti-microbial resistance, and the inclusion and diversity practices both at the investment managers we hire to invest on our behalf and in the companies in which we invest. It will take some time to build these considerations into our approach, but we expect to begin by mapping our risks, measuring progress, and engaging with investment managers and the wider industry.

The focus of our narrative in our inaugural report was on the processes that we had in place at the time, and our case studies were predominately based on the actions of our investment managers. This year we have changed the emphasis. We have focused our case studies on the actions undertaken by the Trustee, which include enhancing our governance model, improving the policies and processes we have in place, and how we engage with our managers.

There is still much to do, and we remain committed to publicly disclosing our purpose and retaining our signatory status to the UK Stewardship Code.

***Russell Picot, HSBC Bank Pension Trust (UK) Limited, Board Chair***

# Section 1: HSBC Bank (UK) Pension Scheme Overview

The HSBC Bank (UK) Pension Scheme consists of three sections: the HSBC Bank (UK) ("HBUK") Section, the HSBC Bank plc ("HSBC Bank plc") Section and the HSBC Global Services (UK) Ltd ("HGSU") Section. Defined Benefit (DB) and Defined Contribution (DC) benefits are provided by each section. The Scheme holds in assets:

- DB: £21bn as at 31 December 2022
- DC: £6.2bn as at 31 December 2022

The Trustee operates for the exclusive purpose of providing retirement and death benefits to the Scheme's 177,822[1] eligible participants and beneficiaries who are past and current employees of the HSBC Group in the UK.

## Appropriate time horizon for investment

- **DB Assets:** The DB assets are on the whole invested in a low-risk portfolio consisting of UK Government bonds, high quality corporate bonds, and other secure income assets. These assets make up the Cashflow Driven Investment ("CDI") portfolio. This portfolio relies on long-term cash flows to make liability payments and these assets therefore have a multi-decade investment time horizon in the region of 20 to 30 years to meet the peak of pensions payments, and beyond to pay for younger members' pensions as they retire.
- **DC Assets:** The majority of the DC assets are invested in the default investment option, which is designed to generate returns sufficiently above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near taking their DC pension pot. These assets therefore also have a multi-decade investment time horizon, which is in the region of 50 years.

## The Scheme's structure, governance and oversight of investment

The Trustee's core purpose is to provide retirement benefits to its beneficiaries, the Scheme's members. To deliver this, the Trustee has set out its investment beliefs to shape investment decision-making, including several investment beliefs in relation to Environmental, Social and Governance ("ESG") risk factors, sustainability and stewardship. The full set of the Trustee's investment beliefs can be found in the latest Statement of Investment Principles, updated in September 2022 (see appendix). The bullet point extracts are given below.

- The Trustee recognises that global systems, such as the planet, its climate, its people and societies have a material impact on the whole of the economic system, today and over the longer term. A robust global economy, society and planet are critical elements for stable and resilient retirement outcomes for members. ESG risks and opportunities are important factors to consider in investment decision-making. Some ESG risks and opportunities may be specific to certain companies or assets, but others can have a material impact on large parts of the global economy and are considered risks to the whole economic system.
- The Trustee also believes good stewardship and engagement can protect or enhance member retirement outcomes in the long-term.

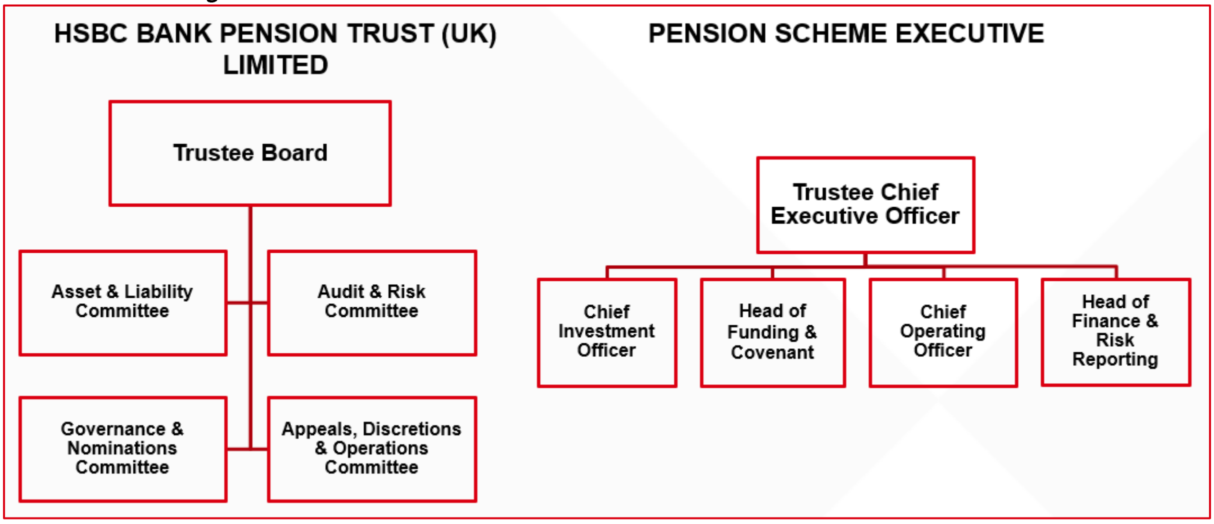
The Scheme's governance structure enables these beliefs to be applied, ensuring the Scheme is run in the best interests of all members. The Trustee is responsible for all aspects of running the Scheme and, to achieve this, it has established a governance structure comprising the Trustee Board and its sub-committees, supported by a management structure comprising the Pension Scheme Executive ("PSE"), who oversee the implementation of the Trustee's strategic decisions.

Strategic and operational decision-making happens at the Trustee Board and sub-committee level, with some decisions delegated to the PSE. This is to make the running of the Scheme more effective, for example, when members' benefits need to be paid out and Trustee decisions need to be implemented by technical specialists.

[1] The latest figure available data at the time of writing

The chart below outlines the Scheme's organisational structure effective in 2022. The section below also provides a description of the role of the Trustee Board, the two sub-committees that are relevant for investment matters, and the PSE.

***The Scheme's Organisational Chart***




**Role of the Trustee Board ("the Trustee")**

- The three sections of the Scheme are overseen by the HSBC Bank Pension Trust (UK) Limited ("the Trustee"). At the end of the reporting period, the Trustee Board comprised 11 Trustee Directors. Seven, including the Chair and two Independent Trustees, were nominated by the Sponsors. Four were nominated by the members of the Scheme.
- The Trustee is responsible for all aspects of running the Scheme. The Trustee meets at least quarterly and is responsible for determining its investment beliefs and agreeing the Statement of Investment Principles ("SIPs") for each of the DB and DC assets, which provide the basis for all investment decision-making. The Trustee agrees the target investment strategy for each section, sets the Scheme's risk budget and approves the DB strategy's strategic asset allocation proposed by the Asset and Liability Committee.

**Role of the Asset & Liability Committee ("ALCo")**

- The ALCo has delegated responsibility for certain investment functions, such as developing investment strategy, assessing the quality of performance and processes of the investment managers and identifying potential future asset classes and investment managers. The ALCo handles the majority of investment matters in relation to the assets. The Committee then makes recommendations to the Trustee where required. The Committee reports to the Board on a quarterly basis.

**Role of the Audit & Risk Committee ("ARC")**

- The ARC is active in the oversight of the management of risk and also in the supervision of the annual external audit of the Scheme's financial statements. The Committee reports to the Board on a quarterly basis.

**Role of the Pension Scheme Executive ("PSE")**

- To improve the efficiency of the Scheme's decision-making process, the Trustee has appointed a full-time executive to support the Trustee.
- The PSE looks after the day-to-day management of the Scheme on behalf of the Trustee. There are four Trustee Chief Officers, which are the Chief Executive Officer, the Chief Investment Officer, the Chief Operating Officer and the Head of Funding and Covenant.
- The Trustee is required by law to seek expert advice from qualified professionals, such as a legal practitioner, an actuary, or an investment advisor, before it makes certain decisions. The PSE manages the relationship with the relevant advisors, as well as making sure that the Trustee has access to the right advice for the decision it is taking.

- The PSE sets strategic outcome objectives on an annual basis which reflect the Scheme's priorities for the year, including objectives relating to the integration of stewardship in investment decision-making. The PSE's performance is assessed by the Trustee in relation to these objectives to ensure that it is aligned with the Trustee's objective to consider stewardship in its activities.

In keeping with this governance structure, this report has been reviewed and approved by the ALCo and the Trustee Chair.

The Trustee makes investment decisions as a whole rather than relying on the skills of individual Trustee Directors. This includes decisions relating to stewardship. The Trustee also relies on the Scheme's investment advisors (Lane Clark and Peacock ("LCP"), Redington and Willis Towers Watson ("WTW")) for stewardship training and specific advice on stewardship matters. However, to ensure the Trustee is functioning in an effective manner, in 2022, the Trustee undertook a governance effectiveness review as described in the case study below:

*Case study: Assessment of the effectiveness of the Scheme's governance structure and Diversity & Inclusion*

*Issue*: Having previously ascertained that the Scheme's governance structure was fit for purpose, the Trustee wanted to satisfy itself that the structure was operating as effectively as possible. The Trustee also wanted to review how Diversity & Inclusion, a priority for the Trustee as described on page 7, was being integrated into the Scheme's processes.

*Action*: To assess effectiveness, an external advisor assessed the Trustee Directors using psychometric tests to understand the overall profiles of the Trustee Board and of each sub-committee. These group profiles were used to identify circumstances in which the groups might need to be mindful of the potential for unhelpful or ineffective behaviours that could impact decision making. In additional, an external advisor carried out observations of each group to assess whether the potential risk areas manifested themselves in practice. The assessments included the Trustee's behaviour relating to Diversity & Inclusion, and unconscious bias training was undertaken by the Trustee.

*Outcome*: The conclusion of this exercise was that the Trustee functioned well and that there was a collegiate environment between Trustee Board members to ensure all voices were heard. The assessment also found evidence that the Trustee was able to take into account Diversity & Inclusion considerations when considering the needs of individual members. The Scheme's governance structure has been assessed to function effectively, and Diversity and Inclusion is considered from a member and investment perspective (further details can be found on page 7). However, the Trustee recognises that the composition of the Trustee Board itself could be improved from a Diversity and Inclusion perspective. With this in mind, Diversity and Inclusion has been considered explicitly as part of a process to recruit an additional Trustee Director over the past year and Diversity and Inclusion data from applicants has been captured to help the Trustee understand the overall demographic of applicants. The Trustee has used this data to understand the reach of its communications to members inviting applications to join the Trustee Board. The Trustee aims to work collaboratively with the Sponsor to support the development of a diverse pipeline of applicants for Sponsor selected vacancies in the future.

## The Scheme's values and culture

The Scheme is governed and managed with the aim of:

- Helping members to make well-informed decisions about their retirement savings
- Delivering an excellent experience for members in all interactions with the Scheme
- Providing high-quality investment options that enable DC members to realise their retirement ambitions
- Ensuring DB benefits are paid as they fall due

To achieve these high-level goals, the Trustee manages the Scheme within a cost-effective and risk-controlled environment. The Scheme operates within the relevant legislative framework, promotes a culture of continuous improvement, and aims to work in a collaborative but independent manner with the employers of Scheme members ("Sponsors").

The Trustee applies a forward-thinking mindset and a long-term view in fulfilling all responsibilities, including those relating to stewardship. This includes an aim to innovate and to influence future government policy and market developments where this is aligned with members' best interests.

## Investment philosophy and approach to ESG

The long-term investment objective of the DB assets is to maintain a portfolio appropriate to each of the sections which will enable the Trustee to meet the cost of current and future DB benefits that the Scheme provides. There are three DB investment strategies: one for the HBUK section, one for the HSBC Bank plc section and one for the HGSU section.

For the HBUK section, the Trustee follows the CDI approach noted above. Given the small size of the HSBC Bank plc and the HGSU sections, the Trustee's policy is to invest in strategies that are liquid and cost-effective to implement and these consist primarily of an off-the-shelf diversified growth fund, passively managed Liability Driven Investment ("LDI")[2] funds and liquidity funds. The approaches for each of the sections will help the Trustee meet its overall long-term investment objectives.

The primary objective with DC is to provide members with access to a default investment option that generates returns in line with members' circumstances depending on what stage of their pension journey they are in, and to provide an appropriate range of funds for members to select from if they choose to do so. Members who choose not to make an active decision regarding their investment strategy go in the default investment option. The self-select fund options are made available for those members who do wish to make active investment decisions.

### *Approach to Responsible Investing*

Having a universal owner mindset, the Trustee recognises that it cannot diversify away from systemic risks, including systemic ESG risks. The Trustee's approach to integrating ESG and practising good stewardship on behalf of its members is detailed in the "Environmental, social and governance and other financially material considerations" section of the SIPs, as well as additional risk management policies.

ESG factors can have a material financial impact on the value of the Scheme's investments over the time horizon applicable to each benefit type. The Trustee therefore believes that by taking such factors into account in the investment process, the Scheme is better positioned to deliver on its investment objectives in a way that is aligned with members' interests.

