FRC UK Stewardship Code – JPMC UK Retirement Plan annual report for 1 January 2022 to 31 December 2022

Introduction

Purpose of this report

The JPMC UK Retirement Plan (“the Plan”) supports and recognises the FRC’s 2020 UK Stewardship Code (‘the Code’) as setting best practice standards in the advancement and implementation of investor stewardship.

The purpose of this report is to demonstrate how the Trustee has applied the twelve principles of the Code to the Plan for the period 1st January 2022 to 31st December 2022.

Scope of this report

This report is in respect of both the Defined Benefit and Defined Contribution sections of the Plan and the activities undertaken by the Trustee and on behalf of the Trustee over the year. We will report against the principles as set out for asset owners.

Further information and key policy documents

In addition to this report, our Sustainable Investment principles, policies and activities are captured in further detail in the Plan’s Statement of Investment Principles and Implementation Statement.

Section A – Purpose and governance

Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

The JPMC UK Retirement Plan operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. The Plan provides both a Defined Benefit (DB) and Defined Contribution (DC) pension arrangement. JP Morgan Pension Trustees Limited ("the Trustee") is appointed as the sole Trustee to the Plan.

The Trustee acknowledges its fiduciary responsibility towards members to meet the Plan's objectives. For the DB Section, the Trustee's primary responsibility is to manage the Plan so that members receive their pension benefits as and when they fall due. Within the DC Section, the Trustee seeks to provide a suitable range of investment funds to suit individuals' needs and attitudes to risk.

The Trustee views sustainable investing, including stewardship of the Plan's underlying assets, as a critical factor in meeting these high-level objectives and therefore has taken, and will continue to take, a number of actions to integrate these considerations into their decision-making and management of the Plan's assets.

The ultimate power and responsibility for deciding investment policy lies with the Trustee, which has put in place an appropriate framework to fully consider the risks and opportunities faced by the Plan to meet the Plan's fundamental objectives. To achieve this, the Trustee is supported by a number of internal and third-party advisors as part of the Plan's governance structure. Both the DB section and DC Sections have a dedicated committee, namely the Investment Committee ("IC") and Defined Contribution Committee ("DCC") respectively, who have defined responsibilities and report to the Trustee (these roles are detailed further under Principle 2). The Trustee is supported by external advisors such as the Plan's Investment Consultant, WTW, who provide advice on all investment related matters including sustainable investment.

The Trustee acknowledges its fiduciary responsibility towards members' assets and values the role that stewardship plays in driving long-term value for members. The Trustee supports the UK Stewardship Code, which it views as best practice, and has taken on feedback provided in September 2022 as part of its successful submission to continue being a signatory of the Code last year.

Evolution of governance framework

As part of an increasing focus on Sustainable Investment over the past five years, in 2020 the Plan established the Sustainable Investment Group ("SIG"), a sub-set of the Trustee who met at least quarterly and pursued sustainable investment-related projects to help the Plan progress towards the forefront of good practice in this area. For example, the SIG enabled the Trustee to formalise a net-zero target for the Plan's investments and to define parameters for achieving this target. In addition, the SIG facilitated a workshop on the ESG Maturity Map (which has been developed by Accounting for Sustainability), which has helped the Trustee further embed ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain. The establishment of the SIG helped to formalise the Trustee's views in relation to sustainable investment, which has encouraged the Plan to take big strides towards developing robust approaches on sustainable investment and stewardship. The ultimate objective of the SIG has been to establish an actionable sustainable investment policy which will aid the Trustee in the long-term management and monitoring of the Plan's assets.

Having established the Plan's overarching strategy with regards to sustainability, in 2022 the SIG was integrated into the IC with a view to streamlining decision-making and ensuring that sustainability perspectives are fully embedded in the wider investment process. The IC is responsible for the implementation of the sustainable investment policy and for reviewing this on an ongoing basis, as industry practices evolve. Furthermore, the IC is responsible for disclosures, and evidencing that the policy is being implemented effectively. The IC will consider a range of sustainable investment topics and initiatives and make recommendations to the Trustee Board where appropriate.

The Trustee periodically carries out a self-assessment to consider its effectiveness and better understand the various areas impacting on the effectiveness of the Board and its committees (including the IC). The most recent self-assessment was carried out in 2022.

The sustainable investment policy is reviewed on an ongoing basis and is focused in particular around ESG integration and Stewardship.

In 2020, the Trustee established a set of beliefs relating to sustainable investment which cover a range of areas within sustainable investment, including stewardship, as set out below. The Trustee intends to formally review the sustainable investments beliefs in 2023 in order to reflect relevant changes in Plan's governance structure and investment strategy, as well as industry developments.

	Area	Belief	Action
1	**General**	Long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial and therefore should be fully integrated into decision-making alongside more traditional investment factors.	Fully integrate sustainability considerations into investment decision making, manager selection and monitoring processes.
2	**General**	Our approach to sustainable investment should aim to be at the forefront of good practice and look to exhibit leadership amongst peers.	Go above and beyond minimum compliance to regulatory requirements with respect to sustainable investment, undertaking a range of appropriate activities.
3	**General**	The Trustee should make itself aware of the Sponsor's Sustainable Investment practices and look to align those of the Plan's if deemed appropriate.	Communicate with the Sponsor to determine any key areas within Sustainable Investment that are a particular focal point.
4	**General**	The Trustee should be open and transparent in its sustainable investing activities, and communicate progress to members	Communicate transparently and clearly with members on a regular basis through various means
5	**Governance**	Use of an oversight committee will materially aid the progress of fully integrating sustainable investment and ESG considerations into the investment process.	The Investment Committee provides oversight of sustainable investment considerations and accelerates the Trustee's developments in this constantly evolving area.
6	**Stewardship**	Voting and engagement is a more effective strategy to pursue than exclusion.	Monitor and engage with managers with respect to their voting and engagement activity. Take caution over implementing exclusions/divestments in the Plan's portfolio.
7	**Stewardship**	We should participate in collaborative initiatives to strengthen our own voice and leverage our impact.	Join industry wide participation initiatives as appropriate and encourage managers to be active participants in groups as relevant.
8	**Stewardship**	Ensuring good stewardship of assets by managers is an important part of trustee fiduciary duty towards members.	Monitor investment managers' stewardship activity and engage with managers where necessary.
9	**Monitoring**	It is important to hold managers to account in their approach to ESG integration and stewardship.	Monitor managers approach to sustainable investment and stewardship on an ongoing basis. Challenge managers on areas the Trustee is unsatisfied with. Be willing to terminate managers who fail to improve adequately within an appropriate timeframe.
10	**Monitoring**	Monitoring Sustainable Investment credentials at a Plan level is as important as monitoring the Plan's underlying investment managers.	Undertake Plan level assessment of key ESG risks e.g. climate change and monitor Plan level reporting across E,S and G factors.
11	**Climate**	Climate change presents a material financial risk to the Plan and therefore merits particular attention.	Undertake climate change analysis of the Plan's portfolio and integrate climate metrics into the Plan's monitoring process.

Importantly, each belief has a corresponding action which the Trustee is committed to implementing as part of its wider sustainable investment framework. The beliefs and actions are referenced up front at relevant meetings, are reviewed on a regular basis, and are expected to evolve over time as industry-wide developments progress and views evolve.

Activities and outcomes

The investment beliefs and wider mission to be at the forefront of good practice in sustainable investment serve as a constant reminder of the Trustee's purpose, and help to guide decision making, serving to:

Aid efficiency: An established set of beliefs allow for more efficient decision making which will accelerate the progress of actions towards the Trustee's objectives.

Fill the gap between the belief and current practice: Beliefs highlight areas where the Trustee has a view on certain aspects of sustainable investment which are not currently being reflected in the Plan's portfolio or activities, which will prompt actions to be undertaken to 'fill the gap' between the belief and current practice.

Improve transparency: Beliefs help decisions be subject to greater transparency and greater institutional memory for the benefit of beneficiaries and stakeholders.

Over the last few years, the Trustee Board has taken big strides in developing leading sustainable investment and stewardship practices. As the Plan matures and its investment governance and strategy continue to evolve, we would expect the focus to be on streamlining the stewardship practices developed by the Trustee and integrating these into all aspects of investment decision making.

Some of the key actions taken by the Trustee over the year are as follows:

- One of the Trustee's key areas of focus over 2022 has been to work with the Plan's investment managers to **improve data quality and to promote transparency regarding carbon footprint exposures** across the industry. Over time, the Trustee expects methodologies to evolve and industry standards to emerge to reflect improvements in data coverage. The Trustee will continue engaging with underlying investment managers in respect of data coverage and quality to understand limitations within specific funds.
- As part of this, in Q3 2022 the Investment Committee prepared a **first iteration of the Plan's Climate Disclosures Report**, in advance of DWP's formal statutory deadline for the Plan of 31 July 2023. The Trustee wanted to engage with the climate disclosures requirements early on to understand best practices in climate reporting and to be a positive example leading the way across asset owners and in the wider pensions industry. The benefits of producing this initial report early on allowed the Trustee to grasp the challenges arising within the process of producing climate-related disclosures and plan how to address these efficiently in advance of the formal reporting deadline.
- **The climate scenario analysis performed for the Plan's DB Section has been updated in 2022** to reflect developments in data availability and in the modelling capabilities of the Plan's Investment Consultant. The analysis enables Trustee to determine the resilience of the Plan's asset portfolio to a range of potential outcomes, and feeds into reporting required under the Task Force on Climate-Related Financial Disclosures (TCFD).
- **The Trustee formalised their views on managing ESG risks within the Plan through a document entitled "engagement and exclusions"** that was published online for members in 2023. The Trustee considers that efficient and proactive engagement as stewards of capital with the investment managers or companies they are invested in, is most likely to change behaviour, as opposed to applying negative ESG screens based on certain geographical or sectoral exposures. Whilst the Trustee does not seek to impose constraints on the Plan's investment managers, it is expected that managers take appropriate action if certain exposures start presenting material investment, regulatory or reputational risks. . The Trustee have a robust monitoring framework, whereby the engagement and exclusions approach adopted by the Plan's underlying investment managers is monitored on an ongoing basis.
- More widely, over the year **the Trustee continued to monitor and have ongoing discussions with its investment managers** (at IC, DCC and Trustee Board meetings), specifically **demanding each manager covers stewardship and engagement as part of their presentation. Further**more, the Plan has further evolved its annual sustainable investment review undertaken across the Plan's investment managers with the view to monitoring their ESG capabilities. The 2022 report had a particular focus on stewardship, voting and engagement practices, net zero strategy, diversity & inclusion, and participation in industry initiatives.

- Given the increased scrutiny on net-zero targets, **the IC has undertaken a review of the credibility of the net-zero commitments of the Plan's underlying investment managers**. In particular, the Trustee obtained clarity from each investment manager on the following:
    - Whether the manager has set a corporate/operational net-zero target across their business.
    - If the manager has set a net zero target across all the investments managed across their business.
    - If the manager has set a net zero commitment for the specific asset class that that the JPMC UK Retirement Plan is invested in through them.
    - If the fund managed for the JPMC UK Retirement Plan explicitly states a net-zero target within the investment guidelines
- **In late 2022, the Trustee issued a survey to the Plan's members** to gather their views with regards to sustainable investment. The survey looked to gauge the following:
    - The level of knowledge and understanding of sustainable investing and of what the Plan is doing in this space across members
    - Whether the members believe that applying ESG considerations within investment decision-making will improve their pension outcomes
    - The importance of climate change and other ESG factors to members

  Whilst the response rate from the survey was low, the members that responded showed to have a broad understanding of sustainable investing and had read about the topic in recent member newsletters. However, the Trustee is wary of drawing any firm conclusions from the analysis, recognising that the profile of those individuals responding may not reflect the wider membership. As a result of the low take-up, the survey has been re-opened and been given greater prominence online. Furthermore, through 2023 the Trustee is assessing its communication strategy to ensure that more members are aware of the activities of the Plan and are given the opportunity to engage in what the Trustee is doing.
- **In the third quarter of 2022 the Plan's Sponsor delivered a presentation to the full Trustee Board on the Bank's approach to sustainability**. This followed on from a similar session that took place within the SIG in 2021, and was led by the Bank's Head of Sustainability and ESG Engagement in EMEA. The presentation highlighted the extent of financing and facilitating by the Bank to advance climate action and sustainable development, with extensive funding provided across green initiatives, development finance and community development. The Sponsor also highlighted its progress against the Paris Agreement climate goals, and its obligations as a member of the Net Zero Banking Alliance.
- **ESG integration was a key part of the review of DC strategy** that took place in the second half of 2022. In particular, with the equity component of the DC lifestyle strategy invested in an explicit ESG-centric strategy, the DCC considered whether there were grounds to take a similar approach for diversified growth and bond strategies. Whilst there were no suitable diversified growth strategies, the DCC are reviewing bond options with a view to switching into an alternative, ESG-focused bond strategy later in 2023. A similar switch has already taken place in 2023 for self-select members allocating to a "pre-retirement" strategy.
- Furthermore, **in early 2023 the DCC reviewed an "individual member carbon journey plan"** which illustrated how emissions attributable to individual members are expected to evolve over time, as they derisk as part of the lifestyle strategy.

