Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year to 31 March 2023.

This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by The Pensions Regulator.

Investment Objectives of the Group

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. An excerpt from the SIP describing the objectives that have been in place during the year covered by this statement is provided below:

The Trustee's objective is to invest the Group's assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of objectives to help guide the strategic management of the assets and control of the various risks to which the Group is exposed. The Trustee's primary objectives are set out below:

- *To ensure the Group's obligations to its beneficiaries can be met;*
- *To achieve an asset return above the return from gilts over the longer term, whilst recognising the need to balance risk control and return generation;*
- *To ensure consistency between the Group's investment strategy and the return assumptions used by the Group Actuary;*
- *To pay due regard to the Company's interests in the size and incidence of employer contribution payments.*

The Trustee has decided to implement a Cashflow Driven Financing ("CDF") strategy as part of a package of investment, funding and security measures.

A CDF strategy involves purchasing a range of income generating credit instruments to match projected benefit outgoings. The focus is on choosing investments with the right cashflow profile and a low probability of loss.

The intention is that the liability discount rate is set equal to the estimated yield on the asset portfolio less a margin for losses (for example due to defaults), manager fees and other costs. This discount rate will then broadly vary in line with market conditions (i.e. it will be 'dynamic' in nature), and as such the funding position is expected to be relatively stable. Any funding deficit will therefore need to be rectified via cash contributions and/or from asset outperformance.

Statement of Investment Principles (SIP)

The Trustee takes advice from its investment consultant, Mercer Limited ("Mercer") on the preparation of the SIP. The SIP in place during the year was the SIP reviewed and agreed at the Trustee Board meeting held on 9 March 2022. Following this review, no amendments were made to the SIP over the period to 31 March 2023, as no changes were made to the Group's investment strategy or policies over this period.

Policy on ESG, Stewardship and Climate Change

The SIP includes the Group Trustee's overarching policy on ESG considerations, stewardship, and climate change. This policy sets out the Group Trustee's beliefs on ESG and climate change and the processes followed by the Group Trustee in relation to voting rights and stewardship. This was reviewed as part of the Group Trustee's review of the SIP in March 2022.

In order to establish these beliefs and produce this policy, the Group Trustee has undertaken training provided by the Group's advisers which covered ESG factors, stewardship and climate change. Following an initial beliefs survey in 2019, in 2021 the Group Trustee carried out a further beliefs survey, designed to assist the Group Trustee with reviewing and updating its policies in this area. The Group Trustee keeps the policies under regular review, with the SIP subject to review at least annually.

In order to establish these beliefs and produce this policy, the Group Trustee has undertaken training provided by the Group's advisers which covered ESG factors, stewardship and climate change. In 2019 the Group Trustee also carried out a beliefs survey designed to assist the Group Trustee with establishing its policies in this area. The Group Trustee keeps the policies under regular review with the SIP subject to review at least annually.

Policy on Environmental, Social, and Governance (ESG) matters, Stewardship and Climate Change

The SIP includes the Trustee's overarching policy on ESG considerations, stewardship, and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was reviewed as part of the Trustee's review of the SIP in March 2022.

In order to establish these beliefs and produce this policy, the Trustee undertakes training provided by the Group's advisers which covers ESG factors, stewardship and climate change. Following an initial beliefs survey in 2019, in 2021 the Trustee carried out a further beliefs survey, designed to assist the Trustee with reviewing and updating its policies in this area. The Trustee keeps the policies under regular review and will undertake a beliefs survey at least every three years to ensure the policies remain appropriate.

ESG Policy and Engagement Activity During the Year

The following work was undertaken during the year to 31 March 2023 relating to the Trustee's engagement activity on ESG factors, stewardship and climate change. This summary also documents how the Trustee's engagement policies were followed and implemented.

Activity	Date	Details
Climate metrics review	8 June 2022	The Group's Investment Sub-Committee (ISC) reviewed climate related metrics for the Group's investments, including (where available): - Absolute greenhouse gas emissions - Carbon footprint - Weighted Average Carbon Intensity - Portfolio temperature alignment - Climate value at risk - Data quality This assisted the Trustee, via the ISC, with identifying and monitoring climate related risks. The analysis also provided a means for engagement with the investment managers, for example to discuss any gaps in the data.
Climate scenario analysis	7 September 2022	The Trustee commissioned scenario analysis in order to assess how resilient the investment strategy may be under different possible climate outcomes, in terms of temperature warming. The modelling considered both a "rapid transition" to a lower carbon world (average temperature increase of 1.5 C by 2100), and a "failed transition" (average temperature increase above 4.0 C by 2100).
Training Day	13 September 2022	The Trustee sets aside a full day annually for training. At the 2022 training day the Trustee Directors completed training on climate change, which included regulatory developments, consideration of different types of climate risk, and how these risks (and opportunities) may impact the Group's investments, its liabilities, and the employer covenant. The Trustee Directors also received training on the Pensions Regulator's Single Code (now renamed the General Code) which included aspects that related to ESG matters, such as the need to establish and operate an "effective system of governance" (ESOG) that captures ESG factors.