The Trustee takes account of ESG factors when determining how the Scheme invests its assets and when selecting and monitoring the performance of appointed investment managers. For most of the Scheme's investments, the Trustee expects its investment managers to invest with a long-term time horizon, and to use their stewardship activity to drive improved performance in the assets in which they invest. The Trustee applies these principles to all asset classes, although it places a greater emphasis in this regard on credit, listed and unlisted equity, property, and infrastructure assets.

The Trustee believes that support for Responsible Investment organisations or initiatives is an important part of being a responsible asset owner. As such, the Trustee supports organisations or initiatives where the Trustee believes doing so will help achieve at least one of the following:

- **Innovate:** help to implement new Responsible Investment solutions in a proportionate and practical way with a clear focus on excellence and continuous improvement.
- **Influence:** have an impact on government policy, market developments and other investors with respect to Responsible Investment. A particular focus for influence is the Scheme's investment managers.
- **Improve member outcomes:** improve the risk and return characteristics of investments to increase the likelihood of DB members receiving benefits as they fall due and to improve DC members' outcomes.

[2] LDI contains UK Government bonds, swaps and cash.

- **Transparent:** enhance transparency in reporting, sharing knowledge with other asset owners and asset managers and helping to shape new ideas within Responsible Investment.

On this basis, the Trustee supports the work of the following organisations:

- UN Principles for Responsible Investment ("PRI")
- Institutional Investors Group on Climate Change ("IIGCC") and related Paris Alignment Investment Imitative ("PAII")
- Financial Reporting Council ("FRC") UK Stewardship Code 2020
- Occupational Pensions Stewardship Council ("OPSC")
- Transition Pathway Initiative ("TPI")
- Climate Action 100+
- Asset Owner Diversity Charter ("AODC")
- A4S Asset Owner Network ("A4S")

The Trustee recognises that it cannot support all organisations or initiatives and so will review its associations periodically.

## The Scheme's priorities

In line with Trustee beliefs related to Responsible Investment, it had previously set two priority areas of focus for ESG-related work:

- **Going deeper into climate change:** over 2022 the Trustee published its Climate Action Plan, a transparent account of the Trustee's strategy for achieving its net-zero climate target.
- **Enhancing our approach to stewardship:** over 2022 the Trustee adopted an updated Stewardship and Voting Policy, setting out how the Trustee aims to practice effective stewardship as part of its fiduciary duty.

Consistent with the adoption of a universal owner mindset, in 2022 the Trustee extended its ESG priorities to include biodiversity and nature-related losses, including anti-microbial resistance, as well as diversity, equity and inclusion. The selection of these further priority areas will facilitate the Trustee in more effectively integrating ESG risk management into its investment decision-making. The Trustee anticipates evolving its approach on these system-wide ESG risks over a number of years while continuing to take actions on climate change.

### *Going deeper into climate change*

- The Trustee recognises climate change as a systemic, long-term material financial risk to the value of the Scheme's investments. As such, the Trustee has a fiduciary duty to consider climate change risks when making investment decisions. Within this context, it is supportive of the Paris Agreement to minimise dangerous climate change by limiting global warming to well below 2C above pre-industrial levels and pursuing efforts to limit it to 1.5C.
- In order to ensure climate-related risks and opportunities are implemented in investment decision-making, the Trustee became a supporter of the Taskforce for Climate-related Financial Disclosures ("TCFD") and published its first public TCFD report in 2018. Since then, the Trustee has sought to incorporate in full the recommendations of the TCFD, enabling better integration of climate-related risks and opportunities. The Scheme's annual TCFD disclosures can be found within the Other information section of the Scheme's futurefocus website (link here).
- To manage the impact of climate change on the Scheme's investments and the consequent impact on the financial interests of its members, in 2021 the Trustee set out its plans to achieve net zero by 2050. This includes:
    - targeting a real economy emissions reduction interim target of 50% by 2030 or sooner for the equity and corporate bond mandates, in line with the findings of the most recent Intergovernmental Panel on Climate Change ("IPCC") report;
    - having the ambition of achieving all corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030 across both DB and DC assets;

- o enhancing the engagement and stewardship efforts carried out by the Scheme's asset managers.

- Over 2022 the Trustee developed and published its Climate Action Plan (found here), outlining the Scheme's strategy for delivering on its net-zero commitment in line with the principles set out in the Net Zero Investment Framework developed by the IIGCC. Within this plan the Trustee has set reference targets in relation to GHG emissions reduction, alignment and engagement.

## *Enhancing the Trustee's approach to stewardship*

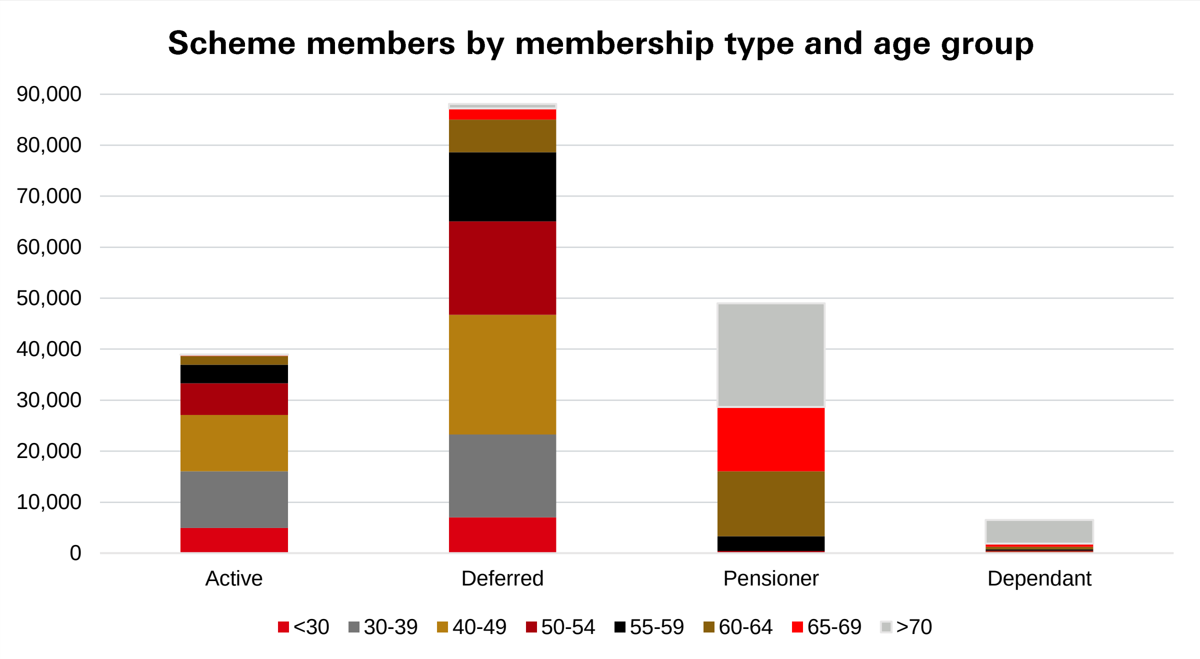
- Recognising the power of stewardship, the Trustee has a clear preference for 'Engagement' rather than 'Exclusion' as a method of incorporating climate change and other ESG risks into an effective fiduciary framework.
- In order to practice effective stewardship, over 2022 the Trustee adopted a Scheme-wide Stewardship and Voting Policy. Given the Trustee's outsourced model, the Policy describes the framework the Trustee uses to hold its investment managers to account for the use of their influence as owners of assets. The aim of this framework is to ensure that as far as possible, the stewardship actions investment managers take on the Trustee's behalf reflects best practices in terms of ESG risk mitigation. As described above, over the year the Trustee has selected key ESG themes to best channel its stewardship efforts.
- Effective delivery of stewardship is one of the key factors that the Trustee discusses with its investment managers. The newly adopted Stewardship and Voting Policy clearly outlines the Trustee's expectations of investment managers in relation to engagement and voting, including escalation:
    - o At a high-level, the Trustee expects investment managers to engage with entities in which they invest, to maintain or enhance the long-term value of their investments and limit negative externalities on the planet and society. The Scheme's investment managers are expected to have robust ESG, climate change and stewardship policies and processes in place. These are used to define how underlying companies are monitored, when engagement might occur, how progress is measured, and when escalation is required. Managers are expected to escalate engagement activities where necessary, employing a range of escalation tools, such as voting against management, proposing shareholder resolutions and litigation. Divestment is the ultimate position of escalation, and this is at the discretion of the investment managers if they believe this is consistent with their fiduciary duties. The Trustee allows investment managers discretion over the appropriate tools to deploy, however, it expects them to be in active communication with management of the companies in which they invest when escalation tools are used. The Trustee also expects its investment managers to engage on public policy matters to promote a robust and sustainable economic operating environment for all.
    - o The Trustee's outsourced investment model means it has delegated the exercise of rights attached to investments, including voting rights to its investment managers. The Trustee therefore does not direct how votes are exercised and does not have its own proxy voting provider. As active owners, it is the Trustee's responsibility to hold investment managers to account for their voting activities to ensure they are exercising voting rights in the members' best interests. The Trustee chooses investment managers where it believes there is alignment with its stewardship beliefs and those of the investment manager, but recognises that it has less direct influence over the managers' more granular policies and exercise of investment rights where assets are held in pooled funds. More detail on the Trustee's approach to voting can be found in Section 3.
- As part of the Trustee's investment manager monitoring, the Trustee requires specific evidence from investment managers that they have acted in accordance with the outlined expectations. The Trustee monitors its investment managers' performance and engages with each of them at least annually.
- The combination of these requirements provides the Trustee with enough evidence to assess whether its investment managers are practising effective stewardship that is best aligned with its long-term interest. Where the Trustee identifies deficiencies, it will escalate accordingly, with the ultimate response being the removal of mandates where the Trustee believes it is in the interests of members to do so.

This reinforcement of the Trustee's focus on stewardship through holding its investment managers to account has led to a change in approach towards its disclosures on stewardship. This report now focuses predominantly on the Trustee's own activities with respect to dialogue with its investment managers, supplemented by discussions of its contribution to consultations on public policy and to investment manager stewardship activities that are particularly pertinent to the Trustee's priority themes.

## Reporting to members

The Scheme provided benefits to 177,822[3] members in total across the different sections of the Scheme. The membership breakdown by membership type and age group as at 31 December 2022[4]* is shown in the table and the chart below:

| | DB | DC | Hybrid | Average age |
|---|---|---|---|---|
| **Active** | - | 35,971 | 2,970 | 43 |
| **Deferred** | 27,428 | 59,627 | 1,050 | 47 |
| **Pensioners** | 44,836 | 0 | 4,167 | 67 |
| **Dependants** | 6,465 | 0 | 83 | 66 |
| **Total** | **78,729** | **95,598** | **8,270** | **52** |




The Trustee's focus is the long-term interest of Scheme members, and the Trustee seeks to inform its efforts and decision-making with the views of its members. Scheme members have access to two platforms: 1) the Scheme's futurefocus website, where members can access information on how the Scheme is run, including a dedicated page "Managing ESG risks" which outlines the Trustee's approach to ESG and 2) two web portals which give online access for DC and DB members respectively, with Hybrid members having access to both portals.

The Trustee provides all members with a series of communications to aid their understanding of the Scheme's investment and stewardship activities and outcomes to meet members' needs. The Trustee seeks the advice of

[3] The latest figure available data at the time of writing
[4] Scheme membership as at 31/12/2022 (the latest available data). Please note that the analysis of membership between the DB and DC records will not match the overall total number of members. The variance occurs due to the duplication of members with both DB and DC assets (for example Hybrid status members and DB status members with DC AVCs).

advisors in the preparation and review of its communication materials for members to ensure it is fair, balanced and understandable. These materials are all available on the public futurefocus website and include:

- Annual Newsletter
- Statement of Investment Principles for DB and DC Scheme
- Annual Implementation Statement
- Annual TCFD Report

Besides these pieces of periodic communication, the Trustee provides a series of more interactive communication programmes and guides to members:

- **Member guides:** New joiner Guide and checklist, Quickstart Guide, DC Investment Guide, Flexible Retirement Guide for DC members, Quarterly DC Fund Factsheets, DC Leaver Guide, Hybrid member guides and Hybrid refresher guides. In 2022, the Trustee released a video outlining the updated Trustee Mission Statement and created a dedicated page to inform members about the role of the Trustee. Other guides may be provided from time to time as appropriate.
- **Member nudge programme:** The Trustee runs a programme with a schedule of nudges to interact with the Scheme's members when members need to make decisions about their benefits. The nudges reflect members' feedback from the previous year, covering different topics (including for example, target age retirement, retirement checklist, new joiner nudge, contribution calculator) and are tailored to different age groups. Nudges are sent to members via email.
- **Retirement webcasts, seminars and information pieces:** The Trustee released a series of retirement videos which can be accessed by members on the website. The purpose of the webcasts is to educate members on their retirement needs and options available to them. The Trustee also runs pension retirement seminars for active and deferred DC members over age 50 to help members with their retirement planning. To respond to the turbulent market environment in the autumn of 2022 the Trustee released an information piece on members' retirements savings during market uncertainties. A sample of stewardship-related communication pieces released in 2022 include:
    - Statement from the Trustee responding to Russia's invasion of Ukraine (please see the case study on page 16 for more detail)
    - Webinar and interactive Q&A on climate change with the Sponsor's Climate Change Group
    - ESG bulletin
    - Climate Action Plan

Additionally, the Trustee issues a periodic member survey to seek members' views in a number of key areas, including investment options and the integration of ESG issues. In the most recent survey of members in 2022, member engagement has increased significantly with a 100% increase in responses compared to the previous survey in 2020. Key takeaways relating to stewardship and ESG issues from the survey include:

- The most immediate concern for members regarding ESG was climate risk. This is consistent with Trustee expectations given the awareness of climate issues and the focus on climate as an ESG issue.
- The Trustee's ESG priorities agreed in 2022 align well with members' views and especially with retaining a focus on climate change.
- The ranking of ESG issues was broadly consistent across all age groups. This aligns with the Trustee's preference to not segment messaging based on age groups. The preferred frequency of communications by members on ESG was consistent across all age groups.
- The Trustee assessed whether communication had been effective with members and found that the majority of members were happy with email as the primary mode, with links to webcasts and reports published on futurefocus.