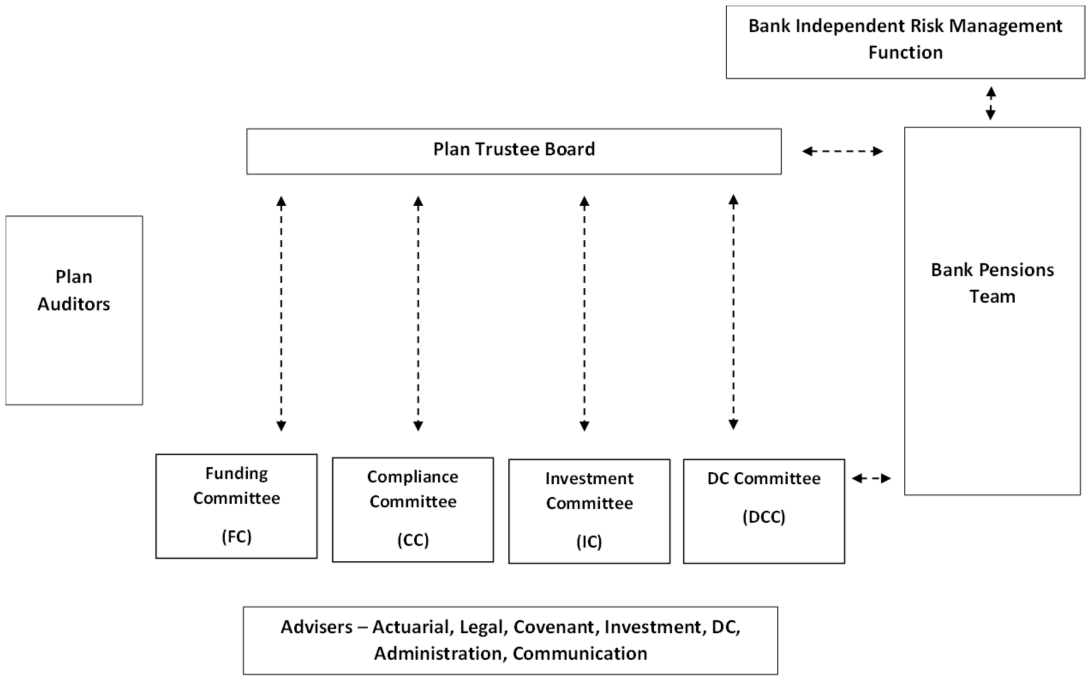
Given the increased focus on sustainable investment and stewardship over the past few years, the Trustee continues to evolve the Plan's ESG governance framework. As highlighted above, a review of the SIG that took place in the third quarter of 2023 concluded that the committee should be reintegrated within the IC, in line with prior expectations that the SIG will not exist indefinitely, and the governance structure would have to evolve to reflect the changing circumstances of the Plan with respect to investment strategy, funding objective and journey plan. The feedback provided highlighted that the Trustee was extremely satisfied with the work accomplished by the SIG over the period since inception and recognised that the Plan has made substantial progress in sustainable investment since its establishment. Given the increased emphasis placed on integrating sustainability within all aspects of investment decision making including investment strategy setting, portfolio construction and manager selection, integration within the IC was felt to be a natural progression for the group.

From a governance perspective all but one members of the SIG also sit on the IC, whilst the one member of the SIG not on the IC is invited to all IC meetings and fully included on any dialogue relating to sustainability.

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

Activities and outcomes

The Plan's investment governance structure, roles and responsibilities are highlighted below. Please note that this is a simplified diagram and there are multiple interdependencies between the various committees.



- The Investment Committee's remit is to advise the Trustee on the development and implementation of appropriate strategies for the investment of the Plan's assets. In addition to this advisory role, the Trustee has delegated certain powers to the IC primarily relating to the ongoing maintenance of the investment strategy.

- The Defined Contribution (DC) Committee's remit is to advise the Trustee on DC aspects of the Plan, ensuring that appropriate action is taken with regard to governance, investment strategy, administration and communication matters.

- Trustee Directors and members of the IC and DCC comprise Sponsor-nominated and member-nominated Trustee Directors who have wide-ranging experience within the investment industry and across pensions investment. Membership of the Trustee board is reviewed on a regular basis to ensure there is a sufficiently diverse range of experience across the Board (for example, member-nominated Trustee Directors are selected on a three-yearly basis as part of a competitive process, including a selection panel).

- The current Chair of the Trustee board also chairs one of the UK's largest and leading Local Government Pension Scheme asset pools, which is well-known as a leader in sustainable investment. Another Trustee leads the sustainability function at a highly-regarded asset manager, specialising in impact investments. Other Trustee Directors have wide-ranging experience across a variety of different functions within the finance and asset management industry, both within the JPMorgan group, and externally

- The Trustee is also supported by an experienced in-house pensions team.

The Trustee receives regular investment training sessions provided by its Investment Consultant and other service providers e.g., lawyers, scheme actuary, where relevant. These training sessions are both formally included in the Trustee's annual workplan and carried out on an ad-hoc basis as and when a need for training arises and provided to new Trustee Directors when they join the Trustee Board. Over 2022 the Plan's Investment Consultant delivered several training sessions to the Trustee Board and various sub-committees, which focused on a range of sustainability matters including climate disclosure requirements, calculating climate metrics and targets, climate scenario analysis, developing a communication strategy for interaction with members, and approach towards exclusions and engagement. In 2023, the Investment Consultant also delivered a refresher training session on climate-disclosure requirements in advance of the Plan's statutory reporting deadline.

Case study – A4S maturity map

In April 2022 the Trustee Board took part in a workshop on the ESG Maturity Map, which has been developed by Accounting for Sustainability as a framework for embedding ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain.

Over the course of the session, the Trustee Directors collectively assessed the Plan's approach towards ESG integration across multiple areas of investment, scoring the Plan against each area, and helping inspire action on next steps to further mature the Plan's approach towards ESG integration. In particular, the Trustee recognised that good progress has been made in terms of successfully engaging with the corporate sponsor, investment managers and the Investment Consultant on sustainability matters. Engaging with pension scheme members on sustainability has been identified as a priority for the Plan over the next few years.

As highlighted in previous sections, as part of an increasing focus on Sustainable Investment over the past five years, the Plan established the Sustainable Investment Group ("SIG") in 2020, a sub-set of the Trustee who met at least quarterly and pursued sustainable investment-related projects to help the Plan progress towards the forefront of good practice in this area. The establishment of the SIG helped to formalise the Trustee's views in relation to sustainable investment, which has encouraged the Plan to take big strides towards developing robust approaches on sustainable investment and stewardship. Having established the Plan's overarching strategy with regards to sustainability, in Q3 2022 the SIG was integrated into the IC with a view to streamlining decision-making and ensuring that sustainability perspectives are fully embedded in the wider investment process.

The IC meets at least quarterly, but in practice much more frequently. Sustainability is an agenda item at all IC meetings. Given the ongoing work undertaken to produce the Plan's inaugural climate disclosures report, the IC and the Investment Consultant have also held sessions solely focused on sustainability.

The IC comprises a diverse sub-set of Trustee Directors who are involved across the Plan's DB and DC sections. Membership of the IC includes individuals with substantial experience around sustainable investment. The Trustee carries out a self-assessment every two years to consider its effectiveness and better understand the various areas impacting on the effectiveness of the Board and its committees. The most recent self-assessment was carried out in Q4 2022 and it considered whether the Trustee has the right background, experience, diversity, knowledge, and skills to carry out its responsibilities. The exercise indicated that there is a suitable level of diversity within the Trustee Board in order to facilitate effective decision making. In addition, in communication provided to members over the year the Trustee explained the process for selecting new member of the Trustee Board. It was noted that diversity, experience, and the overall mix of skills across the Trustee Board are key factors when making decisions about the composition of the Trustee Board.

The IC has a Terms of Reference document governing its relationship with the full Trustee board, and outlining the Committee's function, membership, roles and objectives and meeting and reporting procedures.

The Trustee leverages its resources by working with others e.g., the Plan's Sponsor and its Investment Consultant on stewardship and wider sustainable investment matters. The Trustee also benefits from its strong relationship with the wider JPMorgan group, including JPMorgan Asset Management, to contribute to their thinking around industry developments including those around sustainable investment.

The Trustee receives support from external parties such as the Plan's Investment Consultant, WTW, who provides resources including sustainable investment manager research and guidance on evolving industry developments. WTW maintain strong relationships with the Plan's underlying managers which allows them to carry out effective engagement with the Plan's managers on behalf of WTW's clients, including the Plan. WTW's most recent Stewardship Code submission report can be found here and details the stewardship activities undertaken on behalf of clients: here. WTW also co-founded the Investment Consultants Sustainability Working Group ('ICSWG') which brings together leading UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry.

The Trustee sets investment consultant objectives for WTW, which are reviewed on an annual basis. These objectives explicitly reference expectation for WTW to assist the Trustee in accelerating the Plan's progress towards the forefront of good practice within the area of sustainable investment.

Sustainable investment and stewardship are defined as part of the role and responsibilities of the Trustee (and delegated to the IC in some areas) and an important part of the role is the oversight of external parties including the Plan's underlying investment managers and external advisors. This includes ensuring these parties have appropriate governance structures, resources, and skills to deliver their services to the Plan. WTW review and monitor the stewardship approach adopted by the Plan's underlying investment managers on an ongoing basis on behalf of the Trustee. As a result of these interactions, some investment managers have taken steps towards further evolving their stewardship and engagement practices over the year.

The Trustee monitor these considerations including, where appropriate, how performance management or reward programmes help incentivise the effective integration of stewardship. Inclusion and diversity have continued to evolve within the industry and are key areas of focus for the Trustee. As part of the annual Sustainable Investment review conducted by WTW on behalf of the Trustee, all managers were explicitly asked to provide information in relation to their respective Inclusion & Diversity processes. All investment managers confirmed that they have firm-wide Inclusion and Diversity policies, that are reviewed on an ongoing basis. Overall, the Trustee believes that the Plan's governance structure is fit-for-purpose given the size and nature of the Plan. The Trustee believes that the changes to the ESG governance framework drives further accountability for effective stewardship across the Plan.

The Trustee believes it is adequately incentivised to integrate stewardship within investment decision making by its fiduciary duty towards beneficiaries of the Plan. The Trustee takes a long-term approach towards the assessment of investments, with such an approach clearly articulated to the Plan's investment managers and reflected in the design of underlying mandates, in order to create long-term sustainable value for the Plan. The underlying managers themselves are incentivised primarily through receipt of an ad-valorem fee, and in some cases through a performance-related fee, where deemed appropriate and not expected to result in excessive risk being taken. The Trustee reviews such arrangements on an annual basis.

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

Context

The Trustee acknowledges the importance of managing conflicts of interest within the management of the Plan to ensure the best outcomes for the Plan's members. The Trustee has in place a formal detailed Conflicts of Interest Protocol ('Protocol') which sets out the Trustee's policy in relation to conflicts of interest. The Trustee is happy to provide a copy of the full Protocol upon request. The Protocol and associated conflicts of interest register is reviewed on an annual basis and covers (amongst others):

- Identifying a conflict of interest
- Monitoring conflicts of interest
- Managing conflicts of interest
- Registering interests which may give rise to conflicts of interest
- Gifts and hospitality policy
- Disclosure of confidential information
- Managing advisor conflicts

The Trustee also maintains a formal Code of Conduct policy to ensure that Trustee Directors behave to the highest standards of professionalism and ethical conduct; ensure that external stakeholders, including members, their beneficiaries, the Sponsor and regulatory agencies can be confident that an individual would not be unduly influenced when acting as a Trustee Director; and ensure Trustee Directors have sufficient expertise to govern the Plan effectively. The Trustee Directors are required to self-certify adherence to the Code of Conduct on an annual basis. As part of this, the Trustee Directors have to declare they have read and adhered to the Conflicts of Interest Protocol. This declaration last took place in December 2022.