<table>
<tr><th>Activity</th><th>Date</th><th>Details</th></tr>
<tr><td>Manager meetings</td><td>30 November 2022</td><td>The Investment Sub-Committee (ISC) met with the Group's investment managers appointed, at a meeting dedicated to engagement with the managers, outside of "business as usual" activity. At the meetings, each manager discussed how they integrate ESG factors in their process and portfolio. Specifically:

- For the Liability Driven Investment (LDI) portfolio, which invests primarily in UK Government bonds, the investment manager outlined its climate risk assessment for the Government, including legally approved carbon budgets and the pathway to reaching "net zero" greenhouse gas emissions by 2050.
- In respect of Buy & Maintain corporate bonds, the manager discussed its engagement approach to working with bond issuers on ESG matters, including case studies and examples of where ESG factors had influenced investment decisions.
- For the Secured Finance mandate, the manager was open about the challenges in accessing good quality data to assess ESG factors, as a detailed understanding of the loan originator, underlying collateral and structure was required. However, the manager was still able to describe how ESG analysis formed part of each stage of the research process, including "green certification" for certain bonds, how the underlying company issuing the bond treats its workforce and customers, and governance structures and controls.

The managers also discussed the metrics used to identify and manage ESG related risks (such as carbon emissions, board diversity, and investee company labour practices).

New investment opportunities in this area were also reviewed, including the use of "green bonds" in bond mandates, which the investment managers have the freedom to invest in.

The ISC articulated to the investment managers its objectives as regards engagement as part of these meetings.</td></tr>
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Activity	Date	Details
Exclusions Policy	June 2022 to February 2023	The Trustee, initially via the ISC, explored whether it would be appropriate to exclude certain sectors / companies from the Group's Buy & Maintain corporate bond mandate on ESG grounds. Considerations included the impact on risk and return expectations, alignment with the Group's ESG policies, and the timing and potential cost of any implementation of exclusions. Following receipt of professional investment advice, the Trustee agreed to put in place exclusions such that the types of companies below will not be permitted within the portfolio: – Companies involved in the manufacture and production of controversial weapons. – Perennial violators of the United Nations Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies. – Companies involved in mining and extraction of thermal coal, thermal-coal-power generation and oil sands (generating 20% or more of revenues from these activities). – Certain companies considered by the investment manager to be failing to meet minimum standards on climate change transition planning, including "red lines" such as not having an operational greenhouse gas emissions target, or not having any plans for coal phase-out. The exclusions were implemented in February 2023.
Climate targets	7 December 2022	The Trustee considered setting a climate-related target for the Group at a series of meetings during the year. At the December ISC and Board meetings, having taken professional investment advice on the suitability of different possible targets, the Trustee agreed to set a target of attaining "net zero" emissions for the Group's investments by no later than 2050. The rationale for this target is that the Trustee believes that limiting global average temperature increases this century to well below 2°C, as per the 2015 Paris Agreement, is aligned with good outcomes for the Group. A net zero target helps to do this, and the Trustee will work with its investment managers to develop and monitor a roadmap to net zero.
Member infographic	January 2023	The Trustee prepared an "infographic" communication for our members, which summarises the ESG and engagement activity conducted by the Trustee on members' behalf. The Trustee welcomes feedback from members and a number of channels are available for members to get in touch.