Recognising the importance of ESG to members, in 2022 the Trustee added a new section called "Managing ESG risks" to the Scheme's futurefocus website. The page outlines the Trustee's approach to ESG and net zero, and in early 2023 a video explaining why ESG is important to members' pensions and a 'jargon buster' to help members better understand the Trustee's approach was included.


## Responsible investment roadmap – what's next?

The Trustee made positive progress over 2022 in designing and establishing frameworks to identify, manage, and mitigate climate-related risks, and to practice effective engagement through manager oversight and accountability. The training, policies, and frameworks that underpin this work are now being put into practice as business-as-usual activities. The Trustee has also clarified its priorities for the coming years which include better integration of major systemic ESG risks including biodiversity and nature-related issues, including anti-microbial resistance into its risk management approach. There will also be heightened emphasis on, and scrutiny of, the progress that the Trustee's investment managers are making towards improving inclusion and diversity within their own organisations and in their engagement on this topic with investee companies.

To progress each of these areas, the Trustee expects over 2023 to:

- Design and implement a position on fossil fuel transitioning to support its net-zero ambition. This will likely include expectations of investment managers with regard to their engagement with issuers on climate transition planning, consideration of sectoral decarbonisation pathways, and managed phase out of fossil fuel energy intensive assets.
- Further explore biodiversity and nature-related risks, including engaging with relevant investment managers on this topic and exploring the use of emerging tools and industry frameworks.
- Further explore risks from anti-microbial resistance, including engaging with relevant investment managers on this topic.
- Measure and engage on diversity metrics as set out in the Asset Owner Diversity Charter.

The Trustee requires the PSE to adopt a pragmatic and learn-by-doing approach. This should lead to continuous improvements and the development of effective risk management and engagement frameworks.

# Section 2: Investment Approach

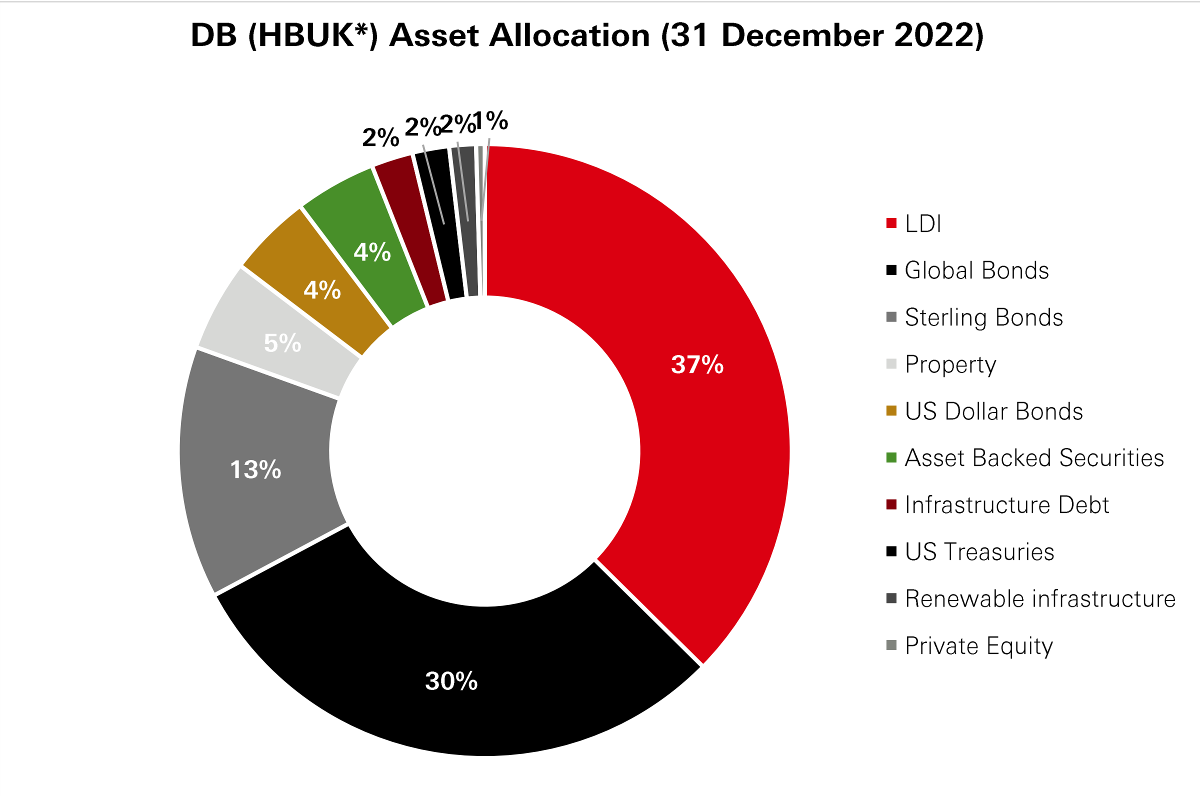
## Approach to investment; geographic/asset class split

### *An overview of the DB assets*

There are three DB investment strategies, one for the HBUK Section, one for the HGSU Section and one for the Bank plc Section. The HBUK Section contains the majority of the DB assets, with the other two sections being considerably smaller:

| DB Sections: percentage of assets by section | |
|---|---|
| **HBUK Section** | 99.4% |
| **Total HGSU Section** | 0.5% |
| **Total BANK plc Section** | 0.1% |

Under the HBUK Section's CDI approach, the asset class weights in the portfolio are expected to evolve over time as asset cashflows are released to pay pensions, reducing the value of the Scheme's assets, and impacting the relative proportions of remaining assets. Current assets comprise of government bonds, cash and hedging instruments (including swaps and derivatives), high quality corporate bonds, and low-risk illiquid matching assets, with small allocations in private equity and property.

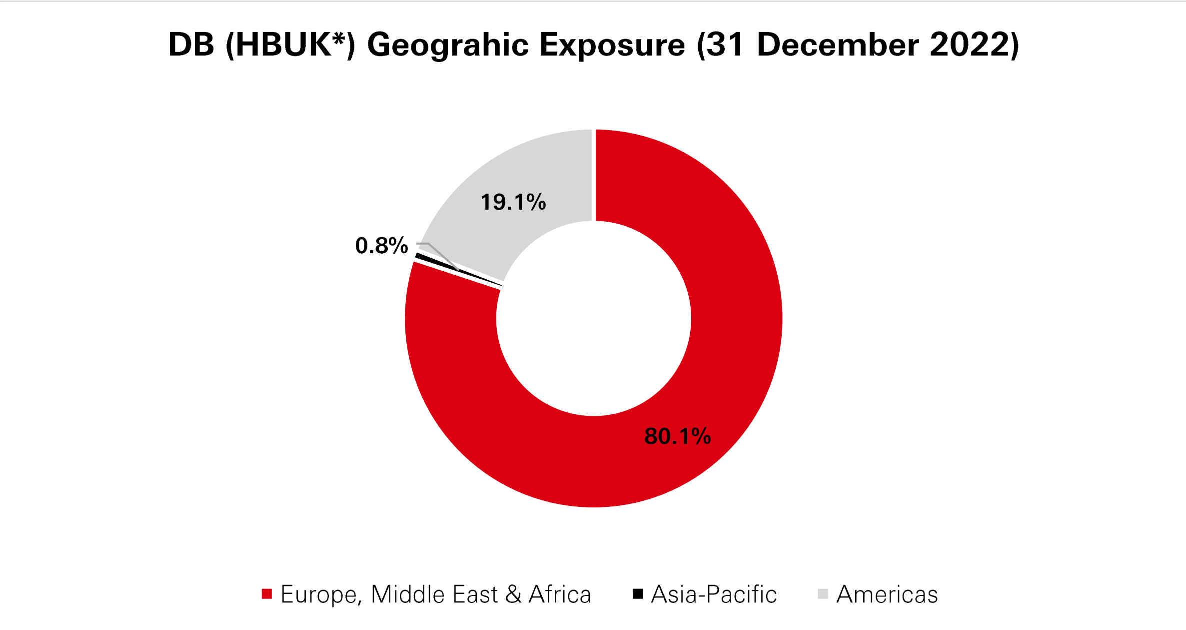



** Given the scale of the other two sections, we have not included a breakdown of their assets. LDI contains UK Government bonds, interest rate and inflation swaps and cash.*

| Fund | 2022 Asset Allocation (%) |
|---|---|
| **LDI** | 37 |

| | |
|---|---|
| **Global Bonds** | 30 |
| **Sterling Bonds** | 13 |
| **Property** | 5 |
| **US Dollar Bonds** | 4 |
| **Asset Backed Securities** | 4 |
| **Infrastructure Debt** | 2 |
| **US Treasuries** | 2 |
| **Renewable infrastructure** | 2 |
| **Private Equity** | 1 |

In addition to the Scheme's capital being invested in a diverse set of assets, the Scheme is also invested in a geographically diverse manner. This helps achieve the Trustee's overall risk-adjusted return objective for the DB assets to ensure the Scheme can pay members' benefits as and when they fall due.



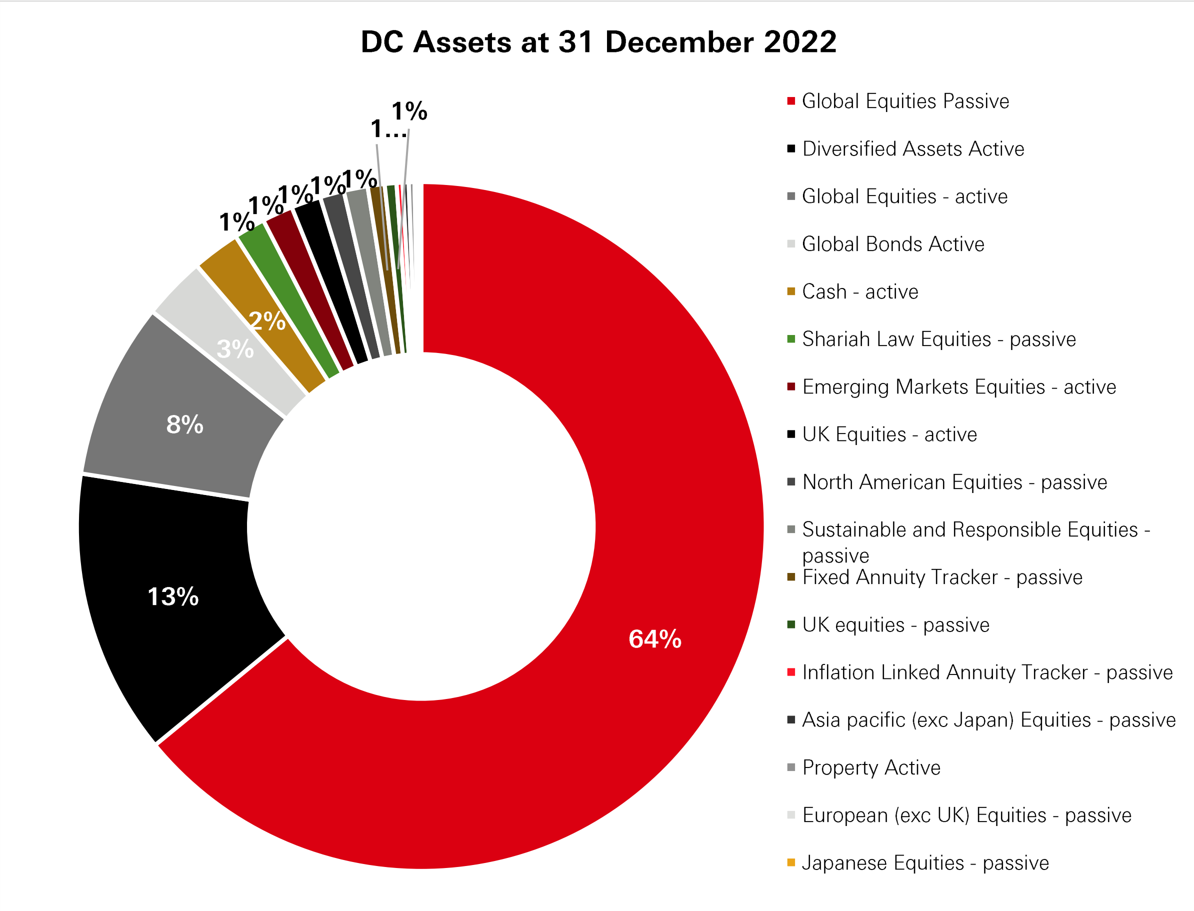

** Given the scale of the other two sections, we have not included a breakdown of their geographical exposure.*

## *An overview of the DC assets*

Within the DC assets, there are a range of investment funds available for members. The Scheme also provides different default strategies for members, depending on the type of benefits they have and their estimated time to retirement.