Specifically on the Plan's investment strategy, the Trustee's policy with respect to identified conflicts of interest are outlined in the Plan's SIP as follows:

The Trustee recognises the potential for conflicts of interest (actual or perceived) in the use of JP Morgan Asset Management as an investment manager to the Plan. This is addressed through restrictions in the Plan's Terms of Reference document and the formal Conflicts of Interest policy. Similarly, the Trustee recognises the potential for conflict that arises due to Willis Towers Watson's appointment as investment advisor to the Plan, and Towers Watson Investment Management acting as a fund manager to the Plan. This is addressed within a formal "Conflicts Protocol" document agreed between the Trustee and Willis Towers Watson.

The restrictions and policies outlined in the Plan's formal documentation are summarised below:

Terms of Reference

The Terms of Reference document includes guidelines around adherence to the conflicts of interest policy which states that any members of the Committee who are employees, directors, officers, or engaged in its business, or are otherwise appointed or remunerated by, an asset management company or other service provider or potential service provider to the Trustee, including J.P.Morgan Asset Management, are prohibited on voting on matters relating to the selection or de-selection of that service provider or potential service provider.

Conflicts of Interest Protocol

The protocol applies to all Trustee Directors of the Plan and details the Trustee's procedures to identifying, monitoring and managing potential and identified conflicts of interest such as the appointment and removal of service providers, disclosure of confidential information, registering of interest etc. The protocol is reviewed on a regular basis.

Towers Watson Investment Management 'Own Funds' Conflicts Protocol

The protocol sets out the conflict risks associated with investing in an investment fund managed by Towers Watson Investment Management (TWIM) including the risk of potential lack of objectivity from the Investment Consultant when recommending a TWIM product.

Activities and outcomes

There are a number of actions adopted by the Trustee as part of their ongoing monitoring processes which aid the Trustee in managing the actual and potential conflicts identified as part of ongoing investment activities.

The Plan has appointed JP Morgan Asset Management to manage assets in both the DB and DC section of the Plan and monitors this exposure on a quarterly basis. The Plan's Investment Consultant performs a formal review of the ESG capabilities (including approach towards stewardship and engagement) of all investment managers on an annual basis.

In relation to Towers Watson Investment Management ("TWIM") being appointed as one of the Plan's investment managers through investing in the manager's Secure Income Fund ("SIF"), the Trustee undertakes an annual detailed review of the manager and fund as per the requirements of the conflicts protocol, assessing TWIM against a number of pre-agreed metrics. These include the size of the fund, performance versus peers, ownership structure and the portfolio management team. In Q2 2022 the Portfolio Manager for the SIF departed WTW, which prompted a review of the fund, including the new Portfolio Manager presenting to the IC.

The sustainability credentials of TWIM are monitored by the Trustee alongside the other managers as part of the sustainable investment review including stewardship and engagement. The Plan's Investment Consultant produces this review for the Trustee, albeit recognises and highlights the potential for conflicts of interest in relation to TWIM (perceived or otherwise) as part of this. The managers' responses to the questionnaire are reviewed by the Trustee.

The Trustee receives stewardship research assessments from the Plan's Investment Consultant for the investment managers on at least an annual basis, and conflicts of interests is a topic which forms part of this research, ultimately feeding through into underlying manager ratings. Investment managers are expected to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of their clients are prioritised. The Plan's Investment Consultant undertakes ongoing monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. Conflicts of interest have been consistently raised as an area of importance for managers to evidence that conflicts (potential, perceived or actual) do not inhibit effective stewardship. At present, there are no concerns regarding the approach taken by the Plan's investment managers with regards to managing conflicts of interests.

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

Activities and outcomes

Identification of market-wide and systemic risks

The identification of market-wide and systemic risks is considered on an ongoing basis and the Trustee is supported by the Plan's Investment Consultant, WTW, in its management of identified risks. The Plan has identified several ongoing risks for both the DB and DC Section of the Plan and highlights the approach to managing these risks in the Plan's SIP.

The Plan's Investment Consultant plays an important role in bring market-wide and systematic risks to the Trustee's attention and where necessary, providing training to the Trustee on such risks. The Investment Consultant is also responsible for liaising with the Plan's managers on their management of risks, on behalf of the Trustee including:

- Economic market outlook and capital market views which form an input into Trustee discussions around investment strategy, risk management and portfolio construction.

- Investment manager research which identifies market wide and systemic risks for the Plan's investment managers and investment funds. This research contributes to the Trustee's decision making around the appointment and termination of the Plan's investment managers and fund range. The Trustee reviews investment manager assessments biannually and WTW inform the Trustee of any emerging risks identified by their manager research team.

- Operational due diligence which identifies firm-wide risks of the Plan's underlying investment managers particularly around the managers' internal controls reporting. The Trustee undertakes an annual operational review which includes input from WTW's operational due diligence team alongside input from investment managers on a range of identified risks such as guideline breaches and errors experienced over the year and topical risks.

- Maintenance of a "key risks" document, which is tabled on a quarterly basis at IC meetings and designed to ensure that the risks the Plan is exposed to are reviewed on a regular basis, whilst newly emerging risks are identified.

- Market-wide risks that have prominently featured on the IC's agenda over recent periods include inflation risk, liquidity risk and other inherent risks associated with Liability Driven Investments (LDI), which were particularly pronounced following the extreme market volatility observed at the end of September and early October 2022. The existing risk management framework allowed the Trustee to navigate the period of market turmoil without suffering any material hit to the Plan's funding level . The governance framework enabled the Trustee and WTW to be nimble and take actions on short notice to improve the Plan's collateral position in the LDI portfolio and to protect against the risk of being involuntarily forced to reduce the Plan's interest rate and inflation hedging position at an inopportune time.

The Chair of the Trustee continues to represent the Plan as a member of the Accounting for Sustainability ("A4S") Asset Owners Network, which is an arm of the Prince of Wales Charitable Foundation with a remit to embed sustainability into the financial sector.

In April 2022, the Trustee Board took part in a workshop on the ESG Maturity Map, which has been developed by A4S as a framework for embedding ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain. Over the course of the session, the Trustee Directors collectively assessed the Plan's approach towards ESG integration across multiple areas of investment, scoring the Plan against each area, and helping inspire action on next steps to further mature the Plan's approach towards ESG integration.

Whilst industry-wide collaborative activities are expected to continue in the future, the Trustee recognises that given the size and resources of the Plan, a suitable balance needs to be struck when allocating a finite governance budget to different activities.

Response to market-wide and systemic risks

The Trustee responds to market-wide and systemic risks as part of their integrated risk management framework. In light of rapidly increasing gilt yields over the course of 2022, culminating in the gilts crisis of September and October 2022, liquidity and collateral risk management was a particular focus of the Trustee over 2022.

Trustee Case Study – Collateral Risk Management

In order to limit funding level risk, the Plan hedges the majority of its interest rate and inflation exposures. However, as interest rates rise the Plan is required to meet collateral requirements and, if at some point it is unable to do so, the Plan would be forced into losing a proportion of its hedge.

The IC looked to manage this risk by working to increase the collateral available within the LDI portfolio. Given initial yield rises over 2022 this was an issue the IC had already discussed at length prior to the events of September and October 2022 and going into the gilts crisis extensive rebalancing action had already been taken to manage the leverage in the LDI portfolio.

In response to rising yields on 22 and 23 September an emergency IC meeting was arranged for the morning of 26 September to agree further action. Additional meetings were convened on 29 September and 11 October as market events unfolded, whilst there was extensive and rapid dialogue by email amongst the IC, and the wider Trustee board where necessary, throughout the period. Despite the tight timescales, a comprehensive and robust process was followed throughout. Whilst investment decisions had to be taken very quickly, the IC ensured that all meetings were minuted, discussions were recorded and Board approval was always sought as necessary.

A number of portfolio decisions were agreed, all designed to incrementally add to the available collateral. These included the transfer of gilts held outside the LDI portfolio, the sale of US treasury bonds ineligible for use as collateral, rebalancing and subsequently derisking the Plan's high-level asset allocation, and trimming the Plan's interest rate hedge ahead of Bank of England support being withdrawn on 14 October 2022.

All of the actions taken were deemed critical in raising the level of collateral to an adequate level, sufficiently over and above the point at which the Plan's LDI manager may look to unilaterally cut the Plan's hedge, whilst the Plan remains on course to achieve its long-term objectives.

Climate remains a key risk for the Plan and in Q3 2022 the Investment Committee prepared a first iteration of the Plan's Climate Disclosures Report, in advance of DWP's formal statutory deadline for the Plan of 31 July 2023. The Trustee wanted to engage with the climate disclosures requirements early on to understand best practices in climate reporting and to be a positive example leading the way across asset owners and in the wider pensions industry. The benefits of producing this initial report early on allowed the Trustee to grasp the challenges arising within the process of producing climate-related disclosures and plan how to address these efficiently in advance of the reporting deadline.

The Trustee is committed to meeting a net zero target by the end of 2050 and halving the Plan's current carbon footprint by 2030. As such, the Plan's investment managers are expected to work towards a similar goal and should be able to rationalise how they plan to achieve their net-zero targets. Having delegated responsibility for stewardship to investment managers, the Trustee expects these practices to be reflected within the approach adopted by the Plan's investment managers. All but one of the Plan's investment managers are signatories to the FRC Stewardship Code, to the Net Zero Asset Managers initiative ("NZAMi") and committed to report against the Task Force on Climate-Related Financial Disclosures requirements.

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

<u>Context</u>

The Trustee documents their policies and their progress against these policies in governance documents, namely the Statement of Investment Principles and the Implementation Statement, which are both publicly available. As part of the Trustee's commitment to sustainable investing and active ownership of the Plan's assets, the Trustee produced its first report against the principles of the UK Stewardship Code in 2020 and will continue to produce such reports on an annual basis.

<u>Activities and outcomes</u>

The Trustee's review and assurance process of these documents has led to continuous improvements and expansion of the Trustee's activities including engagement with external parties such as the Plan's Sponsor and underlying investment managers, ongoing training in industry developments around sustainable investment, and commitments such as becoming a signatory to the Stewardship Code 2020 and the Taskforce for Climate-related Financial Disclosures reporting.

<u>Statement of Investment Principles</u>

The Statement of Investment Principles "SIP" is a governance document maintained by the Trustee which sets out the Trustee's policies in relation to a range of investment matters including, but not limited to investment strategy, risk management and sustainable investment.

The statement is reviewed by the Trustee at least annually and without delay following any significant change in policy. Before finalising the SIP, the Trustee receives advice from its Investment Consultant however the ultimate power and responsibility for deciding investment policy lies with the Trustee.

The SIP covers both the DB and DC Section of the Plan and was last reviewed in December 2022. The latest version of the SIP, linked to here includes additional wording around the following:

- Monitoring portfolio turnover and the costs associated with portfolio turnover of the Plan's underlying investments. The Trustee already monitors the fee structures and underlying fees of the Plan's investment managers annually. The Trustee began monitoring portfolio turnover of the underlying investments on an annual basis in 2021 and will report on this later in 2022.

- Explicit policies around how the Trustee ensures that the Plan's investment managers are aligned with the Trustee's policies. For example, a policy to send the Plan's SIP to all the Plan's managers periodically for their review to ensure managers are aware and aligned with the Trustee's policies.

- The Trustee's policies around sustainable investing, with a particular focus on how the Trustee incentivises the Plan's investment managers to be strong stewards of the Plan's assets through engagement activity over a long-term time horizon.

<u>Annual Implementation Statement</u>

From 1 October 2020, and on an annual basis, the Trustee has been required to produce an annual 'Implementation Statement' to be included in the Plan's annual Reports and Accounts and to be made publicly available online. The Statement covering the Plan year 1st January 2021 to 31 December 2021, linked to here included the following information across both the DB and DC sections of the Plan:

- How the Fund's Statement of Investment Principles ('SIP') has been followed over the year, along with details of any changes to the SIP
- A description of any review of the SIP, including an explanation of any changes
- How the Trustee's policies on exercising rights (including voting rights) and engagement have been followed over the year
- The voting behaviour of the Trustee, or that undertaken on its behalf, including the most significant votes cast and any use of a proxy.