Activity	Date	Details
ESG workplan	At least quarterly throughout the year	During the year the Trustee maintained an ESG project plan, in order to ensure that all ESG related work was progressed appropriately. The project plan dashboard includes a "RAG" (red / amber / green) status tracker, details of activity completed since the last update, upcoming activity, and information on any emerging risks. This assists the Trustee in its governance of ESG related risks, and allows for the identification of any potential opportunities.
ESG monitoring	Quarterly throughout the year	The Group's investment performance report is reviewed by the Trustee each quarter and includes ratings (both general and specific to ESG) from the investment adviser. Any deterioration in ESG ratings would be considered as a prompt to review an investment mandate. No such deterioration was experienced during the year. The Trustee maintains a risk register which includes ESG risks. An annual detailed review of the risk register is completed (during the year, the annual review took place in November 2022), and the Board and Sub-Committees review the relevant risks at quarterly meetings. The Trustee has put in place an addendum to the risk register entirely focused on ESG and Climate Change, in order to ensure appropriate risk identification, monitoring, and management is in place.
Engagement with Sponsor	12 July 2021 and 8 December 2021	The Group Trustee met with the sponsoring employer's Chief Financial Officer on 12 July 2021 to receive an update on business performance. Part of this presentation covered the employer's corporate responsibility approach and in particular its environmental policies and practices. This included: - Details of the employer's net zero commitments. - Commitments to the "green recovery". - Approaches to recycling capital and renewable energy. Additionally, at a meeting on 8 December 2021 a sub-group of the Group Trustee Board met with the Carbon Technical Specialist at the employer, to receive a detailed presentation on ESG and the employer's strategy on carbon reduction. These meetings helped the Group Trustee Board to assess the potential covenant risks and their mitigations in relation to ESG issues, and to identify areas of alignment with the employer's approach.
ESG monitoring	Quarterly throughout	The Group's investment performance report is reviewed by the Group Trustee each quarter and includes ratings (both general and specific to ESG) from the investment adviser. Any deterioration in ESG ratings would be considered as a prompt to review an investment mandate. No such deterioration was experienced during the year.

Voting Activity During the Year

The Trustee has delegated any voting rights to the investment managers and does not use the direct services of a proxy voter.

In practice, as the Group's investment strategy includes investment in only liability driven investments and fixed income assets, with no equity exposure, it is extremely rare for voting rights to be held. As such there has been no material voting activity during the period.

Engagement Activities

The Group does not invest in equities or similar assets that have voting rights attached. However, the Trustee expects its investment managers to engage with issuers of bonds and other counterparties, where the Group has exposure to these parties in the investment portfolio.

The Trustee has set its stewardship priorities as follows:

- Climate change
- Labour practices and standards
- Corporate governance, for example board quality and shareholder / bondholder rights.

These priorities have been set based on their financial materiality as regards long term returns and risks.

The following disclosures provide examples of engagement activities undertaken by the investment managers on these priorities.

LGIM (Buy & Maintain Credit and Liability Driven Investment Manager for the Group)

Company / Asset: Microsoft

Issue: Microsoft re-combined its Board Chair and Chief Executive Officer (CEO) roles, having previously separated them for several years. LGIM considers this to be sub-optimal, and instead believes that the roles of Chair and CEO should be separated. The concentration of power in the hands of a single individual brings dominance risks, and in LGIM's view the two roles require different skill sets and areas of focus.

Engagement / analysis undertaken: LGIM conveyed their disappointment at this governance change to Microsoft, and met with the company twice over a twelve month period. Despite this engagement, Microsoft went ahead with the shared role, and as such LGIM used voting rights held in respect of assets across their wider business to vote against the lead independent director and nomination committee chair. LGIM continue to engage with Microsoft, and others, to raise their governance concerns on joint Chair / CEO roles.

Insight (Secured Finance Investment Manager for the Group)

Secured finance investments typically involve assets being held in a special purpose vehicle, legally distinct from the finance originator. ESG risks are linked to the structure and the underlying collateral behind each investment, and in many cases the finance originator may be unable to access ESG information as the collateral assets could be very remote and dispersed across multiple parties (e.g. secured on credit cards, or car finance).

With these challenges in mind, Insight focus their engagement activities on a range of parties – not only the finance originators, but also other industry participants and regulators. An example relating to an investment in the Group's portfolio is provided below.

Company / Asset: Financing energy efficient residential property development in Sweden

Issue: This investment was to provide a lending facility to a specialist digital platform in order to finance residential property developments in Sweden.

Engagement / analysis undertaken: The investment manager notes that Sweden has high benchmarks for new residential projects, with every project needing a climate impact declaration along with an energy efficiency declaration. Insight engaged with the company to create specific requirements for Insight's lending through the platform, seeking to incentivise the origination of more energy-efficient projects. While the minimum standard in Sweden for new residential projects is high, Insight sought to incentivise projects that materially exceed the minimum requirements.

The outcome agreed was that Insight's funding will finance projects with an energy efficiency at least 20% above the minimum standard. Any project which achieves energy consumption of less than or equal to 50kwh/m2 will receive a discount on the margin applicable for that project on the Insight financing. Through these requirements, the investment manager can directly, measurably and financially invest in the origination of more energy efficient projects.