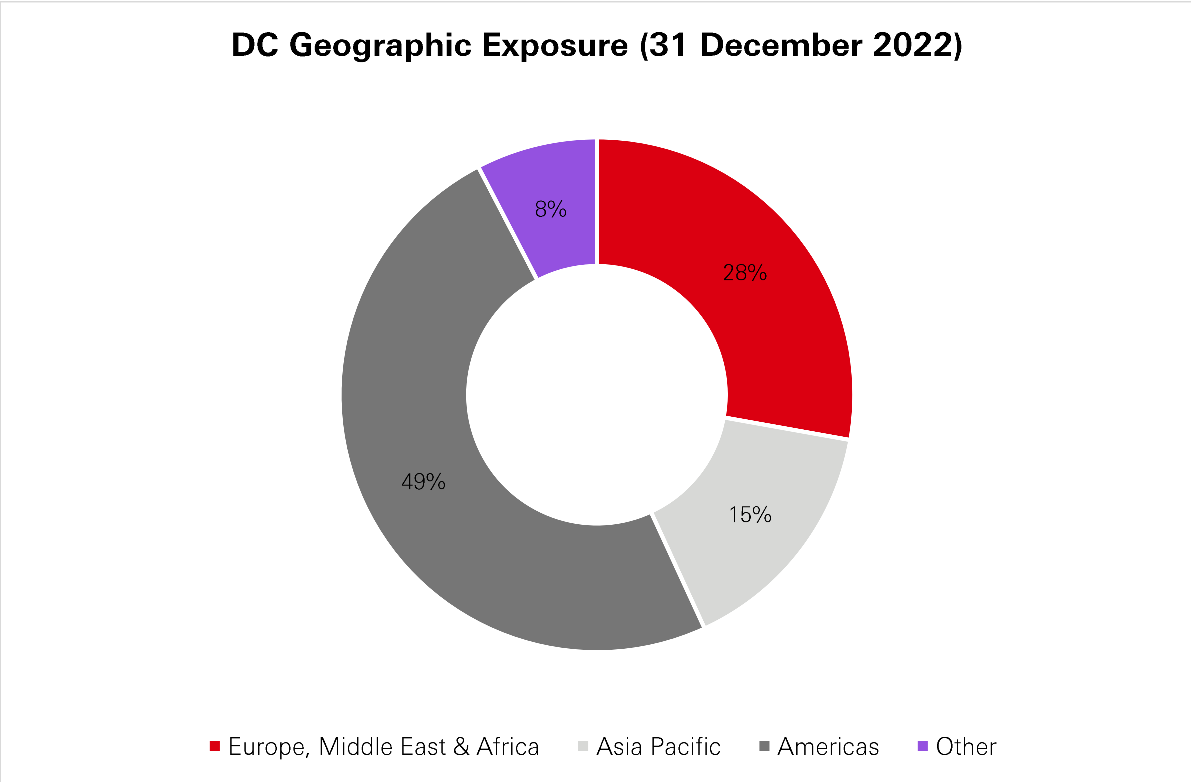
For members with only DC benefits, the main default option targets flexible income drawdown at retirement. Therefore, the initial growth phase is invested to target a return significantly above inflation, and then it gradually switches into less risky assets as a member gets closer to retirement. The main default option makes up a significant proportion of the members' total retirement funds, and so it is more suited to a drawdown approach than an annuities approach, reflecting the pension freedoms now available. For members with both DC and DB benefits in the Scheme, the main default option targets a cash lump sum at retirement, however, the approach mirrors that of the DC only members, where the initial growth phase is invested into higher return assets and then gradually switches into less risky assets. In addition to the two main defaults, the Scheme also currently offers an alternative lifecycle strategy; one designed to be appropriate for members who wish to purchase an annuity at retirement. Further, there is an additional default fund called the Cash – active (default). The objective of this fund is to provide a suitable interim investment vehicle in case of restricted liquidity of any fund (in the fund range) in the future in order to ensure that members' regular cash contributions still have a fund they can be invested in without incurring significant transaction costs.

The main fund used in the Scheme's default investment strategy, the Global Equities – passive fund, has Legal and General Investment Management's ("LGIM's") Future World Fund ("FWF") as its underlying investment. In the Trustee's last review of the DC strategy, they confirmed that the Scheme's lifecycles are adequately and appropriately diversified between different asset classes and the self-select options provide a suitably diversified range of funds for members to choose from. The Trustee reviews the investment arrangements for consistency with its beliefs, including those on ESG risk management and stewardship, on a regular basis. The Trustee also monitors the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.




| Fund | 2022 Asset Allocation (%) |
|---|---|
| **Global Equities – passive** | 64 |
| **Diversified Assets – active** | 13 |
| **Global Equities – active** | 8 |
| **Global Bonds – active** | 3 |
| **Cash – active** | 2 |
| **Shariah Law Equities – passive** | 2 |
| **Emerging Markets Equities – active** | 1 |
| **Property – active** | 1 |
| **UK Equities – active** | 1 |
| **North American Equities – passive** | 1 |
| **Sustainable and Responsible Equities – passive** | 1 |
| **Fixed Annuity Tracker – passive** | 1 |
| **UK equities – passive** | 1 |
| **Inflation Linked Annuity Tracker – passive** | 0.3 |

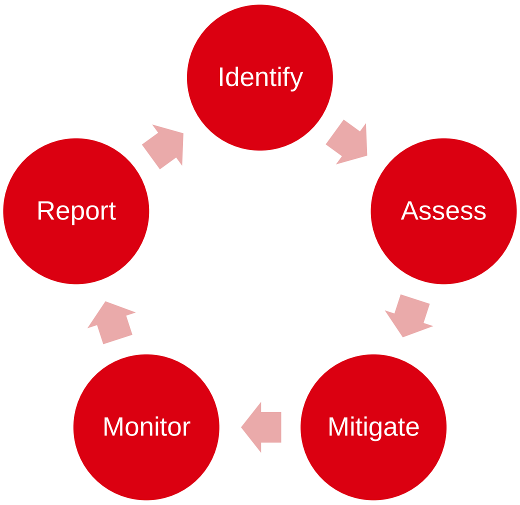
| | |
|---|---|
| **Asia pacific (exc Japan) Equities – passive** | 0.3 |
| **European (exc UK) Equities – passive** | 0.2 |
| **Japanese Equities – passive** | 0.1 |
| **Sterling Corporate Bond– active** | 0.1 |




## Integration of stewardship and ESG risk management into investment approach

Stewardship and ESG Risk Management are integrated within the Scheme's existing Risk Management Framework which clarifies the roles and responsibilities of the Trustee Board, its sub-committees, the PSE, and Scheme advisors, with regard to identifying, assessing and managing ESG-related risks. Having this framework in place facilitates the Trustee to manage ESG risks in a considered and effective manner by considering both top-down (Scheme-level) and bottom-up (mandate-level) perspectives.

***The Trustee's ESG Risk Management Framework***




ESG risks, principally those related to climate change, were explicitly integrated into this framework and documented in 2020. Since then, the Trustee has spent considerable time populating the framework with the right management information to ensure it works effectively. The two primary mitigants for managing identified ESG risks are:

- Working with the Trustee's investment managers to design mandates that specifically integrate ESG issues.
- Holding investment managers to account on how they integrate ESG issues into investment decision-making and active stewardship.

Over 2022, the Trustee adjusted several mandates. This was predominately to remove the ability of our investment managers to invest in Russian-domiciled assets, as part of the Trustee's response to the Russian invasion of Ukraine and the corresponding international sanctions. The Trustee also formally clarified in the guidelines with one of its investment managers how ESG risk management should be integrated when the manager considers whether assets are appropriate for inclusion in the portfolio. This was to align the portfolio better with the Trustee's climate ambitions, given the investable universe available to this particular mandate.

The Trustee's new Stewardship and Voting Policy sets out in detail the process by which managers are monitored and held to account. This is described in full in Section 3 of this report. In last year's Stewardship Report, the Trustee noted that it was looking to identify further sustainability risks, beyond those associated with climate change. The outcome of this work is detailed in the Scheme's Priorities section above.

The Trustee keeps an open mind with regard to its approach and adopts a process of continuous improvement, recognising that the management of ESG risks is complex and is constantly evolving. The PSE is responsible for building on lessons learned and working with advisors to ensure the framework is fit-for-purpose and effective. Below is a case study of where the Trustee evaluated the need to explicitly integrate risks associated with global conflicts into the ESG Risk Management framework.

### *Case study: Evaluating ESG risk management following the Russian invasion of Ukraine*

*Issue*: Following Russia's invasion of Ukraine in February 2022, the Trustee immediately assessed the Scheme's exposure to Russian-domiciled assets and quickly took measures to divest from these where possible and to exclude any new investments. The Trustee then quickly produced a bulletin for members to inform them of the Trustee's response and assure them action was being taken. Divestment was driven initially by economic sanctions, but also in response to the aggression of the Russian state. Following this action, the Trustee has placed a higher emphasis on monitoring geo-political risks with respect to its investment strategy.

*Action*: The Trustee undertook a review of an appropriate approach to integrate conflicts into the Scheme's ESG risk management framework. It recognised that in the presence of economic sanctions, divestment was the right course of action, however the risk could perhaps have been identified sooner.

The discussion recognised that political risks have tended to be underappreciated by the investment community, and that more effective approaches by investment managers might have avoided losses, not least given Russia had breached international norms on a number of previous occasions. While the Scheme's exposure to Russian assets was very low following the invasion (valued at 0.01%), exposure still existed.

Outcome: The Trustee decided that, as a matter of policy, the Scheme would not always divest from assets related to international conflicts. It recognised that the Scheme is part of a wider system that relies on international cooperation if global sustainability goals are to be achieved. The Trustee is now engaging with its investment managers to understand how political risks, corporate lobbying, and Rule of Law are integrated into their investment approaches. This will feed into the Trustee's newly established systemic risk evaluation approach, which recognises the need to apply resources to seek to influence the regulatory and political spheres.

## Resourcing of stewardship and ESG risk management, including external service providers

The Trustee's approach is to have a small but effective executive function – the PSE – who help the Trustee in its oversight of ESG investment and stewardship. This team works closely with the appointed service providers – both investment managers and investment advisors. The PSE sets out the Trustee's expectations with regard to ESG risk management and stewardship and to assesses delivery by them.

The PSE appointed a Head of Responsible Investment in 2022, its first dedicated responsible investment and stewardship resource. The appointment will help the PSE to shape and implement the Trustee's wider responsible investment approach as well as help deliver on stewardship (such as direct engagement with the Scheme's investment managers).

To ensure the ongoing development and suitability of the Trustee's approach to stewardship, the PSE makes sure that the Trustee Directors receive targeted training on stewardship-related topics. The frequency and level of training that Trustee Directors receive depends on their role and their membership of specific sub-committees. At these sessions the Trustee Directors receive training from advisors and on occasion by relevant external experts. Specifically, in 2022, Trustee Directors received the following training in relation to ESG matters:

- Universal Ownership and Stewardship;
- FRC UK Stewardship Code 2020;
- Global systemic risks (including climate change, biodiversity and nature loss, and antimicrobial resistance);
- Net Zero and climate-related issues; and
- Diversity, equity and inclusion.

The PSE works closely with the Scheme's investment advisors. Each firm has a clear set of objectives linked to its support on ESG and stewardship issues, and the Trustee regularly assesses their delivery against the agreed standards. The Trustee's relationships with these advisors is subject to the industry-wide Competition and Markets Authority ("CMA") order, overseen by the Pensions Regulator ("tPR") as of October 2022. In reflection of this, objectives for each investment advisory firm are agreed by the Trustee on a regular basis and subjected to annual reviews of performance. At the last review, the Trustee confirmed that the advisors met all of their objectives for the year. The Trustee also analyses and reports detailed climate change data sourced from MSCI.

Each of the Scheme's three investment advisors has a specific role in relation to ESG risk management and advancing the Trustee's approach and all three have been working together over the year to help enhance the Trustee's oversight of ESG matters. Most recently, the investment advisors have been working together to produce individual investment manager dashboards covering a range of key areas including climate exposures, diversity metrics and stewardship activities. These will be used as background insights to support engagement with the Scheme's managers over 2023.