The Trustee is in the process of producing an updated implementation statement for 2022, which will reflect the developments with the Plan's ESG governance and in sustainable investments over the year, as well as report on the effectiveness of the stewardship approach adopted.

The evolving regulations have resulted in the Trustee considering particular ESG themes that are deemed to be priorities for voting, which has in turn driven engagement with the Plan's underlying managers. Such topics include climate change, strong corporate governance and diversity & inclusion.

Financial Reporting Council Stewardship Code 2020

The Trustee recognises the Stewardship Code 2020 as an industry wide standard to promote active ownership and strong stewardship across industry participants including the Trustee itself. The Trustee reports against the 12 principles of the Code to demonstrate and evidence the Plan's evolving processes to meet the industry standard on behalf of the Plan's members. The Trustee views the Stewardship Code 2020 as 'best practice' to work towards as it continues to evolve its practices to enable effective stewardship across the Plan.

Taskforce for Climate-related Financial Disclosures ("TCFD") report

In Q3 2022, the Investment Committee began drafting the Plan's Climate Disclosures Report in line with TCFD requirements, in advance of DWP's formal statutory deadline for the Plan of 31 July 2023. The report sets out the approach adopted by the Plan to achieve its net zero objectives – in particular, it set out the Plan's levers to achieve these objectives. The Trustee considers that efficient and proactive engagement as stewards of capital with the investment managers or companies they are invested in, is most likely to change behaviour and ultimately drive reductions in carbon emissions. Stewardship is one of the most powerful tools investors can use to influence companies to adapt their business approach to a low-carbon environment.

The Trustee views the TCFD reporting requirements as a means of ensuring accountability across the industry and is committed to publishing updated climate reports on an annual basis and to reporting progress against net zero targets alongside any developments within the stewardship and engagement approach adopted.

The process has identified a number shortcomings in the data quality of greenhouse gas emissions previously provided by the Plan's investment managers, and thus has resulted in greater engagement with the managers to provide robust and accurate data with a high degree of portfolio coverage going forwards.

Sustainable Investment Group annual review

The review of the SIG that took place in the third quarter of 2022 concluded that the committee should be reintegrated within the IC, in line with prior expectations that the SIG will not exist indefinitely, and the governance structure would have to evolve to reflect the changing circumstances of the Plan with respect to investment strategy, funding objective and journey plan. The feedback provided highlighted that the Trustee was extremely satisfied with the work accomplished by the SIG over the period since inception and recognised that the Plan has made substantial progress in sustainable investment since its establishment. Given the increased emphasis placed on integrating sustainability within all aspects of investment decision making including investment strategy setting, portfolio construction and manager selection, integration within the IC was felt to be a natural progression for the group.

The Trustee has strong review and assurance process around the documents and activities outlined above to ensure that the information reported is accurate, relevant and meets the relevant regulation and requirement. This process includes review by the relevant Committee or Group and input from relevant third party such as the Plan's Investment Consultant and lawyers.

External Assurance

In addition to the above, on an annual basis, the Trustee review the operational robustness of the Plan's investment managers to ensure the managers remain well placed operationally to manage assets on behalf of the Plan. This assessment includes a review of the audited internal controls of the Plan's managers (including input from the Plan's Investment Consultant), reviewing any experienced guideline breaches incurred by the manager over the year, and a review of any emerging operational risks.

Broadly speaking, the IC was comfortable with the findings of the last review, which was carried out in July 2022, however a small number of changes to guidelines and mandate design were identified, which should help efficient portfolio management going forwards, whilst incorporation of net zero targets into guidelines for key strategic mandates was also considered. More widely, it was recognised that as the Plan continues to de-risk and mature over time, the Trustee may benefit from carrying out more detailed operational risk monitoring on key mandates.

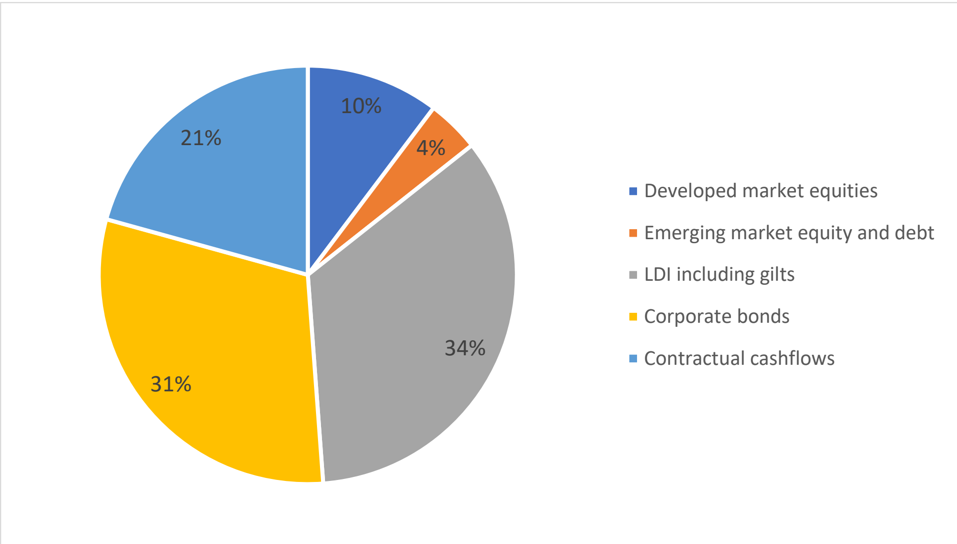
Section B – Investment approach

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

Context

The JPMC UK Retirement Plan is a UK occupational pension scheme comprising a DB Section and a DC Section of around 13,000 members in total.

As at 31 December 2022, the DB section held around £1.5bn assets under management, split as per the chart below. The DB section has a target asset allocation of 15% "return-seeking" assets and 85% "matching" assets, and reviews this split on a regular basis, taking rebalancing action as required. Assets are invested globally. As at 31 December 2022, approximately 67% of assets held were GBP Sterling denominated, around 22% US Dollar denominated, and the remainder held in Euros, Yen and other currencies (including emerging markets). After allowing for currency hedging, around 12% of the DB portfolio is exposed to various currency movements (predominantly US Dollar and emerging markets).



The DC Section provides members with a suitable range of investment options to suit individuals' needs and attitudes to risk. The Trustee offers two approaches for members to invest their DC pension:

Default investment options "Lifestyle": Designed to reduce risk as a member approaches their target retirement age by switching to a broader mix of assets with lower risk over time. More than 10 years from retirement, assets are invested 40% in global equities and 60% in diversified growth funds (split across two managers). Fixed interest assets, and then cash, are introduced starting 10 years from retirement, with the allocation to equities reducing.

Self-select investment options "Freestyle": A range of investment funds across various asset classes and strategies which members can chose to invest into.

The Trustee believes that the range of funds offers adequate diversification and is appropriate for the DC Section. The Trustee monitors the range of investment options regularly to ensure that the options are sufficiently diverse and consistent with the risk profile of DC members.

The Trustee acknowledges the time horizon of the Plan and takes account of all financially material risks and opportunities in the context of the Plan's time horizon.

The membership of the DB section is relatively mature. Over half of DB liabilities are in respect of pensioners, whilst most deferred members are expected to retire over the next 10 years. The profile of the Plan's membership is a critical input in setting an appropriate investment strategy for the Plan.

The membership of the DC section is also mature, (noting that most Plan members have both DB and DC benefits), with the average member less than 10 years from normal retirement date. The profile and retirement choices of the Plan's DC membership are formally reviewed by the Trustee on an annual basis, and considerable thought has gone into constructing an appropriate lifestyle strategy to meet the needs of a majority of members. The most recent review performed over 2022 identified that the current investment structures continue to be appropriate for the DC members of the Plan. This includes consideration of the typical choices taken by members at retirement (based on an annual review of membership data), and the recognition of additional benefits held outside of the DC plan for most members, which influences this choice at retirement.

Activities and Outcomes

The Trustee's policy with respect to the investment time horizon and how this should drive stewardship is outlined in the SIP:

The Trustee appoints investment managers with the expectation of a long-term partnership, which encourages active ownership of the Plan's assets. The Trustee expects investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

The Trustee monitors investment managers' alignment to the Trustee's policies which reflect the needs of beneficiaries in several ways. The Plan's SIP sets out the Trustee's policies across several investment areas including, investment managers, investment strategy and sustainable investing. All the Plan's managers are provided with a version of the latest version of the SIP and are required to review the document and confirm if there are any areas of misalignment between how they manage the Plan's assets and the Trustee's policies outlined in the Statement. Manager responses to the Plan's SIP are collected on an annual basis and most recently in Q1 2023. The Trustee is satisfied that the Plan's assets are being managed in line with the Trustee's policies.

Alignment is also monitored through the Trustee's ongoing monitoring process, for example the annual sustainable investment manager review (discussed in this report within Principle 7), investment manager research provided by the Plan's Investment Consultant, and through meetings with managers.

Members continue to receive regular communications about the Plan's investments and developments through a member 'OnePlan' newsletter which is issued twice a year, in spring and winter.

For the DB Section, information provided includes:

- Information around the Plan's asset allocation
- Review of investment markets and the Plan's investment strategy, including any changes made to the investment strategy over the period
- Forward looking commentary around the Trustee's priorities for the upcoming period

For the DC Section, information provided includes:

- An overview of the value for members assessment for the year
- Signpost to the Plan's latest Chair's statement and the Plan's SIP
- Reminder to review their investments regularly and signposting to how members can check and make changes to their pension investments if they wish

Sustainable investment has been a key feature and a standing item in recent publications, with the Trustee using the newsletter as an opportunity to showcase the progress made by the Plan in this area and highlight the benefits of such an approach for the members.

In 2022, the Trustee issued a survey to the Plan's members to gather their views with regards to sustainable investment. The survey looked to gauge the following:

- The level of knowledge and understanding of sustainable investing and of what the Plan is doing in this space across members
- Whether the members believe that applying ESG considerations within investment decision-making will improve their pension outcomes
- The importance of climate change and other ESG factors to members

In March 2023, the initial results of the survey were presented back to the Trustee. Most respondents were shown to have a broad understanding of sustainable investing, and had read about the topic in recent member newsletters. Members valued the Plan's efforts in this area, with half believing that investments that support ESG considerations will perform better in the long run. That said, a significant number of respondents remained unaware of the Plan's progress in this area, whilst others were sceptical of the benefits of strong ESG integration.

Unfortunately, the response rate from the survey was disappointingly low – only around 2% of members completed the questionnaire. Therefore, the Trustee is wary of drawing any firm conclusions from the analysis, recognising that the profile of those individuals responding may not reflect the wider membership. As a result of the low take-up, the survey has been re-opened and been given greater prominence online, whilst through 2023 the Trustee is assessing its communication strategy to ensure that more members are aware of the activities of the Plan, and are given the opportunity to engage in what the Trustee is doing. Notably, the Trustee is in the process of sharing with the members copies of the preliminary climate-disclosures report prepared in line with the TCFD requirements and a stewardship policy document setting out the Plan's statement of intent regarding engagement and exclusions.

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

Context

Sustainable investment has been an increasingly important focus for the Trustee over recent years and the Trustee's approach to monitoring and integrating ESG issues into the management of the Plan has continued to evolve. The Trustee expects investment managers to integrate ESG considerations into their management of the Plan's assets and recognises that as investors in a diversified portfolio of various underlying asset classes with different objectives and characteristics, a 'one size fits all' approach to ESG is not optimal.

Therefore, the expectations of managers which form the Trustee's engagements and discussions with managers are not uniform across the Plan's investment managers and funds:

Passive equity	The Trustee acknowledges that given the index tracking nature of the Plan's passive equity investment, the scope for managers to explicitly integrate ESG considerations into the underlying investments is somewhat limited, however a benchmark has been chosen in order to overweight those stocks deemed to exhibit strong ESG credentials. Stewardship and the manager's voting and engagement practices are a key component in the management of these assets. The Trustee expects its passive equity manager to be participating in all votes (where feasible) and to be able to provide a robust rationale in instances the manager either withholds or abstains from voting on behalf of the Plan. Corporate engagement is important, and the Trustee expects managers to use their expertise and influence with underlying companies to drive long-term outcomes. The Plan's passive equity manager has seen a number of changes within its Stewardship team over the past two years. As such, the new Head of Stewardship was invited to present to the full Board in Q2 2022 to set out his vision and priorities for the organisation, and provide reassurance over the level and nature of engagement to be carried out on underlying companies. Unfortunately, the individual moved into a new role within the organisation later in 2022, and hence a further meeting is to take place with his successor later in 2023. In addition, as part of the Plan's annual manager sustainable investment review, the IC carried out a deep dive on the manager's voting record over a 12-month period, analysing how frequently the manager voted against company management, split by subject matter, region and geography. Analysis was also carried out on the manager's voting record on shareholder resolutions. This evaluation will help the Trustee to better challenge and engage with the manager going forwards.
Active equity (and diversified growth)	The Trustee continued to monitor how the Plan's active equity managers integrate ESG considerations across the entire investment process from company research, portfolio construction, monitoring, and reporting. As is the case with passive equity, the Trustee expects managers to be voting on the Plan's behalf in all eligible votes and undertake corporate engagement on key ESG issues with investee companies. In the first quarter of 2022, the IC received a presentation from the Global Head of Sustainable Investing of the Plan's emerging markets equity manager. The Trustee discussed the manager's net zero commitment and their engagement approach. In the second quarter of 2022, the IC received a presentation from the Plan's active global equity manager, covering investment performance, stewardship approach alongside their ESG integration into investment decision making. These meetings are representative of the ongoing engagement that the Trustee undertakes with equity managers and provided the Trustee with comfort that managers continued to develop their stewardship practices over the year. Within the DC section, the Trustee met with two of its diversified growth managers in May 2022 as part of their review of the Plan's diversified growth funds. Following this review, the Trustee decided to remove one of the funds from the DC section's default lifestyle strategy, and from the self-select range of funds available to members. The decision to disinvest from the fund was driven by poor investment performance over recent years and lack of confidence in relation to the manager's approach to ESG, compounded by related governance concerns.

Credit	As the Plan continues to mature and de-risk, the Trustee expects to further increase its focus on effective engagement towards mandates that are likely to have a longer lifetime within the Plan, such as high-quality credit. The Trustee expects managers to integrate ESG considerations into the selection and retention of issuers across the Plan's credit portfolio. Where the Plan has segregated credit accounts, the Trustee has engaged with managers around the use of green bonds and has amended the investment guidelines to explicitly support the investment in these types of bonds where the managers deem appropriate. Whilst the Plan's credit managers do not hold voting rights, the Trustee expects managers to engage with underlying issuers on ESG issues. The Plan's credit managers have made progress in developing their engagement approach over the year. One of the managers has focused on distinguishing regular dialogue conducted with investee companies around their sustainability practices from active engagement and has defined specific objectives to aid engagement tracking and reporting. Another manager has introduced a tracking tool to report the outcome of the engagement activities undertaken on behalf of investors. This improves transparency and disclosures of information in relation to their stewardship and engagement activity. The DB section holds a segregated buy and maintain credit strategy which has a long-term time horizon as the manager is expected to hold the underlying bonds until maturity. The Trustee acknowledges that as long-term holders, sustainability is a key factor in this mandate. In November 2022, the IC received a presentation from this manager focused on sustainability. The manager was able to give examples of investments decisions made that were driven by ESG considerations (e.g., removing exposure based on certain ESG criteria), noting that the exposure was only removed if no improvements have been noticed following engagement with the underlying companies. The Trustee is currently discussing with the manager the possibility of introducing an explicit net-zero target within the investment guidelines of the fund. As part of a review of DC investment strategy, the DCC is currently looking at options for replacing its existing bond mandate with an equivalent fund exhibiting stronger ESG credentials. A change to this effect has been made in early 2023 within the self-select fund range, with a switch of default lifestyle bond assets expected later in the year.
Liability hedging (DB section)	The ESG capabilities of the Plan's LDI manager were reviewed as part of the annual sustainable investments review undertaken by the Investment Consultant on behalf of the Trustee. As well as assessing the manager's firm-wide credentials in relation to sustainable investing, the Trustee sought to gain an understanding of the manager's policies and stewardship activities, and the due diligence undertaken with counterparties with which the manager enters derivative contracts on behalf of the Plan. The DB section allocated to the first two "green gilts" issued by the UK Government within the liability hedging portfolio in 2021 and has mandated the Plan's manager to increase this exposure through time. The Plan's LDI manager continued to increase the exposure to green gilts over 2022. Whilst paying a small "greenium" over the equivalent conventional gilt, the Trustee believed that such an allocation will encourage further issuance by the Government, thus increasing future funding of "green" projects, that will make the UK more resilient and reduce long-term risk on wider assets held. In April 2022, the IC received a presentation from the LDI manager, where the Trustee discussed with the manager their views of green gilts and their place in LDI portfolios. The manager communicated that they continue engaging with the UK Debt Management Office ("DMO") and His Majesty's Treasury ("HM Treasury") to monitor the greenium on an ongoing basis. The "collateral crunch" arising from the September/October 2022 gilt market events has resulted in structural changes to the pension scheme industry, with new regulatory requirements in relation to managing LDI assets. The Trustee is focused on ensuring that the Plan's approach towards ESG and net zero remains at the forefront of good practice whilst adapting to evolving priorities and requirements in the "new world" within the LDI market.

Contractual cashflow “Secure income” assets (SIAs)	The Trustee acknowledges the importance of ESG integration throughout the Plan’s contractual cashflow “Secure Income” portfolio given the exposure to real assets with a longer-term time horizon. Within the portfolio, the Trustee looks to allocate to opportunities which target sustainability themed and impact investments. The Trustee is pleased to see the progress made by Plan’s secure income asset managers regarding further integrating sustainability considerations within their investment processes. Over the course of the past 12 months, the IC has received presentations from three of the Plan’s secure income managers, each of which have been afforded a material amount of time towards covering ESG. For example, in the second quarter of 2022, the IC met with the Plan’s ground rent property manager. The manager discussed their current focus on embedding societal considerations in managing the fund, due to the need to engage with government and developers due to growing focus and developments in respect of the Fire Safety Act. In the last year, one of the secure income asset managers has been in the process of developing a formal ESG reporting approach for the exposures within the infrastructure assets. The manager has continued to evolve their investment decision making framework over the year and defined specific KPIs for infrastructure assets, enabling them to identify infrastructure asset that are core to the growth and prosperity of the economies and communities they serve. Examples of the assets invested in include care homes for adults with learning disabilities and an “energy from waste” facility. More recently, an issue has arisen with regard to the tenant quality of one of the Plan’s real estate managers. The Trustee is actively engaging with the manager in order to achieve a suitable resolution for the Plan.

The Trustee monitors managers’ performance against the expectations outlined above on an ongoing basis through meetings with mangers, research from the Plan’s Investment Consultant and explicitly through the annual sustainable investment review.

Activities and outcomes

The Trustee has undertaken an annual sustainable investment review of the Plan’s managers as part of its monitoring process, across both the DB and DC sections of the Plan.

The review has been evolved to assess the managers’ credentials across several areas including ESG integration, stewardship, and engagement activity, using a combination of research produced by the Plan’s investment advisor WTW, and bespoke questions issued to each manager based on specific areas of priority as discussed by the Trustee. The information requested from managers that was used to assess their ESG capabilities covered the following areas, which the Trustee articulated to be important to the Plan:

1. **Stewardship and engagement** - As signatories to the FRC Stewardship Code, the Trustee has adopted leading stewardship and engagement practices. It is expected that these are reflected within the approach adopted by the Plan’s investment managers. As per the Trustee’s ESG beliefs, influencing and changing company behaviour through voting and engagement is a key area of focus for the Plan.

2. **Net zero strategy -** The Trustee is committed to meeting a net zero target by the end of 2050 and halving the Plan’s current carbon footprint by 2030. The Plan’s investment managers are expected to work towards a similar goal and should be able to rationalise how they plan to achieve their net-zero targets.

3. **ESG integration into decision-making** - The Plan has made significant progress with respect to integrating ESG considerations within investment processes (e.g., manager selection, portfolio construction, investment strategy setting). Managers should be able to articulate and provide examples of how ESG factors are applied within their investment decision making framework.

4. **Participation in industry initiatives** - The Plan looks to lend its voice to industry-wide collaborative initiatives to drive progress with regards to sustainable investments. The Trustee expect that the underlying investment managers also play an active role in the industry to shape the direction of travel for sustainability.

5. **Climate disclosures reporting** - The Plan is currently in the process of producing the first iteration of its TCFD report. As per the Trustee's ESG beliefs, the Plan intends to go above and beyond minimum compliance requirements and as such, we expect the investment managers to produce similar high-quality reporting.

6. **Inclusion and diversity** - Inclusion and diversity is a key "Social" area which is evolving rapidly within the industry. The Trustee expects that managers are able to provide their policies and coherently set out their approach to inclusion and diversity at both a firm level and fund level.

7. **Biodiversity** - The Trustee recognises nature and biodiversity as an important area for the Plan to consider. Whilst there are no specific regulatory requirements, there is increased momentum across the industry. Investment managers should be able to set out their capabilities with regards biodiversity and any plans for adopting the TNFD reporting framework.

8. **Future ESG ambitions** - As per the Trustee's ESG beliefs, the Plan's ambition is to be considered at the forefront of good practice within sustainable investment. The Trustee expects that the same desire and level of ambition is echoed and reflected within the ESG approach adopted by the underlying investment managers.

Managers were then rated based on their responses to the questionnaire and according to the information they were able to provide on the areas set out above.

The key conclusions of the review were as follows:

- The Trustee's preferred approach is to drive change through engagement with the Plan's underlying managers, choosing not to instruct managers to exclude certain stocks or securities, but instead to demonstrate steps towards reducing ESG risks. For the Plan's mandates which invest in public markets i.e., equities and bonds, managers demonstrated a clear engagement and voting (where relevant) strategy in how they engage with underlying investee companies on their board diversity. For the Plan's equity managers, gender diversity of a company's Board continues to be a metric which is used when making voting decisions.

- The Trustee was pleased to see progress within the engagement approach adopted by the Plan's credit and secure income assets managers over 2022. Managers have continued to evolve their ESG governance practices and the quality of their engagement reporting to investors. One of the Plan's secure income managers did not provide satisfactory information on their engagement approach. As a result of this review, the Trustee agreed to further engage with the manager in 2023 to discuss stewardship developments within their organisation.

- Generally, the asset managers approach with regards to ESG integration into investment processes was aligned with what the Investment Consultant and the Trustee recognise to be good practice. A key theme for this year's review was to test how managers are intending to reach their net zero targets at both firm level and fund level. All but one of the Plan's managers were able to rationalise and provide detail on their net-zero investment strategies in the context of the type of assets they manage for the Plan. The managers also committed to an overarching target of achieving carbon neutrality by 2050, with most of them supplementing this with interim targets. All but one of the Plan's managers are signatories of the Net Zero Asset Managers Initiative, and thus have committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, and support investing aligned with net zero emissions by 2050 or sooner. For the manager that was unable to provide sufficient information in respect of their net-zero strategy, the Trustee arranged a research meeting with them in 2023 to discuss their ESG approach and the planned sustainable investments strategy.

- All managers are signatories of the United Nations Principles for Responsible Investment ("PRI"). All but one of the Plan's managers are now signatories of the revised FRC Stewardship Code. Most managers were also able to explain how the United Nations Sustainable Development Goals ("SDGs") are considered within their investment thinking, with most stating that they can provide customised reporting against UN SDGs.

- All but one of the Plan's managers currently produce TCFD-aligned climate disclosure reporting and all articulated how they plan to further evolve their TCFD reporting in the future. All underlying investment managers confirmed that they have firm-wide Inclusion and Diversity policies, that are reviewed on an ongoing basis.

- Some of the Plan's investment managers have already taken initiative in terms of committing to reporting against the Taskforce on Nature-related Financial Disclosures ("TNFD") requirements or participating in industry-wide working groups on Biodiversity to help shape the reporting framework. Most other managers stated that they are considering reporting against TNFD reporting in the future.