## Assurance of approach

The Trustee's assurance approach in relation to ESG investment and stewardship has remained consistent over the year as it reflects the Scheme's broader approach to delivering risk management. This is an enterprise risk management model, and so tends to focus on risks rather than controls. The starting point for any risk assessment is the Scheme's mission statement, which is to pay DB benefits on time and in full and to provide high-quality investment options that enable DC members to realise their retirement ambitions.

In line with its approach to risk management, the Trustee uses the three lines of defence model to frame its approach to ESG investment and stewardship: the first line being operational management, the second is a dedicated risk management function and the third is an internal audit resource (currently outsourced). Over the year, the Trustee utilised its full three lines of defence model, supplemented by an external third party, to further support the governance and oversight of its climate disclosures, and specifically its Taskforce for Climate-related Financial Disclosures (TCFD) Report. The Trustee recognises this is an evolving area, where standards are yet to be fully established. The objective of this work is to ensure the way metrics are disclosed to stakeholders, especially members, is representative and accurate – but it also reflects the current uncertainties around climate data, and the need to rely on models and estimates. Third party assurance is likely to be integrated into the annual assurance process for producing climate metrics and reporting against targets starting in the immediate future.

Because of the Scheme's broader outsourced investment model, few of the implementation of granular risk management controls sit with the PSE. The focus of assessments and monitoring is therefore to assess that third parties – particularly investment managers – have in place appropriate controls and that these are operating effectively and in line with expectations. The Trustee relies on a range of assurance approaches such as attestations, annual manager monitoring and formal assessments, and standards such as the Audit and Assurance Faculty (AAF) or International Standard on Assurance Engagements (ISAE) standards, as well as relying on its own internal risk and assurance assessments supported by reviews performed by internal auditors and other specialist assurance providers.

The Trustee keeps its risk register and emerging risk framework under regular review. At present, it identifies a number of ESG-related items including climate risk, social risk and greenwashing. In 2022, the risk relating to climate risk was expanded to reference the Trustee's Net Zero ambition for the Scheme explicitly. This followed an internal review as to whether it should stay integrated within broader climate risk. Given the complexity and pervasiveness of climate risk, and the material resource being directed towards managing the net zero ambition, it was decided the ambition should be monitored on a stand-alone basis.

The use of independent advisors helps provide independent assurance with regard to ESG risk management integration and stewardship. The Trustee brought the three appointed investment advisors together in 2022 to help create an actionable stewardship and voting policy. This is described in more detail in the case study below. The Trustee keeps its investment-related policies regularly updated. The DB and DC SIPs are both considered at least annually by the executive team to ensure that they remain fit for purpose. Any proposed changes are considered and need to be endorsed by ALCo and then approved by the Trustee. Both SIPs were updated during 2022 to better articulate the ESG risk management practices that are in place. The Scheme's DC Investment Policy Implementation Document ("IPID") that supports the DC SIP was also updated. The new Stewardship and Voting Policy was reviewed by legal advisors and approved by the Trustee.

### *Case study: Working with the Trustee's advisors to implement a leading Stewardship and Voting Policy*

*Issue*: The Trustee has spent considerable time and resource developing its ESG risk management framework, building a suite of climate risk metrics to monitor, and identifying key sustainability themes to prioritise. All of these aspects feed into the stewardship approach. Before documenting these in a codified Stewardship and Voting Policy, the Trustee took expert advice on implementing a solution that was resource appropriate, aligned with good practice, and, based on current knowledge and expectations, future proof.

*Action*: The three investment advisors were invited to a workshop to discuss the next steps in working towards the Trustee's net-zero commitment, how to establish a leading stewardship and voting policy and to assess how pressure can be increased on the investment managers to improve the inclusion and diversity within their organisations. Bringing together a collection of experts brought diversity of thought and critical challenge to the design of a policy that would generate better outcomes for Scheme members. This collaborative process also helped to promote alignment and amplification of the Trustee's approach.

*Outcome*: The Trustee is confident the new Stewardship and Voting Policy now in place contains all the required elements for it to be effective. It includes a clear framework for identifying significant resolutions voted on by investment managers, codified roles and responsibilities for each of the advisors, and expert input into an annual letter to the investment managers which explains the Trustee's ESG priorities and expectations. In line with the outsourced resource model, it is not simply the case of meeting with investment managers periodically. Expectations need to be clearly set, preparatory materials need to include clear insights and a basis for challenge of the managers, and targeted dialogue to truly hold them to account needs to be undertaken.

## Appropriately managing conflicts of interest

The Trustee fully recognises its duty to act in the best interests of Scheme members, and to always operate to do so. By acknowledging the existence of potential conflicts of interest and having a framework to manage and mitigate such conflicts, the Trustee makes it more likely that they will continue to act in members' best interests.

The Trustee therefore does not bar conflicts, but recognises them as a normal feature of life and that they need to be identified and managed. The focus is on making conflicts visible, and managing and mitigating those that do exist. The belief that conflicts of interest should be monitored and managed is codified within the Scheme's SIP.

The Trustee has a conflicts of interest policy which sets out the way the Trustee identifies and manages conflicts of interest. The policy can be applied to any potential conflicts relating to stewardship. The policy includes:

- a definition of a conflict of interest;
- how conflicts might arise;
- the steps that can be taken to identify and manage conflicts; and
- the range of measures available to the Trustee to identify and manage conflicts.

The steps taken to identify and manage conflicts include relevant parties:

- understanding why it is important to manage conflicts;
- identifying and evaluating potential conflicts of interest using a dedicated flowchart disclosed within the policy;
- managing identified individual conflicts through steps such as notifying the Chair of Trustee and anyone the Chair deems necessary as soon as practical; and
- managing advisor or supplier conflicts through steps such as considering conflicts as part of supplier/advisor appointment and oversight processes.

One further tool the Trustee uses in its management of conflicts is a conflict register which covers:

- the interests of individual Trustee Directors;
- the interests of the Scheme executives; and
- the interests of key advisors and providers.

The register is formally reviewed at least annually. Trustee Directors and executives are expected to update the register as and when any new potential conflict situation arises.

The declaration of conflicts of interest is a standing agenda item on all Trustee and sub-committee meetings, which includes the expectation that the PSE and investment advisors declare any conflicts they may have, and actions taken to manage these. Over 2022, five instances of potential conflicts were identified. For example, one Trustee Director holds a position at one of the Trustee's investment managers. The Trustee Director in question discloses this conflict when the oversight of this investment manager is discussed and abstains or excuses themself from any decision-making as appropriate. The Trustee believes this sufficiently mitigates any potential conflict, including any conflict relating to stewardship, from occurring.

While the Trustee actively considers the potential conflicts identified in this register, it is felt that the devolved nature of the investment approach means that the main source of stewardship-related conflicts lies with the Trustee's investment managers. These investment managers are therefore challenged to have in place effective conflicts of interest policies with regard to their stewardship activities. To reinforce this message and to enable the Trustee to understand how effective each manager's approach is, the Trustee requests disclosures both of those policies and of specific instances of how conflicts have been managed over the most recent period. Where relevant, the Trustee will raise concerns about their approach with the investment manager.

The Trustee also recognises there is the potential for conflicts to arise between the Scheme and the Sponsors. One example was identified over the year as described below:

### *Case study: Managing a potential conflict of interest between the Scheme and Sponsoring Employer*

Issue: The Sponsoring Employer utilises an external, third-party actuarial system which helps the Sponsoring Employer track the Scheme's funding level and risk exposures. The Sponsoring Employer has a master agreement in place between itself and the third party. The Trustee wanted to begin using the same system to receive its own credit risk analysis but wanted to ensure there was sufficient separation between the Trustee and the Sponsoring Employer to mitigate any potential conflicts.

Action: The Trustee entered into a separate contract with the third party which was attached to the Sponsoring Employer's master agreement. The Trustee took legal advice to ensure new clauses within the contract were right for the Trustee and did not give the Sponsoring Employer undue influence or access to the Trustee's information.

Outcome: The separation between the Trustee and Sponsoring Employer within the contract aims to mitigate any potential conflicts that might occur from the third party having a relationship with both parties. However, the Trustee will continue to monitor the arrangement for any potential conflicts that may arise in future.

# Section 3: Delivering Effective Stewardship

## The Trustee’s investment managers and holding them to account

As a Trustee that has outsourced its investment activities, investment managers are expected to effectively integrate ESG risk management and enact effective stewardship, with detailed expectations in these areas documented in investment manager mandates. Leveraging the knowledge, expertise, and relationships of the investment managers and other advisors is an efficient method for achieving best-in-class stewardship outcomes. This model empowers the investment managers to apply relevant frameworks for their strategy when prioritising stewardship themes and engagement activities.

To hold managers accountable for their stewardship practices and results, the Trustee uses the capabilities of the three investment advisors to monitor investment managers on an ongoing basis. Each investment advisor reports promptly on any significant updates or events they become aware of relating to the Scheme’s investment managers that may affect the managers’ ability to achieve their investment objectives, including material or relevant ESG considerations.

In addition, the PSE regularly meets with the Scheme’s investment managers – seeing each manager at least annually. In these meetings, areas are highlighted where investment practices could be improved (identified by either the PSE or investment advisors). This includes discussion of managers’ ESG activities, voting, and engagement practices. To make these conversations as productive and insightful as possible, an annual questionnaire with ESG-specific queries is distributed to all managers to get a more comprehensive understanding of how managers’ policies operate in practice.

When assessing prospective investment managers and as part of the ongoing monitoring process, the Trustee seeks to understand:

- How managers are promoting best practice in relation to improving the management of ESG risks
- How ESG considerations are integrated into the investment process, and how this may have changed over the year
- The extent to which ESG risk assessments influence managers’ approach to engagement with underlying companies and exercising of voting rights (where applicable)
- Implicit and explicit ESG restrictions or exclusions at the mandate- or firm-level

Using input from the investment advisors, meetings with investment managers, and responses to the annual monitoring questionnaire, a qualitative, red-amber-green (“RAG”) rating system on key monitoring themes has been implemented. This system was reviewed and enhanced in 2022, with each of the Trustee’s investment managers designated an overall RAG rating across seven sub-ratings, including two on ESG/Climate Change and one on the overall quality of the investment managers’ engagements. This enhanced process was in place for the start of the 2023 assessment cycle. This RAG rating helps identify potential areas of risk across the Scheme’s investment managers and informs further dialogue or engagement.

Because of this clear view of the Trustee’s position within the stewardship process, the bulk of the activities highlighted in this section of the report focuses on PSE activities in relation to the Trustee’s investment managers: that is how the Trustee itself carries out the bulk of its stewardship. This is supplemented by some limited disclosures on activities by the Trustee’s managers, and by the Trustee on public policy and best practice efforts.

### *Case Study: Engaging with a Scheme manager on their commitment to net zero*

*Issue*: The Trustee raised concerns with one of the Scheme's managers, a manager which was also involved in a manager selection exercise for the Scheme. This related to the manager's perceived institutional commitment to managing the risks associated with climate change, especially around stewardship.

*Action*: Over the six months from May to October 2022, the PSE met with the manager on multiple occasions to assess the level of institutional alignment between the investment manager and the Trustee and to raise concerns regarding its commitment to supporting the transition to net zero. The PSE's interaction with the manager focused on understanding the manager's position and shared initial concerns from the Trustee's perspective. Discussions continued between the Chairs of the Trustee Board and of ALCo and the investment manager. The investment advisors were also consulted for their views on the manager's commitment to climate change and its position on stewardship.

*Outcome*: The manager selection process continued with heightened focus on seeking a manager with good institutional alignment and commitment to managing the risks associated with climate change. In this manager selection exercise, this manager was not selected.

## Direct engagement

As part of the Trustee's ongoing manager monitoring process, the PSE meet with all of the Trustee's investment managers on at least an annual basis to discuss their activities including stewardship practices. The Trustee believes ongoing engagement with the Scheme's investment managers is important to ensure that they are aware of, and working towards meeting, the Trustee's stewardship expectations as set out in the Trustee's Stewardship Policy.

### *Case study: Direct engagement with a Scheme manager on diversity and inclusion*

*Issue*: After the Trustee became a signatory of the Asset Owner Diversity Charter in October 2022, the PSE sought to articulate the Scheme's rationale for becoming a signatory of the Charter to its investment managers, and to set out its new expectations as a result.

*Action*: The PSE met with one of the Trustee's active equity managers to discuss their diversity and inclusion practices within the context of the Asset Owner Diversity Charter. Through dialogue, the PSE called for improvements in the investment manager's disclosure of diversity and inclusion metrics and articulated that the manager should have a strategy, including targets, for promoting diversity and inclusions within their organisation.

*Outcome*: In comparison to other Scheme investment managers, this manager's diversity and inclusion practices were below expectations. The PSE has communicated this, along with expressing they would like to see a tangible commitment to diversity and inclusion to the manager which, has so far, been receptive to the PSE's comments and indicated that they will work towards improvements. The PSE will continue to meet with the manager to discuss their activities over 2023 to judge whether the manager is making appropriate progress.