- Most managers articulated their future ESG ambitions relative to reporting capabilities, enhancing resourcing, or adjusting current SI framework based on any recent climate metrics or targets adopted. The more ambitious managers set out their ambitions in relation to new investment ideas or how their thinking would evolve in the context of specific asset classes. Namely, one of the Plan's equity managers is looking to embed deforestation metrics and analysis within their investment processes, whereas a secure income asset manager is looking to develop specific ESG KPIs for assessing real assets.

The Trustee aims to meet with each manager on an annual basis and more frequently as required. Sustainable investment considerations are a key part of these discussions and provide a forum for the Trustee to discuss with managers any issues or questions raised from the annual sustainable investment review.

The Trustee acknowledges that the industry is placing stronger emphasis on applying sustainable investment considerations within the context of different asset classes. To the extent that the Trustee reviews existing investment managers or considers new investment managers over time, then it is essential to spell out the specific sustainable investment expectations that Trustee has. Whilst the Plan is maturing and there is an expectation that fewer manager changes are likely to be made going forwards, the Trustee expect the Plan's underlying investment managers to adopt leading stewardship practices, as they partner with the Plan over the long-term.

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

Activities and outcomes

As signatories to the revised FRC Stewardship Code, the Trustee has adopted leading stewardship and engagement practices, and expects these to be reflected within the approach adopted by the Plan's investment managers. In early 2023, the Trustee articulated their views with regards to stewardship within a policy document, setting out the Plan's statement of intent with regards to exclusions and engagement.

The Trustee's preferred approach is to drive change through engagement with the Plan's underlying investment managers, with the expectation that they can demonstrate the steps taken to reduce ESG risks, and appropriate action taken if exposures start presentation material risks to the Plan. The Trustee has defined a robust monitoring framework, to keep track of the ESG approach adopted by the Plan's underlying investment managers. If unconvinced that the managers are taking steps towards aligning with the Plan's ambitions of being at the forefront of good practice in sustainable investing, then certain actions with regards to the investment manager line-up may be taken, including divestment if deemed appropriate.

The Trustee has several service providers relating to the investment arrangements of the Plan and monitors them on a regular basis to ensure they are acting in the best interests of the Plan and ultimately, the Plan's members. The Trustee's ESG monitoring processes have led to several actions being taken over the year. For example, in 2022, the Trustee disinvested from one of the Plan's diversified growth fund managers within the DC section owing to concerns around investment performance, portfolio positioning, and the quality the manager's ESG processes.

In 2022, the Trustee held several meetings with the Plan's key managers across equity, credit, and secure income assets. Sustainability represents a critical area of focus within every meeting, and the Trustee is keen that the managers demonstrate how ESG considerations are being applied in the context of the fund and the asset class that are managed on behalf of the Plan. For example:

- during a meeting with one of the Plan's "secure income" managers, the Trustee explored how the manager is achieving sustainable cashflow generation whilst making a demonstrable positive impact in the communities in which they invest.
- In another meeting with one of the Plan's credit managers the Trustee explored how the manager may be able to incorporate a net-zero objective and the implications of this within managing the credit fund.
- One of the meetings with one of the Plan's equity managers was focused on the recent ESG governance changes that the manager has gone through, with the Trustee seeking assurance that the ESG integration processes followed by the Plan's manager continue to be robust.

The Trustee believes that having dedicated sustainability discussions within every meeting with underlying investment managers is critically important in achieving an impactful level of engagement and driving progress across the industry.

Monitoring investment managers

The Trustee monitors the performance of the Plan's investment managers on at least a quarterly basis over the Plan year, including via a quarterly consolidated monitoring report provided by the Plan's Investment Consultant. This report includes, but is not limited to, the following information which contributes to the Trustee's manager monitoring process:

- Investment performance for the Plan's underlying investment funds over a 3-month, 1 year, 3-year time horizon and since inception of the fund.
- Research assessment of the Plan's underlying investment funds provided by the Trustee's Investment Consultant research team. These assessments include qualitative research on each investment strategy across several different areas including firm wide assessments (team stability, business issues) and strategy level considerations (investment approach, opportunity set, integration of sustainable investment considerations).

The Trustee also undertake standalone reviews of the Plan's managers across other areas including:

Area	Frequency	Information
Sustainable investing review	Annually	The Trustee monitors the investment managers' approach to sustainable investing across several areas, including but not limited to net-zero strategy, resources, the level of ESG integration within investment decision making, internal resources, diversity and inclusion, industry participation, voting and engagement. This review exercise is outlined in greater detail under principle 7.
Operational review	Annually	The Trustee review the operational robustness of the Plan's investment managers to ensure the managers remain well placed operationally to manage assets on behalf of the Plan. This review includes a review of the audited internal controls of the Plan's managers (including input from the Plan's Investment Consultant), reviewing any experienced guideline breaches incurred by the manager over the year, and a review of any emerging operational risks
Fee review	Annually	Both investment management fees and underlying fees for all the Plan's managers are reviewed annually to ensure the Plan's managers are delivering value for money and where the Trustee feel better value can be achieved, the Trustee will enter fee negotiations which ultimately serve to improve investment outcomes for the Plan's members.

The Trustee's monitoring processes form the basis for identifying areas for further engagement with managers which can involve inviting the manager to discuss with the IC or DCC at a meeting or writing to managers to initiate discussions.

Monitoring the Investment Consultant

The Plan's Investment Consultant, WTW, provides support and advice to the Trustee across a range of investment matters and similarly to the Plan's investment managers, is reviewed by the Trustee on a periodic basis.

The Trustee has set several objectives for WTW and reviews the Investment Consultant against these objectives, and the objectives themselves, on an annual basis. In the most recent review of WTW's objectives, the Trustee introduced references to the Plan's net-zero ambitions, with WTW also being required to provide support to the Trustee in relation to meeting the climate-disclosures requirements under TCFD. Additionally, the WTW dedicated client team and the Trustee engage in dialogue regularly with respect to the deliverables being produced with any feedback provided by the Trustee incorporated by the client team in final or subsequent versions of the work papers produced.

Furthermore, the Trustee has regular meetings with a WTW representative outside of the dedicated client team, to further allow for the opportunity of providing open and transparent feedback on WTW's performance. The most recent series of meetings took place in Q1 2023, with interviews conducted with the Chairs of the full Trustee Board, IC and DCC, as well as the internal pensions team. On the whole the Trustee is pleased with the contribution of WTW and feedback provided was positive, however the process is effective in driving continuous improvement over time.

Finally, the Trustee periodically carries out a self-assessment to consider its own effectiveness and better understand the various areas impacting on the effectiveness of the Board and its committees. The most recent self-assessment was carried out in Q4 2022. The results of this exercise are considered by the Trustee and used to improve effectiveness where appropriate. The investment governance and the quality of the advice provided by the Investment Consultant is also considered as part of this assessment.

Section C – Engagement

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

Context

The Trustee considers that efficient and proactive engagement as stewards of capital with the Plan's investment managers, is most likely to change behaviour and ultimately drive reductions in carbon emissions. The Trustee expects investment managers to integrate climate change and other ESG factors at all steps of their investment analysis and decision-making processes, as well as exercise voting rights where possible.

The Trustee's policy is outlined in the Plan's SIP:

> *The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme' s assets. The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.*

The Trustee monitors the engagement undertaken by investment managers through manager reporting, the annual sustainable investment review outlined under principle 7.

Activities and outcomes

As outlined under principles 7 & 8, the Trustee has set up several frameworks to monitor and engage with the Plan's managers and service providers across a range of areas and topics including: sustainable investment, fees, and operational due diligence.

The Trustee delegates engagement with the Plan's investee companies to the Plan's investment managers. A small selection of case studies of engagement undertaken on the Trustee's behalf, across different asset classes and both the DB and DC sections are outlined below.

Mandate: Global impact bond fund
Company: Aegea
Engagement: Corporate engagement around climate risk

Over 2022, the Plan's global impact fund manager engaged with Aegea, the largest private sanitation company in Brazil. Aegea provides clean water and sewage services throughout Brazil, with the goal of promoting universal access to these essential services.

The manager, through in-house climate research, determined that the rising probability of droughts and seasonal rainfall variability will increase water scarcity in some of Aegea's operating regions. The analysis, which was shared with the company, focused on Aegea's concentration of operations in the southern part of the country which was more exposed to physical climate risks.

During this engagement, management acknowledged these hydrological risks and hired a weather-forecasting consultant to improve their climate modelling. Aegea informed the Plan's manager that they have taken steps to reduce water loss, including repair and replacement of water networks and installation of water-pressure meters across its network. The company also claims that its geographic diversification, including 43 operations across 154 municipalities, partially mitigates this risk.

The manager continues to monitor and engage with the company on this topic on an ongoing basis and seeks to understand how effective the measures taken by then manager to mitigate water scarcity have been.

Mandate: Emerging markets debt
Company: US Utility
Engagement: Physical climate risk

One of the Plan’s credit managers has been engaging with US Utility, an underlying holding, over the last several years due to concerns regarding the composition of the company’s electricity generation portfolio. The manager identified that two of the company’s largest utilities generate c.30% of their electricity from coal.

The California insurance regulator has asked companies regulated in California to divest from utilities that generate more than 30% of electricity from coal. As such, the company was exposed to both stranded-asset risk (i.e., moving away from coal-based plants) and regulatory risk.

The manager has met with company management 3 to 4 times per year to discuss the following:

- *Regulation:* What will the company be doing to change the composition of the electricity generation portfolio?
- *Green bonds*: Should the Company consider issuing green bonds to finance projects?
- *Stranded Asset risk:* What is the strategy for managing stranded asset risk when taking on the ambition to transition away from coal-based plants and towards renewable plants?

As a result of this engagement, the company has now increased the transparency of the disclosures provided to investors, has set a target to exit coal generation by 2040 and defined a strategy for achieving this.

Mandate: Diversified growth fund
Company: Amazon
Engagement: Disclosure on approach to human rights

One of the Plan’s DC managers has been engaging with Amazon, both independently and collaboratively to discuss the company’s approach to human rights.

The shareholder resolution that the manager supported at the company’s annual general meeting in 2021 asked for the company to include information on their approach towards civil rights, diversity, and inclusion within their reporting to investors. Ahead of the 2022 annual general meeting, the manager engaged with the company to make some specific requests to better understand the company’s latest progress on key social topics.

The company explained they published their Human Rights Impact Assessment (HRIA), which sets out the human rights risks they identified. The company has also published their human rights commitment, policy, and practice, including freedom of association and collective bargaining. However, it was unclear whether there will be further reporting and the frequency of the assessment. The manager also asked the company about their intentions to provide additional information on the company’s gender/racial pay gap (which was requested at the 2021 annual general meeting). The manager continues to engage with the company throughout 2022, continuing to press for improvements in practices and disclosure in relation to human rights.

Mandate: Global impact bond fund
Company: Danfoss
Engagement: Engagement on net zero strategy

In late 2022, one of the Plan’s credit managers engaged with Danfoss, a private Danish developer and manufacturer of heating, ventilation, and air conditioning (“HVAC”) products, with more than 50% of its products aimed at increasing energy efficiency and lowering greenhouse gas (“GHG”) emissions. The company advocates for increased energy efficiency as a critical tool for accelerating the green transition.

The manager has had exposure to Danfoss within the fund managed on behalf of the Plan since 2021. Through engagement, the manager discussed with the CEO the Company’s approach for achieving their net zero ambitions and helped them formalise the parameters of their net zero strategy. Danfoss then defined its first Sustainability Roadmap in 2022, which detailed ambitious Scopes 1, 2 and 3 emissions-reduction goals and a target of net zero emissions in its global operations by 2030. The manager also encouraged Danfoss to implement science-based targets (“SBTs) requirements for its suppliers to support decarbonisation efforts for the wider supply chain. The SBT framework is viewed as the best practice approach for defining a net-zero target and for measuring decarbonisation commitments. Moving forward, Danfoss would like to focus on disclosing Scope 4 data (emissions avoided). This data would be particularly relevant, given most of its’ products help consumers save energy.

Overall, the manager’s engagements with Danfoss helped the company define their net zero strategy. The manager will continue to emphasise the value of adopting SBTs across the company’s supply chain.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issues

Context

One of the Trustee's ESG beliefs is specifically focused on collaborative engagement as part of the Plan's wider stewardship approach:

7	**Stewardship**	We should participate in collaborative initiatives to strengthen our own voice and leverage our impact.	Join industry wide participation initiatives as appropriate and encourage managers to be active participants in groups as relevant.

Activities and outcomes

The Chair of the Trustee continues to be a member of the Accounting for Sustainability ("A4S") Asset Owners Network, which is an arm of the Prince of Wales Charitable Foundation with a remit to embed sustainability into the financial sector.

The A4S Asset Owners Network is a grouping of chairs of pension funds, their pooling partners, investment committees and endowments. Covering both defined benefit and defined contribution schemes from multi-employer and large single employer schemes within both the private and public sector. As part of this work A4S collaborate with asset owners to get investor input through networking, working parties and other events. A4S holds four regular meetings per annum, with additional meetings on specialist topics (e.g., a Biodiversity seminar led by a specialist from the University of Cambridge was recently organised).

The focus of the A4S Asset Owners Network is on the role of pension fund chairs and trustees and how they can adapt to, and scale up adoption of, good practice. The Networks' purpose is to:

- Enable members to come together to discuss environmental, social and governance (ESG) considerations in a confidential and informal setting, observing the Chatham House Rule.
- Translate this dialogue and debate into focused and measurable group and individual action. The objective is to help to deliver a sustainable financial system capable of supporting the achievement of the Paris Agreement and wider UN Sustainable Development Goals.

In addition to representing the Plan on A4S, the Chair of the Trustees is active in the industry, appearing as a speaker and/or panellist across several ESG industry forums and initiatives. The work done as part of this and the relationships that the Chair has built have in turn helped the Plan when discussing ESG priorities, ambitions, and good governance practices. By way of example, the Chair is a regular speaker and panellist at "Pensions for Purpose" and Institutional Investor events, whilst the Chair was also a speaker at the Annual European Investment Roundtable in Copenhagen last September.

All IC members regularly attend various investor forums, seminars and webinars that are focused on sustainability (and wider investment topics), assimilating knowledge that they leverage in their role as Trustee Directors of the Plan. One member of the IC also leads the Sustainability Investments practice for a global asset manager and has been part of several industry initiatives over the period, including the MIT Joint Program on the Science and Policy of Global Change and the Woodwell Climate Research Center, which hosted seminars on physical climate risk and biodiversity.

The Trustee is committed to further increasing industry engagement and collaboration over time, targeting those initiatives most relevant to the Plan, recognising that the Trustee has a finite governance budget that should be used in the most effective way. The Plan actively encourages its underlying investment managers and service providers to participate in collaborative engagements and industry wide initiatives as part of their role as active owners of the Plan's assets. Managers' participation in such projects is monitored by the Trustee as part of the annual sustainable investment review as outlined under principle 7. All managers are signatories of the United Nations Principles for Responsible Investment ("PRI"). All but one of the Plan's managers are now signatories of the revised FRC Stewardship Code and produce TCFD-aligned climate disclosure reporting.

Collaboration Case Study
Mandate: Buy and maintain credit
Company: 3M (chemical sector)

One of the Plan's credit managers, in the DB section, has been a member of the Investor Initiative on Hazardous Chemicals (IIHC) since the end of 2022, which is coordinated by Aviva and Storebrand and supported by ChemSec. The goal of the initiative is to encourage chemical companies to increase transparency and stop the production of persistent chemicals that are resistant to degradation in the environment. 3M is one of the companies targeted by the collaborative engagement initiative. The engagement initiative is organised in sub-groups of investors with each sub-group being responsible for engagement with specific target companies (i.e., conducting calls with companies, preparing questions, analysing responses).

The Plan's manager is a member of the sub-group of investors engaging with 3M and is actively participating in preparation of calls with the company to be held in 2023. This engagement with 3M is structured around several issues:

- the current involvement of the company in the per- and polyfluoroalkyl substances ("PFAS") -related controversies in the US,
- the global use by the company of hazardous substances in its products,
- the strategy related to phasing out of PFAS and other persistent chemicals, and
- the company's strategy to review its product portfolio (with the goal to reach a more sustainable mix of products).

The credit manager continues to engage with 3M around the issues identified and is looking to observe progress across the company's operations.

Collaboration Case Study
Mandate: Passive equity
Initiative: Finance Sector Deforestation Action

The Plan's passive equity manager has joined the Finance Sector Deforestation Action ("FSDA") initiative in response to the commitments made at COP26 to align the financial sector with a Paris compliant 1.5°C transition pathway. This initiative commits the manager to eliminate, using best efforts, agricultural commodity-driven deforestation from investment portfolios by 2025. Best efforts include publicly reporting on progress and incorporating engagement outcomes into investment decisions. The Plan's manager has taken the lead on four engagements with companies in the deforestation critical sectors identified by the FSDA. The manager will continue working with other investors and invested companies to accelerate progress in key sectors.

Collaboration Case Study
Mandate: Passive equity
Company: Sainsbury

In Q1 2022 one of the Plan's DC managers, collaboratively engaged alongside other asset owners and asset managers, co-filing a shareholder resolution calling on Sainsbury's to become a living-wage accredited employer. The manager decided to co-file this resolution because of Sainsbury's decision to split its London employees into 'inner' and 'outer' London, with those in 'outer' London paid less than the real living wage.

The manager believed that the rate differential between 'outer' and 'inner' London would make a material impact on the affected employees' ability to meet the demands of the cost-of-living crisis. In April 2022, Sainsbury announced that it would increase the wages of their 'outer' London employees to match their 'inner' London employees. The manager will continue to engage on income inequality with companies in the future.

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

Context

The Trustee believes that the management of ESG risks can enhance value and promotes the proactive management of ESG risks amongst the assets in which the Plan invests and delegates engagement to the Plan's underlying investment managers.

The Trustee's expectations of the Plan's investment managers' approach to stewardship are set out in the Plan's SIP:

- Sustainable investment factors, including environmental, social and governance (‘ESG’) considerations, are considered in the context of the Plan’s broader risk management. The Trustee believes that companies that manage ESG risks effectively can protect and enhance value by, for example, avoiding risks to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff.

- The Trustee also believes that the explicit integration of sustainable investment factors into its investment process provides opportunities to increase expected financial returns and to have a positive environmental and social impact, as well as encouraging better governance practices in investee companies. Therefore, the Plan wishes to promote the proactive management of ESG risks and opportunities amongst the companies in which the Plan invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process, and also to exercise their voting rights and undertake positive engagement with investee companies.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will consider terminating and replacing the manager. A similar process is a carried out when considering the appointment of a new investment manager.

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

In 2022, the Trustee articulated their views with regards to stewardship within a policy document, setting out the Plan's statement of intent with regards to exclusions and engagement. Whilst the Trustee does not seek to impose constraints on the Plan's investment managers, it is expected that managers take appropriate action if certain exposures start presenting material investment, regulatory or reputational risks. The Trustee have a robust monitoring framework, whereby the engagement and exclusions approach adopted by the Plan's underlying investment managers is monitored on an ongoing basis.

Activities and outcomes

The Trustee monitors the stewardship activity undertaken by the Plan's investment managers through the annual sustainable investment review outlined in more detail under principle 7, which includes assessing managers' approach to: collaborative engagement, their processes, and internal resources for undertaking corporate engagement across all asset classes and changes to the managers' engagement policy and case studies of notable corporate engagement.

Looking forward, the Trustee have the following priorities to enhance their approach to engagement over 2023:

- One of the Trustee's key ambitions has been to work with the Plan's investment managers to improve data quality and to promote transparency regarding carbon footprint exposures across the industry. Over time, the Trustee expects methodologies to evolve and industry standards to emerge to reflect improvements in data coverage. The Trustee will continue engaging with underlying investment managers in respect of data coverage and quality to understand limitations within specific funds.

- Focus engagement and stewardship efforts to asset classes that are likely to shape up the investment strategy of the Plan going forward. In particular, the Investment Consultant will increase focus of the net-zero research and effective engagement towards mandates that are likely to have a longer lifetime within the Plan (e.g., buy & maintain credit mandates).
- In time, the Trustee will consider appointing a third-party provider to carry out additional stewardship activities across the portfolio, beyond the Plan's equity managers
- Further engage with the Plan's active equity manager to discuss any updates to their approach for integrating sustainability considerations within investment decision making and seek evidence of this.
- Further engaging with wider industry initiatives, in particular biodiversity and the requirements of the Taskforce on Nature-related Financial Disclosures ("TNFD").

Escalation case study
Mandate: Active equity manager
Company: Capitec

In the first half of 2022, one of the Plan's active equity managers escalated a compensation related issue with an investee company, Capitec, a South African bank. The company was seeking shareholder approval to reset management KPIs because COVID provisioning had meant management were unlikely to meet their prior targets.

The company's argument was that provisions were likely to be reversed given performance during COVID could already be seen to be recovering. As such, the company believe that they would be unfairly penalising management for not achieving their KPIs over what was a difficult year that systemically impacted the economy.

The manager discussed concerns with the company's Chairperson, Head of the Remuneration Committee, Lead Independent Director, CEO and CFO. Although the manager was sympathetic to the company's arguments, they ended up voting against the motion. Ultimately the manager believed that changes in compensation plans represented poor practice in this situation. Later in the year the manager followed up with another meeting with the Chairperson which focused again on compensation as well as other issues such as climate, diversity, and financial inclusion.

Escalation case study
Mandate: Emerging markets equity manager
Company: Capricorn

The Plan's manager engaged with an invested company, Capricorn, in response to a proposed merger with an African-based oil company in June 2022. The manager felt that the increased financial leverage and elevated climate transition risks the potential transaction posed would have a negative impact on the company's shareholders, as well as failing to advance the energy transition strategy. The engagement initially failed, as Capricorn decided to proceed with the merger, until a decision was later taken by the company itself to abandon the merger due to a range of external factors and volatile market conditions.

A second planned merger was later announced with an Israeli-based natural gas producer, again met with concerns from the Plan's manager. In response to the sequence of unpopular proposals and growing concerns about the company's governance, the shareholders called for an Extraordinary General Meeting (EGM) to be held in January 2023 to discuss the restructuring of the board. The Plan's manager believes that a change in governance structure and leadership was required. The company announced the resignation of the seven directors who were proposed to be removed, and in the shareholder EGM, a new Board was elected. The newly constituted Board conducted a comprehensive strategic review of Capricorn's business and potential directions for the future, with a priority given to the planned transaction. Following this review, and given shareholders' views, it was agreed to terminate the planned merge.

Section D – Exercising rights and responsibilities

Principle 12 – Signatories actively exercise their rights and responsibilities

Context

The Trustee invests primarily in pooled funds across the Plan's listed equity exposure. The Trustee's policy is to delegate voting decisions to the Plan's underlying investment managers, as outlined in the Plan's SIP:

- *The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and expects the managers to exercise those rights.*

The Plan's investment managers have reviewed the Trustee's policies and have confirmed their management of the Plan's assets are aligned with the Trustee's policies as outlined in the SIP.

Activities and outcomes

Equity assets

As part of the annual sustainable investment review the Trustee reviews the managers' voting polices and approach to voting. This includes managers' voting process and whether the manager takes responsibility for determining voting decisions or whether these decisions are delegated to a proxy voting service provider.

For the Plan's managers which invest in listed equities voting data is reviewed by the Trustee annually and made publicly available in the Plan's implementation statement. The implementation statement is included in the Plan's annual reports and accounts.