### *Case study: Direct engagement with a Scheme investment manager on climate change*

_Issue_: Following the Trustee's Net Zero commitment, the PSE has been engaging with the Trustee's investment managers on their own climate change commitments. This includes the articulation of a Net Zero strategy where it is deemed appropriate for there to be one.

_Action_: The PSE met with one equity manager to discuss their Net Zero strategy. Although the manager was a signatory of the Net Zero Asset Manager Initiative, the manager had yet to develop and articulate a strategy for fulfilling its commitments to that Initiative. The PSE emphasised their expectation for this to be articulated as well as discussing the need for the manager to use engagement with underlying issuers as a tool to fulfil their commitment.

_Outcome:_ The manager set out that they will continue to work on developing their Net Zero strategy before publishing it. The PSE will follow up with the manager on this subject in 2023 to ensure the manager is making sufficient progress.

With regard to underlying issuers, the Trustee prefers engagement over exclusion as a way of influencing long-term behaviour. The Trustee believes the proximity of its investment managers to their investments can deliver more meaningful change via proactive and constructive engagement, and the Trustee makes this belief clear to them via the Trustee's investment guidelines and further discussions. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages investment managers to prioritise stewardship opportunities and to apply the most suitable and influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company.

Given the nature of the Trustee's outsourced approach to investment, the Trustee reviews engagement reports from its investment managers to track their actions and outcomes towards material stewardship initiatives. Examples of direct engagement activities include letter writing, phone calls, annual meetings, and thematic/targeted engagements with management teams.

### *Case study: Direct engagement from one of the Scheme's credit managers on Biodiversity*

_Issue_: As the Trustee has identified biodiversity loss as an additional priority theme, PSE has taken a close interest in manager activities on this issue. The Trustee's manager identified NextEra – an electric power and energy infrastructure company based in the US, as a company that may be contributing to biodiversity loss when it screened its portfolio for biodiversity loss exposures. The manager subsequently engaged with NextEra to evaluate how the company is working to minimise its negative impacts on biodiversity.

_Action_: The manager pushed NextEra to explain its global approach to biodiversity integration across geographies and energy facilities, and how biodiversity considerations are being integrated into its decarbonisation plan. The manager initiated a first engagement meeting with NextEra's Investor Relations, on an individual basis.

_Outcome_: NextEra gave some insight into how it integrates biodiversity into its projects but the manager was not completely satisfied with this explanation, which remained high-level and lacked sufficient details for the manager to build a view on the quality of the processes. NextEra confirmed that as it ramps up on renewables in line with its Zero Carbon Blueprint, biodiversity will be considered in the same way that it is today. However, more clarity is needed to make sure the company is actively seeking to minimise the negative impacts inherent in these projects, ensuring its strategy does not come at the expense of biodiversity loss. After conversations with NextEra's investor relations, the manager is contacting the company's subject specialists, who will be asked a series of technical questions. The responses to these will help to inform the manager's ongoing engagement approach.

## Collective engagement

The Trustee recognises the importance of collaboration in delivering effective stewardship given the potential for increased resource and greater influence. As part of the Trustee's annual manager monitoring, the Trustee seeks to understand relevant industry initiatives or collaborations that its investment managers engage with. Major initiatives the Trustee's managers have committed to include the PRI, the UK Stewardship Code or national equivalent where possible, the IIGCC, the Net Zero Asset Managers Initiative, and Climate Action 100+, among others. Beyond industry association participation or signatory status, managers are encouraged to work with peers and other stakeholders to see tangible outcomes.

### *Case study: Co-signing letter to the Bank of England during Autumn gilt crisis*

Issue: The Scheme's DB sections utilise a Liability Driven Investment ("LDI") strategy to hedge exposure to movements in interest rates and inflation. This strategy invests in UK gilts in a leveraged way to manage risks, much in the same way as the majority of the UK pension industry. In Autumn 2022, following a government fiscal announcement, the gilt market suffered severe volatility in pricing, with the yields on long-term inflation-linked government bonds experiencing daily moves never seen before. This placed severe pressure on UK pension schemes as they were having to make collateral calls following mark-to-market losses on leveraged positions. It was clear that without appropriate intervention and management, the event could become systemic.

Action: In collaboration with a number of other large UK DB schemes, the Trustee co-signed a letter to the Deputy Governor of the Bank of England emphasising the importance of ensuring the support the Bank had provided to the market would be managed and subsequently withdrawn in a measured way, and not result in the disorderly conditions witnessed in the previous weeks. The crisis was a liquidity one, not to do with insolvency, and the Bank was perceived as needing to give the market time to raise the required cash collateral and reduce the chances of pension schemes realising significant loses on their investments.

Outcome: Ultimately the Bank of England's support in providing liquidity to the market helped avoid a systemic crisis. Despite the fact that the Scheme is very well funded, and uses limited levels of leverage – meaning it was less affected than others – the Trustee still felt a responsibility to impress upon the Bank the importance of its role in helping to stabilise financial markets.

## Escalation of engagement

The Trustee recognises there may be instances where engagement must be escalated. This is likely to follow a period of active dialogue that has not been successful. The Trustee expects its investment managers to apply a range of engagement tools to escalate dialogue, including voting against company management, proposing shareholder resolutions, and litigation. Divestment from unresponsive issuers is the final point of escalation and investment managers are expected by the Trustee to use discretion as to whether this is an appropriate action. Escalating engagement is also a responsibility of the PSE and Trustee, however the tools are somewhat different. Where investment managers provide substandard reporting, fail to respond adequately to targeted questions, or are behaving in a way that is not aligned with the Trustee's expectations, the extent of PSE engagement will escalate. If the PSE believes this is appropriate, it will first clearly set out what expectations have not been met, and the required remedying actions. Should these expectations not be met, the Trustee will seek to engage with senior representatives at the organisation and, if institutional alignment cannot be reached over a period of time, the Trustee will consider removing its assets from the investment manager.

### *Case study: Understanding the coverage of engagement activities undertaken with the largest emitters in the portfolio*

Issue: Effective engagement is one of the primary levers the Trustee expects to use in the short term to progress with the Trustee's net-zero ambition. The Trustee therefore undertook analysis of the engagement activities undertaken by its investment managers with the companies that contribute the most to the Scheme's carbon footprint. The DB portfolio is primarily invested in a combination of government bonds, and high-quality corporate credit. It is often the case that multiple managers have exposure to the same companies. Co-ordinating the Trustee's investment managers' efforts, based on Scheme exposure and footprint is vital if the Trustee is to contribute to a meaningful energy transition.

Action: The Trustee assessed the Scheme's entire holdings, across all managers, and mapped the top emitters. Having identified those top emitters, the Trustee asked each manager that held positions in these companies about how they had engaged them on climate-related matters in the prior 12 months. Following this mapping exercise, the Trustee identified positive activities, and also areas of concern. The top two companies contributing the most to the Scheme's carbon footprint were being engaged by all the investment managers that held positions. However, one issuer stood out. Caterpillar, a company on the Climate Action 100+ target list, and the 8th largest contributor to the Scheme's carbon footprint, had not been subject to engagement by any of the managers that had exposure. The Trustee challenged the manager that held the largest position why there had been no engagement. The manager indicated that the company had made significant progress and had successfully reduced its Scope 1 and 2 emissions in the recent past. However, the Trustee was not satisfied with this approach. Caterpillar's emissions reduction targets do not include scope 3 emissions, a material omission for a company that produces heavy industrial machinery.

Outcome: The Trustee communicated the fact that it was not satisfied with the manager's response and added this issue to its agenda for accountability dialogue. Despite this exercise only identifying gaps in engagement coverage, it did help the Trustee unearth concerns and specific areas on which to challenge managers. This analysis, alongside an assessment of the quality of engagements undertaken by investment managers, plus data on the size and resources of engagement teams, has all been integrated into the management information the Trustee uses to hold managers accountable.

As expressed in Section 2, the Trustee expects managers to escalate engagement where necessary. While the Trustee believes proactive dialogue, relationship-building, and collaboration between managers and issuers are important in promoting lasting positive change, the Trustee recognises the need for escalation in certain cases (e.g. material news events, inaction/slow response to concerns, etc).

### *Case study: Escalation from a Scheme investment manager on Biodiversity*

*Issue*: One of the Trustee's managers invests in Procter and Gamble ("P&G"), a multinational consumer goods business. P&G's supply chain is susceptible to deforestation risks due to exposures to risk areas including palm oil and wood pulp. Deforestation is a major contributor to both biodiversity loss and climate change.

*Action*: Over a multi-year period, the manager has engaged with P&G on improving its disclosures relating to deforestation and to accelerate P&G's programme to source more Forest Stewardship Council (FSC) certified pulp. Over 2022, the manager continued to engage with P&G directly on its forest supply chain risks, progress on limiting deforestation, and the impact of this upon biodiversity. During the year, engagement was escalated at the company's 2022 Annual General Meeting, where the manager voted against the re-election of the Chair and CEO.

*Outcome*: The manager acknowledges P&G's improved transparency on its forestry practices and expects regular reporting on this issue. However, the manager remains mindful of the remaining exposure to deforestation risks and a lack of time-bound commitment to eliminate deforestation in primary forests across its supply chain. The manager has undertaken to continue to engage with P&G on this issue.

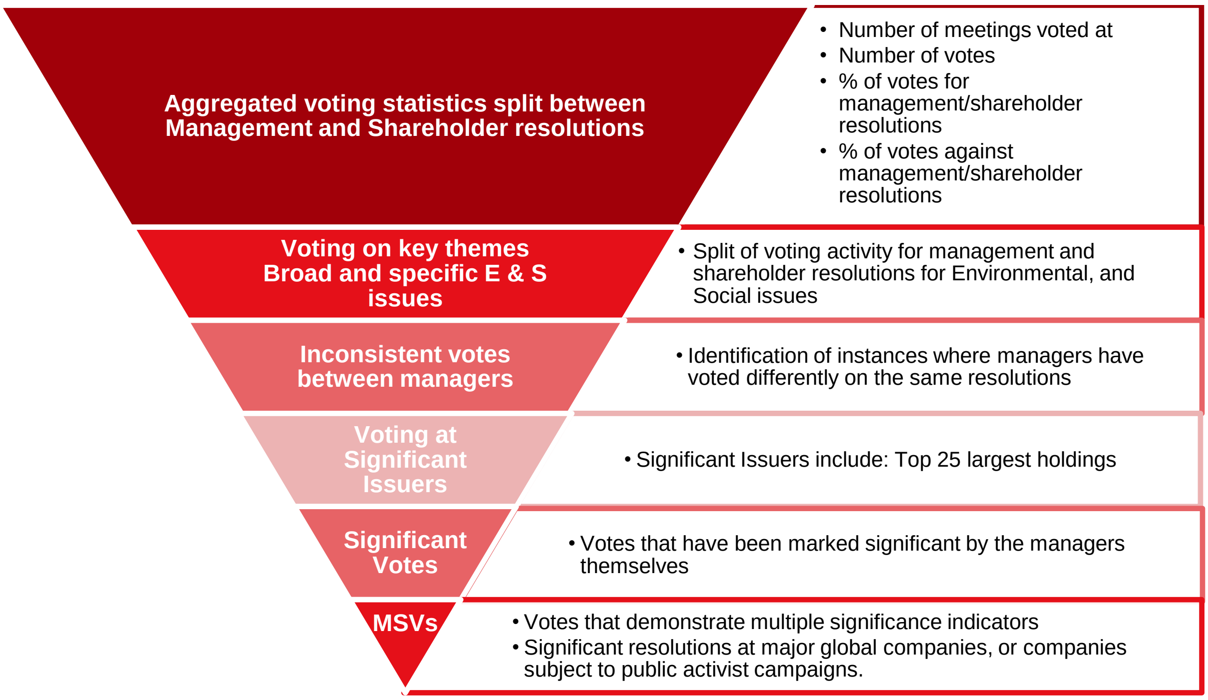
## Approach to voting

The Trustee clarified its voting approach and process in its new Stewardship and Voting Policy. In summary, the outsourced investment model chosen by the Trustee means that the exercise of voting rights has been delegated to the respective investment managers. The primary role of the Trustee and the PSE is to oversee the implementation of voting rights by its investment managers, make clear the expectations the Trustee has, and to hold the managers accountable on their delivery of voting.

Managers are held accountable by reviewing broad trends in their voting behaviour, which includes whether they have exercised all voting rights appropriately, how they have voted compared to proxy recommendations, how supportive of management teams they are, the reliance on and consistency of implementation of their voting policy, consistency of voting on specific environmental and social resolutions, the quality of systems and reporting they employ, and their voting instructions on major resolutions of significance. The Trustee's advisor collates voting information from the investment managers and provides a qualitative review alongside targeted questions for the PSE to challenge those managers on.