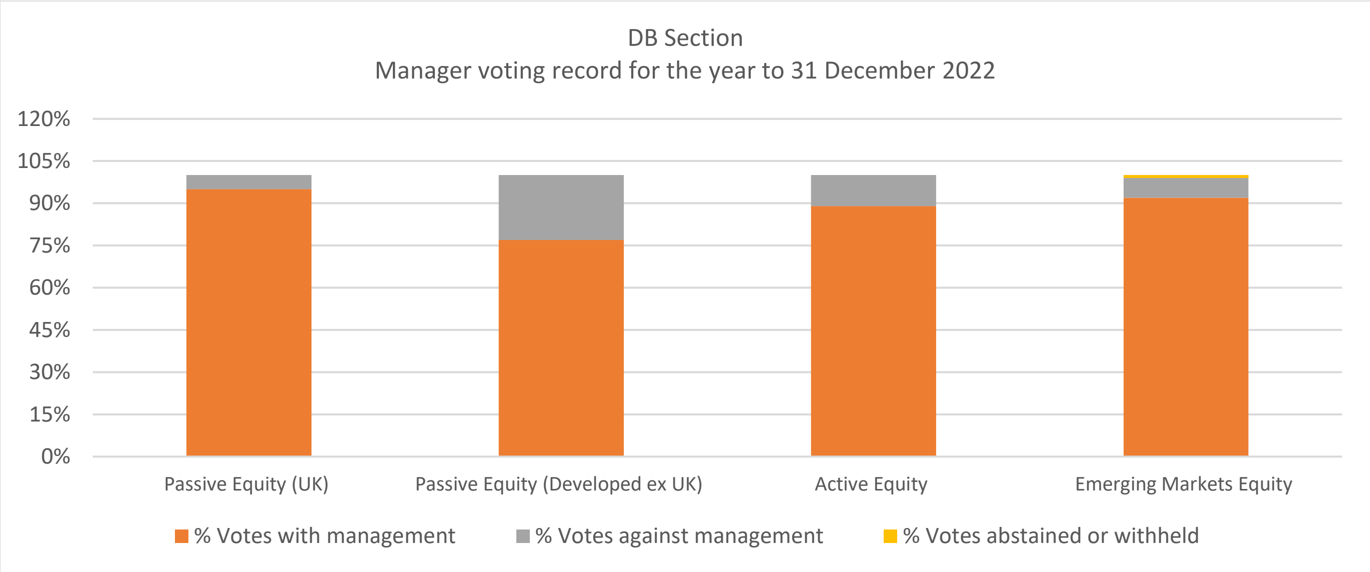
The Trustee reviews each of its equity managers' voting policies on an annual basis. A summary of the Trustee's view is set out below – the Trustee is satisfied that each of the managers' policies is fit-for-purpose. Each of the managers also uses Institutional Shareholder Services (ISS) as a proxy advisor service to augment their own research.

The IC monitors the voting carried out on the Plan's behalf on an annual basis, as part of the Plan's manager sustainable investment review, and this topic is also covered as part of regular manager presentations. In Q2 2022, the Trustee carried out a review of the Plan's passive equity manager's stewardship approach, including of their voting record over a 12-month period. This involved analysing how frequently the manager voted against company management, split by subject matter, region, and geography. Analysis of voting records on all equity managers is also performed as part of the annual update of the implementation statement.

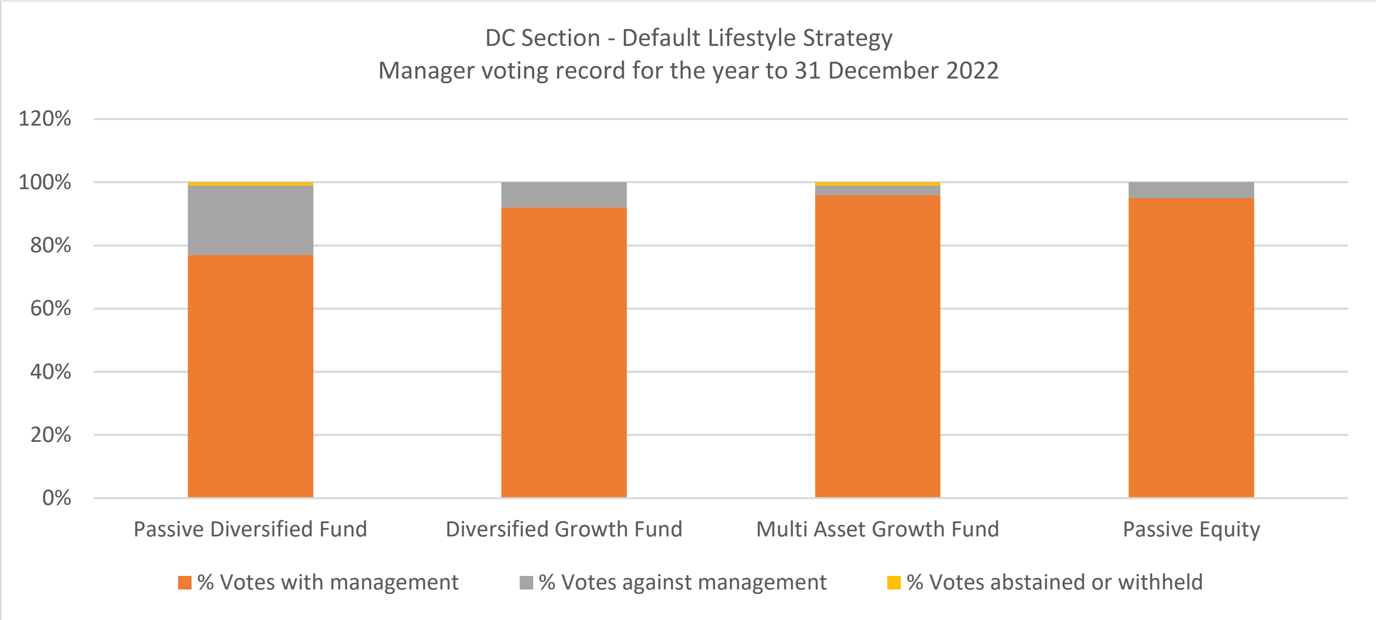
Passive equity	The firm's voting policy is publicly disclosed and includes beliefs on voting for a wide range of ESG-related issues. The priority of their voting policies is to cover key issues which are essential for the protection of companies, shareholders, and stakeholders; these include key minimum ESG standards. The manager's voting record is robust compared to other index managers with progressive voting activity in areas such as shareholder resolutions on diversity, climate, political activities, and chair independence. The manager has good timeliness of disclosure and transparency on voting data which includes detailed rationales. They are ahead of peers in this area. The manager continued to evolve their voting policy over 2022 to hold companies in deforestation-critical sectors to account for meeting the manager's minimum standard regarding action on deforestation. Company management is typically informed of the rationale, post voting, for decisions made to vote against or abstain from the motion.

Active equity (1)	This firm's voting policy is publicly disclosed and includes beliefs on voting for a wide range of ESG-related issues. The manager's voting policy is based on the AMNT red lines which are applied globally. The manager reviews the Red Lines annually and makes any changes they believe are relevant based on their experience from applying the Red Lines All votes are exercised where feasible and firm-level voting activity and voting history is disclosed publicly. Company management is typically informed, in advance, of the rationale for decisions made to vote against or abstain from the motion.
Active equity (2)	This manager's voting policy is publicly disclosed and includes beliefs on voting for a wide range of ESG-related issues The manager's voting framework includes the following key steps: • Materiality: Consideration of whether the resolution is focussed on an issue that is material to the best interest of clients. • Prescription: Analysis of whether the resolution is over prescriptive and whether the resolution is worded to give the company the ability and capacity to select the strategy and implementation method it considers will achieve the resolutions intended outcome. • Active insight: Consideration of the extent to which the current business and financial situation at the company makes the resolution valuable to support.

The voting record for the Plan's DB and DC sections is highlighted below:



Fund	Passive Equity (Developed ex UK)	Passive Equity (UK)	Active Global Equity	Active EM Equity
Eligible votes cast	**100%**	**100%**	**100%**	**100%**



Fund	Passive Diversified Fund	Diversified Growth Fund	Multi Asset Growth Fund	Passive Equity
Eligible votes cast	100%	99%	96%	100%

Resolution Case Study
Mandate: Emerging markets equity
Company: NetEase
Resolution: Management – Election of a Director
Manager stance: Voted against

One of the Plan's equity managers has been engaging with the Chinese gaming company, NetEase, on corporate governance and other ESG topics such as human capital management. The main concern identified was around board composition, namely around the fact that 80% of the board was represented by long-serving independent directors with over 15 years of tenure. The manager believes that regular board evaluations are necessary to ensure that independent views are considered and that the changing demands of customers, investors and other stakeholders are suitably reflected.

With only one female independent director in the past 15 years, the lack of diversity was another issue identified. As a member of the 30% Club Hong Kong Investor Group, the manager supports the aspirational target of at least 25% women on the board by 2025, and 30% by 2028 for all Hong Kong-listed companies.

The manager initially met with the CFO prior to the 2021 annual general meeting to voice concerns, suggesting the company conduct an external board evaluation. The manager voted against the nomination of the then chair of the committee to express their board governance concerns and wrote a follow-up letter to the founder and CEO to communicate their corporate governance expectations.

Without seeing any meaningful progress on board refreshment at the 2022 annual general meeting held on June 16, 2022, the manager further escalated engagement by voting against all long-serving independent directors. The company acknowledged the concerns on June 30, 2022. NetEase announced the appointment of a female independent director with an auditor background, raising female representation on the board to 33%. The manager continues to engage with the company for more board refreshment and board diversity in other aspects.

Resolution Case Study
Mandate: Active Equity
Company: Unilever
Resolution: Corporate restructuring
Manager stance: Voted against

In 2022, Unilever Plc, an underlying holding in the Plan's active equity manager's portfolio, proposed to acquire GlaxoSmithKline Plc's consumer healthcare business. The manager believed that this transaction would not have been in the shareholders' best interests. Consequently, the manager wrote to the CEO and Chairman to raise concerns regarding the proposed acquisition and management strategy more broadly. Following several similar concerns raised by other investors, Unilever withdrew their bid for this acquisition.

The manager then had a follow-up call with the CEO to discuss the Company's future strategy plans. Given the lack of clarity around business strategy and concerns around the Company's governance structure, the manager voted against the re-election of the existing Chairman. Furthermore, the manager voted against Unilever's proposed remuneration strategy due to issues concerning company performance that did not support the level of proposed compensation.

Non-Equity assets

As the response to Principle 7 details, the Trustee has the expectation that all managers of other assets within the Plan (i.e., credit, secure income assets, liability driven investments, diversified growth strategies) exercise their rights and responsibilities on behalf of their investors. The Trustee has adopted leading stewardship and engagement practices and expects that these are reflected within the approach adopted by the Plan's investment managers. The Trustee expects non-equity managers to engage with the companies they are exposed to on an ongoing basis, and drive change through individual meetings or through industry-wide collaborative engagement initiatives. As such:

- The Trustee expects managers to integrate ESG considerations into the selection and retention of issuers across the Plan's credit investments. Where the Plan has segregated credit accounts, the Trustee has engaged with managers around the use of green bonds or green gilts (for liability driven investments).

- Whilst the Plan's credit managers do not hold voting rights, the Trustee expects managers to engage with underlying issuers on ESG issues on an ongoing basis. As discussed in the response to Principle 7, the Plan's credit managers have made progress in developing their engagement approach over the year. *By way of example, as part of the presentation by the Plan's buy-and-maintain credit manager in Q4 2022, the manager produced a dashboard highlighting engagement with investee companies over the prior 12 months, whilst provided a case study of selling a position owing to ESG concerns*

- Alongside assessing the LDI manager's credentials in relation to sustainable investing, the Trustee seeks to gain an understanding of the LDI manager's policies and stewardship activities, and the due diligence undertaken with counterparties with which the manager enters derivative contracts on behalf of the Plan. *This area was covered in further detail as part of a presentation delivered by the Plan's LDI manager in Q2 2022.*

- The Trustee monitors developments adopted by the Plan's secure income assets managers via typically yearly meetings. The environmental and societal impact of the assets the Plan is exposed to forms a key part of these meetings, where the Trustee is looking for evidence that managers made progress with regards to integrating sustainability considerations within their investment processes. *As an example, the Plan's largest real estate manager focused on the regulatory landscape within the ground rents industry as part of a presentation to the IC in Q2 2022.*

Case Study
Mandate: Buy and maintain credit
Company: Clarion

In 2022, the Trustee met with the Plan's buy and maintain credit manager to discuss their approach for integrating ESG considerations into investment decision making. One of the areas that was discussed was the quality of the ESG reporting and the data provided to investors. The Trustee is keen to engage with investment managers to improve data quality and to promote transparency regarding carbon footprint exposures across the industry and communicated this to the manager.

Subsequently the manager met with Clarion (an invested company) after they carried out due diligence on the reporting of their sustainability bond proceeds and finding that it did not meet their expectations for impact reporting.

The manager explained that they expected the issuer to provide more detailed information on the assets funded by the sustainability bond proceeds. Engagement is progressing, and the company was responsive to the managers' request for clearer reporting on both asset allocation and impact indicators for their sustainability bonds. The manager will follow up after the company publishes its' 2022 sustainability bond report to see whether they have been able to implement further changes. This activity is coherent with the investment manager's meeting with the Trustee and consistent with the Trustee's ambitions of improving ESG data quality and promoting transparency.