The Trustee has an obligation to define and identify the most significant votes exercised on its behalf and to disclose these annually to members in an Implementation Statement. Before 2022, the Trustee required managers to identify and disclose their own most significant votes, which were then collated and reported on by the PSE. Following the identification of a clear set of ESG priorities in 2022 and recognising the inconsistencies that arose from an approach based on managers identifying and disclosing their own most significant votes, the Trustee adopted its own framework for identifying significant votes (below). The framework integrates the Trustee's priority issues and applies an asset-owner lens to voting activity carried out on its behalf. This means aggregating exposures and votes to identify significant issuers at a total-portfolio level, and instances where its investment managers may have voted differently on the same resolutions. The Trustee is currently monitoring the risk that managers vote differently, recognising that it may dilute its stewardship footprint, however it is the current preference to identify these instances and challenge those investments managers rather than direct manager voting. The Trustee is seeking to understand the quality of decision-making, and independence of thought. The Trustee may revisit its approach if significant numbers of votes are consistently cast differently.

***The Trustee's Vote Significance Framework***



***The Trustee's Voting Footprint***

The Trustee's investment managers have cast votes on its behalf throughout 2022. Consistent with the Trustee's approach of focussing on exposures which are most material, the below table summarises the voting behaviour of the investment managers where the Scheme has the highest allocation, defined as approximately £100m invested.

The Trustee has access to the voting records of its investment managers through a number of sources. Data is requested specifically from the investment managers to allow its advisor to review each manager individually. Voting data for all of the investment managers is gathered via a third-party, Tumelo, and aggregated by the advisor through its own proprietary system. This system overlays the individual voting activity of each manager and identifies the largest holdings across all portfolios, and instances where managers have voted inconsistently on the same resolution. The Trustee takes this data as reported and recognises that there is a small margin for error due to potential errors accruing as part of data collection and amalgamation, both by Tumelo, and its advisor. However, the Trustee's advisor sense checks the output, and liaises with Tumelo, or reviews the underlying data received from the investment managers should any underlying errors become apparent. Given these checks, the Trustee's advisor believes the data the Trustee and PSE receives is adequately robust to enable it to exercise its stewardship responsibilities by holding the managers to account for quality of decision making and independence of thought.

In the voting data below, resolutions have been split between those proposed by management and shareholders respectively. Management resolutions are typically skewed more towards governance matters when compared to shareholder resolutions. Investment manager voting behaviour often differs between the two types of resolutions.

| | HSBC Islamic Global Equity Fund | LGIM Future World Fund | MFS Global Equity | River & Mercantile Global Value Equity | Schroder Life HSBC Sustainable Diversified Growth Fund |
|---|---|---|---|---|---|
| **Meetings voted at** | 104 | 1,771 | 73 | 211 | 469 |
| **Resolutions voted** | 1,628 | 25,192 | 1,107 | 2,900 | 5,220 |
| **Management resolutions** | 1,468 | 24,335 | 1,058 | 2,741 | 5,430 |
| **Shareholder resolutions** | 160 | 857 | 49 | 160 | 154 |
| **% Voted in favour of management resolutions** | 84% | 81% | 98% | 79% | 85% |
| **% Voted against management resolutions** | 11% | 19% | 1% | 21% | 8% |
| **% Voted "other" on** | 5% | 0% | 0% | 1% | 3% |

| | | | | | |
|---|---|---|---|---|---|
| **management resolutions**[1] | | | | | |
| **% Voted in favour of shareholder resolutions** | 79% | 61% | 43% | 91% | 50% |
| **% Voted against shareholder resolutions** | 21% | 37% | 57% | 9% | 27% |
| **% Voted "other" on shareholder resolutions**[1] | 0% | 2% | 0% | 0% | 23% |

[1] "other" includes abstentions, withheld votes, and "do not vote instructions".

### *Geographic Voting Footprint*

Given the allocation of the Scheme's equity allocation is geographically diverse, it follows that the exercise of voting is also geographically diverse as shown in the table below:

| | **HSBC Islamic Global Equity Fund** | **LGIM Future World Fund** | **MFS Global Equity** | **River & Mercantile Global Value Equity** | **Schroder Life HSBC Sustainable Diversified Growth Fund** |
|---|---|---|---|---|---|
| **Europe, Middle East & Africa** | 38% | 44% | 49% | 42% | 54% |
| **Asia-Pacific** | 12% | 28% | 5% | 16% | 21% |
| **Americas** | 49% | 28% | 46% | 41% | 25% |

### *Most Significant Votes*

Most Significant Votes have been chosen through use of the vote significance framework as described above. The votes shown in the below tables have therefore been chosen due to a combination of the following factors:

- Cast at issuers where the Scheme has higher exposure
- Relate to one of the Trustee's key priorities of climate change, biodiversity, anti-microbial resistance and diversity & inclusion
- Voted on in an inconsistent manner by two or more of the investment managers
- Due to the significance of the resolution itself i.e., driven by its nature, the scale of any public media interest and whether votes against management on the resolution were particularly high.

### *Climate change-related votes*

| Company | Date | Country | Proponent | Resolution nature | Vote | Votes vs mgmt |
|---|---|---|---|---|---|---|
| **CostCo** | 20/01/2022 | US | Shareholder | Report on GHG | For | 71% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Emissions Reduction Targets | | |
| **Rio Tinto** | 08/04/2022 | UK | Management | Approve Climate Action Plan | Against | 18% |
| **Anglo American** | 19/04/2022 | UK | Management | Approve Climate Change Report | For/Against[1] | 8% |
| **Engie** | 21/04/2022 | France | Management | Approve Company's Climate Transition Plan | Against | 14% |
| **Bank of America** | 27/04/2022 | US | Shareholder | Adopt Fossil Fuel Lending Policy Consistent with IEA's Net Zero 2050 Scenario | For | 11% |
| **Citigroup** | 27/04/2022 | US | Shareholder | Adopt a Financing Policy Consistent with IEA's Net Zero Emissions by 2050 Scenario | For | 14% |
| **Wells Fargo** | 27/04/2022 | US | Shareholder | Adopt a Financing Policy Consistent with IEA's Net Zero Emissions by 2050 Scenario | For | 16% |
| **Glencore** | 28/04/2022 | Switzerland | Management | Approve Climate Progress Report | Against | 24% |
| **Goldman Sachs** | 28/04/2022 | US | Shareholder | Adopt a Financing Policy Consistent with IEA's Net Zero Emissions by | For | 12% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | 2050 Scenario | | |
| **RWE** | 28/04/2022 | Germany | Shareholder | Approve Binding Instruction to Prepare Spin-Off of RWE Power AG | Against | 7% |
| **Credit Suisse** | 29/04/2022 | Switzerland | Shareholder | Amend Articles Re: Climate Change Strategy and Disclosures | For | 19% |
| **Berkshire Hathaway** | 30/04/2022 | US | Shareholder | Report on Climate-Related Risks and Opportunities | For | 27% |
| **Berkshire Hathaway** | 30/04/2022 | US | Shareholder | Report on GHG Emissions Reduction Targets | For | 27% |
| **Barclays** | 04/05/2022 | UK | Management | Approve Barclays' Climate Strategy, Targets and Progress 2022 | Against | 19% |
| **Standard Chartered** | 04/05/2022 | UK | Management | Approve Net Zero Pathway | For/Against[1] | 17% |
| **QBE Insurance** | 05/05/2022 | Australia | Shareholder | Approve Climate Risk Management | For | 25% |
| **Rio Tinto** | 05/05/2022 | Australia | Management | Approve Climate Action Plan | Against | 18% |
| **Occidental Petroleum** | 06/05/2022 | US | Shareholder | Report on Quantitative Short, Medium and Long-Term GHG Emissions Reduction Targets | For | 17% |
| **Repsol** | 06/05/2022 | Spain | Management | Advisory Vote on Company's | Against | 17% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Climate Strategy | | |
| **Dominion Energy** | 11/05/2022 | US | Shareholder | Report on the Risk of Natural Gas Stranded Assets | For | 80% |
| **Equinor** | 11/05/2022 | Norway | Management | Approve Company's Energy Transition Plan (Advisory Vote) | Against | 23% |
| **Equinor** | 11/05/2022 | Norway | Shareholder | Instruct Company to Set Short, Medium, and Long-Term Targets for Greenhouse Gas (GHG) Emissions of the Company's Operations and the Use of Energy Products | For | 30% |
| **BP** | 12/05/2022 | UK | Management | Approve Net Zero - From Ambition to Action Report | For | 15% |
| **JP Morgan** | 17/05/2022 | US | Shareholder | Adopt Fossil Fuel Financing Policy Consistent with IEA's Net Zero 2050 Scenario | For | 12% |
| **Chubb** | 19/05/2022 | Switzerland | Shareholder | Adopt and Disclose Policies to Ensure Underwriting Does Not Support New Fossil Fuel Supplies | For | 19% |
| **Chubb** | 19/05/2022 | Switzerland | Shareholder | Report on Efforts to Reduce GHG | For | 72% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Emissions Associated with Underwriting, Insuring, and Investing | | |
| **Chevron** | 25/05/2022 | US | Shareholder | Issue Audited Net-Zero Scenario Analysis Report | For | 39% |
| **ExxonMobil** | 25/05/2022 | US | Shareholder | Report on Scenario Analysis Consistent with International Energy Agency's Net Zero by 2050 | For | 52% |
| **TotalEnergies** | 25/05/2022 | France | Management | Approve Company's Sustainability and Climate Transition Plan | Against | 16% |
| **Travelers** | 25/05/2022 | US | Shareholder | Report on Efforts to Measure, Disclose and Reduce GHG Emissions Associated with Underwriting | For | 56% |
| **Morgan Stanley** | 26/05/2022 | US | Shareholder | Adopt Fossil Fuel Lending and Underwriting Policy Consistent with IEA's Net Zero 2050 Scenario | For | 10% |
| **Alphabet** | 01/06/2022 | US | Shareholder | Report on Climate Lobbying | For | 39% |
| **Alphabet** | 01/06/2022 | US | Shareholder | Report on Physical Risks of Climate Change | For | 37% |
| **Caterpillar** | 08/06/2022 | US | Shareholder | Report on Long-Term | For | 96% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Greenhouse Gas Targets Aligned with Paris Agreement | | |
| **Monster Beverage** | 14/06/2022 | US | Shareholder | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal | For | 44% |
| **Mitsubishi Corp** | 24/06/2022 | Japan | Shareholder | Amend Articles to Disclose Greenhouse Gas Emission Reduction Targets Aligned with Goals of Paris Agreement | For | 22% |
| **Mitsubishi Corp** | 24/06/2022 | Japan | Shareholder | Amend Articles to Disclose Evaluation concerning Consistency between Capital Expenditures and Net Zero Greenhouse Gas Emissions by 2050 Commitment | For | 18% |
| **Sumitomo Mitsui Financial** | 24/06/2022 | Japan | Shareholder | Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement | For | Undisclosed [2] |
| **Sumitomo Mitsui Financial** | 24/06/2022 | Japan | Shareholder | Amend Articles to Disclose Measures to | For | Undisclosed [2] |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | be Taken to Make Sure that the Company's Lending and Underwriting are not Used for Expansion of Fossil Fuel Supply or Associated Infrastructure | | |
| **Tokyo Electric Power** | 28/06/2022 | Japan | Shareholder | Amend Articles to Maintain Electricity Demand and Supply Balance, and Promote Renewable Energies | Against | Undisclosed[2] |
| **Dollar Tree** | 30/06/2022 | US | Shareholder | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal | For | 55% |
| **National Grid** | 11/07/2022 | UK | Management | Approve Climate Transition Plan | For | 4% |
| **SSE** | 21/07/2022 | UK | Management | Approve Net Zero Transition Report | For | 2% |
| **Commonwealth Bank of Australia** | 12/10/2022 | Australia | Shareholder | Approve Climate Risk Safeguarding | Against | 6% |
| **BHP** | 10/11/2022 | Australia | Shareholder | Approve Policy Advocacy | For | 13% |
| **Australia & New Zealand Bank (ANZ)** | 15/12/2022 | Australia | Shareholder | Approve Climate Risk Safeguarding | For/Against[1] | 9% |

[1] resolutions have been voted on inconsistently by the Trustee’s managers.

[2] it is relatively common practice in Japan to not disclose the outcome of votes.

*Biodiversity*

| Company | Date | Country | Proponent | Resolution nature | Vote | Votes vs mgmt |
|---|---|---|---|---|---|---|
| **Home Depot** | 19/05/2022 | US | Shareholder | Report on Efforts to Eliminate Deforestation in Supply Chain | For | 65% |
| **Amazon** | 25/05/2022 | US | Shareholder | Report on Efforts to Reduce Plastic Use | For | 56% |
| **McDonalds** | 26/05/2022 | US | Shareholder | Report on Efforts to Reduce Plastic Use | For | 42% |
| **General Mills** | 27/09/2022 | US | Shareholder | Report on Absolute Plastic Packaging Use Reduction | For | 57% |

*Anti-Microbial Resistance*

| Company | Date | Country | Proponent | Resolution nature | Vote | Votes vs mgmt |
|---|---|---|---|---|---|---|
| **McDonalds** | 26/05/2022 | US | Shareholder | Report on Public Health Costs of Antibiotic Use and Impact on Diversified Shareholders | For | 15% |
| **Abbott Laboratories** | 29/04/2022 | US | Shareholder | Shareholder Proposal on Antimicrobial Resistance Report | For/Against[1] | 12% |

[1] resolutions have been votes on inconsistently by the Trustee's managers.

*Diversity & Inclusion*

| Company | Date | Country | Proponent | Resolution nature | Vote | Votes vs mgmt |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| **Apple** | 04/03/2022 | US | Shareholder | Report on Civil Rights Audit | For | 54% |
| **Waste Management** | 10/05/2022 | US | Shareholder | Report on Civil Rights Audit | For | 55% |
| **Republic Services** | 16/05/2022 | US | Shareholder | Report on Third-Party Civil Rights Audit | For | 39% |
| **Chipotle Mexican** | 18/05/2022 | US | Shareholder | Oversee and Report a Racial Equity Audit | For | 36% |
| **Altria** | 19/05/2022 | US | Shareholder | Report on Third-Party Civil Rights Audit | For | 63% |
| **AT&T** | 19/05/2022 | US | Shareholder | Report on Civil Rights and Non-Discrimination Audit | Against | 5% |
| **Home Depot** | 19/05/2022 | US | Shareholder | Oversee and Report a Racial Equity Audit | For | 63% |
| **Amazon** | 25/05/2022 | US | Shareholder | Report on Median Gender/Racial Pay Gap | For | 33% |
| **Chevron** | 25/05/2022 | US | Shareholder | Oversee and Report a Racial Equity Audit | For | 48% |
| **Travelers** | 25/05/2022 | US | Shareholder | Oversee and Report a Racial Equity Audit | For | 48% |
| **McDonalds** | 26/05/2022 | US | Shareholder | Report on Third-Party Civil Rights Audit | For | 56% |
| **Lowes** | 27/05/2022 | US | Shareholder | Report on Median Gender/Racial Pay Gap | For | 56% |
| **Alphabet** | 01/06/2022 | US | Shareholder | Oversee and Report a | For | 45% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Third-Party Racial Equity Audit | | |
| **Comcast** | 01/06/2022 | US | Shareholder | Oversee and Report a Racial Equity Audit | For | 18% |
| **FedEx** | 19/09/2022 | US | Shareholder | Report on Racism in Corporate Culture | For | 13% |

***Examples of significant votes over the reporting period***

*Significant vote 1: Abbott Laboratories*

- Resolution: Shareholder resolution filed at Abbott Laboratories calling for a report on anti-microbial resistance ("AMR"), including: (1) the public health costs created by company decisions not to invest additional resources in slowing the growth of AMR, (2) market barriers to such additional investment, and (3) the manner in which increasing AMR may affect financial market returns available to its diversified shareholders.

- Significance: The resolution is significant due to it relating to AMR, at a significant issuer to the Scheme and an instance where the Trustee's managers have voted differently to each other.

- Outcome: The resolution received 11.5% support with two of the Trustee's managers voting in favour of the resolution and one against. Given the Trustee's focus on AMR, the Trustee intends to question the investment manager which voted against this resolution on their rationale.

*Significant vote 2: ExxonMobil*

- Resolution: Shareholder resolution filed at ExxonMobil calling for the company to produce an audited report assessing how applying the assumptions of the International Energy Agency's Net Zero by 2050 pathway would affect the assumptions, costs, estimates, and valuations underlying the company's financial statements.

- Significance: The resolution is significant due to it relating to climate change, at a significant issuer and emitter to the Scheme and was a high-profile vote with significant shareholder support.

- Outcome: The resolution received 52.0% support with the Trustee's investment manager voting in favour of the resolution. The Trustee is pleased to see the manager has voted in favour of a resolution calling on a major energy producer to better disclose how they are assessing the impact of climate change within their financial statements.

*Significant vote 3: Glencore*

- Resolution: Shareholder resolution filed at Glencore to approve the company's 2021 Climate Progress Report, taking into account the 2021 emissions reductions performance data and capital expenditure.

- Significance: The resolution is significant due to it relating to climate change, at a significant issuer and emitter to the Scheme and was a high-profile vote with significant shareholder support.

- Outcome: The resolution received 72.3% support with the Trustee's investment manager voting in favour of the resolution. The resolution follows one in the previous year calling for the report to be produced. The Trustee is pleased Glencore has responded in a positive manner and produced a report which was of suitable quality to garner significant shareholder support.

*Significant vote 4: Home Depot*

- Resolution: Shareholder resolution filed at Home Depot calling for the company to issue a report on its efforts to eliminate deforestation and degradation of primary forests in its supply chains.

- Significance: The resolution is significant due to it relating to biodiversity loss, at a significant issuer to the Scheme and was a high-profile vote with significant shareholder support.

- Outcome: The resolution received 65.0% support with two of the Trustee's investment managers voting in favour of the resolution. The Trustee believes supporting resolutions that seek to increase transparency of companies' deforestation prevention practices within supply chains will encourage companies to move towards best practice and is pleased with the Trustee's managers' decisions to vote in favour of this resolution.

*Significant vote 5: Amazon*

- Resolution: Shareholder resolution filed at Amazon calling for a report on median pay gaps across race and gender, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining diverse talent.

- Significance: The resolution is significant due to it relating to diversity and inclusion, at a significant issuer to the Scheme and was a high-profile vote with significant shareholder support.

- Outcome: The resolution received 28.8% support with three of the Trustee's investment managers voting in favour of the resolution. Voting in favour of resolutions that seek to encourage companies to disclose and then manage race and gender pay gaps will contribute to a more diverse and fair society as a whole. The Trustee is encouraged by its relevant managers' decisions to all vote in favour of this resolution.

***Potential votes/investor rights in relation to assets other than listed equity***

There was one instance of one of the Trustee's global bond managers having the opportunity to vote on a UCITS ETF holding. The vote for the proposals was exercised, and the manager supported the proposals.

## Systemic issues and public policy/best practice engagement

Having adopted a universal owner mindset, it is important for the Trustee to engage at the regulatory and policy level to promote healthy, functioning systems. The Trustee believes strongly that public policy and industry-level engagement are critical elements to ensure the Trustee meets its objectives of providing retirement benefits to its beneficiaries.

As there are numerous opportunities to engage with initiatives, consultations and organisations with respect to ESG related issues, the Trustee must be selective given its resource model. Therefore, the Trustee has established a process to determine whether engagement is appropriate. First, the benefits associated with the engagement are assessed for alignment with the goals of the Trustee. These goals are set out on page 6.

A risk assessment is then carried out to determine whether the Trustee is likely to face any operational, reputational or legal risk as a result of engaging. It is then evaluated whether the PSE can commit sufficient time and resource to complete the engagement. This is evaluated using the prevailing priorities of the PSE and the Trustee. If all of these conditions are met, the Trustee will respond.

The table below summarises the ESG subject matter related engagements undertaken and consultations responded to by the PSE and the Trustee over the year.

| Engagement | Purpose | Details of engagement |
|---|---|---|
| **Department of Work and Pensions ("DWP") Climate and Investment Reporting Consultation** | The DWP consulted on whether to amend the Climate Change Governance and Reporting Regulations to require Schemes to include a forward-looking portfolio alignment metric in their TCFD reporting that assess the alignment of a security or portfolio with achieving the goals of the Paris Agreement.<br><br>The second part of the consultation sought feedback on steps the DWP was considering intended to improve the stewardship practices adopted by trustees and ultimately reported in the annual SIP Implementation Statement. | The Trustee set out its broad agreement with the proposal on the alignment metric, however noted caution given the immaturity of methodologies and poor quality of data inputs.<br><br>The Trustee highlighted historical actions to mitigate the risk of unintended consequences and expressed concern that subjective metrics may lead to bad investment decision-making. It was also highlighted that the Paris Agreement was not based on achieving a 1.5C world, rather its aim is to get to well below 2C, and ideally to 1.5C. This may seem like a moot point, however the regulations seemed inadvertently to steer schemes to a pathway far from the current trajectory.<br><br>On the proposals relating to implementation statements, the Trustee's response welcomed the policy proposals as a means to improving stewardship practices in the investment value chain. Particularly the proposals to align with the principles of the 2020 UK Stewardship Code was welcomed. |
| **International Sustainability Standards Board ("ISSB") Consultation on Sustainability Standards** | The body responsible for developing a global baseline of sustainability disclosures for capital markets – launched a consultation on its first two proposed standards regarding climate-related risks and sustainability disclosures. | The Trustee was strongly supportive of the IFRS Foundation's introduction of sustainability and climate-related disclosure standards.<br><br>The Trustee noted that there is considerable value to the Scheme in having verifiable, comparable, and decision-useful climate-related data. It will improve investors' ability to gain the necessary insights to fully understand sustainability and climate risks and opportunities associated with the entities in which they invest. The Trustee is a firm advocate of the proliferation of Standards intended to improve climate- and sustainability-related data quality and robustness. The Trustee emphasised that the ISSB Board, in its opinion, should implement standards that recommend that corporate entities assess not only the impact of climate change on their financial health but also their contribution to the risks of climate change.<br><br>Further, the Trustee believed the introduction, and international adoption of the proposed Standards will help remedy |

| | | |
|---|---|---|
| | | the issue of reluctance to disclose non-uniform data. |
| **Glasgow Financial Alliance for Net Zero ("GFANZ") Consultation on Net-zero Transition Plans** | The Trustee responded to two consultations from GFANZ over 2022:<br><br>First, GFANZ released a report that provided a practitioner perspective for measuring the alignment of investment, lending and underwriting activities with the goals of the Paris Agreement and critical 2050 global net-zero objectives. The report proposed and sought guidance on portfolio alignment use cases as well as enhanced guidance for designing and implementing portfolio alignment metrics.<br><br>Second, GFANZ released a set of recommendations and guidance on "Net Zero Transition Plans for the Financial Sector". | In the first consultation, the Trustee noted its support for the GFANZ in its vital aim of getting signatories to show how aligned their portfolios are with global climate goals. It was the Trustee's view that investors need comparable and decision-useful data about forward-looking climate-related risks, with market consistent methodologies to ensure that investment managers are building and maintaining portfolios that create real-world decarbonisation.<br><br>The Trustee submitted a consultation response letter to the second consultation to feed back the needs of asset owners, noting their support for building on the recommendations of the TCFD, the emphasis on effective engagement, and the guidance's cross-sectoral applicability. The PSE also made several recommendations to refine the standards to better reflect the Scheme's practical experience and views to meet the needs of asset owners. |
| **Response to House of Commons' Environmental Audit Committee** | The House of Commons' Environmental Audit Committee (EAC) released a report on 'The financial Sector and the UK's Net Zero transition'. | In its response to the EAC's letter, the Trustee set out its net zero plans and explained its approach to fossil fuel investment, which is centred on engagement. |

# Appendices

## Appendix 1: Investment beliefs

HSBC Bank (UK) Pension Scheme Statement of Investment Principles – Defined Benefits
HSBC Bank (UK) Pension Scheme Statement of Investment Principles – Defined Contributions

## Appendix 2: Alignment of this report to UK Stewardship Code 2020 principles

The following table sets out where the key elements of the UK Stewardship Code 2020 are covered within the body of this report.

| **Principle** | **Key elements** | **Section discussed, relevant page(s)** |
|---|---|---|
| Principle 1: Purpose, Strategy and Culture | Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society | The Scheme's values and culture, p6<br><br>Investment philosophy and approach to ESG, p6-7 |
| Principle 2: Governance, resources and incentives | Signatories' governance, resources and incentives support stewardship | The Scheme's structure, governance and oversight of investment, p4-6 |
| Principle 3: Conflicts of Interest | Signatories manage conflicts of interest to put the best interests of beneficiaries first | Appropriately managing conflicts of interest, p19-20 |
| Principle 4: Promoting well-functioning markets | Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system | Systemic issues and public policy/best practice engagement, p37-38 |
| Principle 5: Review and assurance | Signatories review their policies, assure their processes and assess the effectiveness of their activities | Assurance of approach, p18-19 |
| Principle 6: Beneficiary needs | Signatories take account of beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them | Reporting to members, p9-11 |
| Principle 7: Stewardship, investment and ESG Integration | Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities | Approach to investment; geographic/asset class split, p12-16<br><br>Integration of stewardship and ESG into investment approach, p16-17 |
| Principle 8: Monitoring managers and service providers | Signatories monitor and hold to account managers and service providers | Resourcing of stewardship and ESG, including external service providers, p17-18<br><br>The Scheme's managers and holding them to account, p21-22 |
| Principle 9: Engagement | Signatories engage with issuers to maintain or enhance the value of assets | Direct engagement, p22-23 |
| Principle 10: Collaboration | Signatories, where necessary, participate in collaborative engagement to influence issuers | Collective engagement, p23-24 |
| Principle 11: Escalation | Signatories, where necessary, escalate stewardship activities to influence issuers | Escalation of engagement, p24-25 |

| | | |
|---|---|---|
| Principle 12: Exercising rights and responsibilities | Signatories actively exercise their rights and responsibilities | Approach to voting, p25-37 |