

Regarding the Scheme's LDI mandate, LGIM are instructed to target an interest rate and inflation hedge ratio of 45% of the liabilities on a Gilts +0.5% per annum basis, which is approximately equivalent to 60% on the Scheme's Technical Provisions basis. Note, the hedging target allows for interest rate sensitivity from the Scheme's corporate bond mandate.

The passive Equity funds aim to track their respective benchmarks within reasonable trading tolerances in 2 years out of 3.

### 2.3.2 Assets managed by Nordea Investment Funds S.A.

The performance objective for the Alpha 10 MA Fund is to outperform cash by 5% to 7% over 3-year rolling periods.

## 2.4 Pooled investment assets

The market values based upon bid value prices, and distribution of the Scheme's pooled investment assets at the end of the Scheme year are shown in the table below.

Value at 5 April 2022 (£)	£	%	Benchmark %	Value at 5 April 2021 (£)	£	%	Benchmark %
<b>Equities</b>	<b>13,190,184</b>	<b>48.5%</b>	<b>45.0%</b>	<b>Equities</b>	<b>13,649,403</b>	<b>52.0%</b>	<b>55.0%</b>
UK Equity Index Fund	4,811,795	17.7%		UK Equity Index Fund	4,943,963	18.8%	
World (ex. UK) Developed Equity Index Fund: GBP Hedged	7,427,126	27.3%		World (ex. UK) Developed Equity Index Fund: GBP Hedged	7,713,350	29.4%	
World Emerging Markets Equity Index Fund	951,263	3.5%		World Emerging Markets Equity Index Fund	992,090	3.8%	
<b>Diversified Growth</b>	<b>4,393,184</b>	<b>16.1%</b>	<b>15.0%</b>	<b>Diversified Growth</b>	<b>4,155,443</b>	<b>15.8%</b>	<b>15.0%</b>
Nordea Investment Assets Alpha 10 MA Fund	4,393,184	16.1%		Nordea Investment Assets Alpha 10 MA Fund	4,155,443	15.8%	
<b>Bonds</b>	<b>9,628,702</b>	<b>35.4%</b>	<b>40.0%</b>	<b>Bonds</b>	<b>8,434,777</b>	<b>32.1%</b>	<b>30.0%</b>
Active Corporate bonds	4,080,798	15.0%		Active Corporate bonds	3,615,235	13.8%	
Gilts - over 15 years	123,905	0.5%		Gilts - over 15 years	129,380	0.5%	
Leveraged Gilt Fund	1,775,761	6.5%		Leveraged Gilt Fund	1,866,521	7.1%	
Leveraged Index-linked Gilt Fund	2,884,897	10.6%		Leveraged Index-linked Gilt Fund	2,454,516	9.4%	
Index-linked Gilt Fund	159,557	0.6%		Index-linked Gilt Fund	113,134	0.4%	
Sterling Liquidity Fund	603,704	2.2%		Sterling Liquidity Fund	255,991	1.0%	
<b>TOTAL POOLED INVESTMENT ASSETS</b>	<b>27,212,070</b>	<b>100.0%</b>	<b>100.0%</b>	<b>TOTAL POOLED INVESTMENT ASSETS</b>	<b>26,239,623</b>	<b>100.0%</b>	<b>100.0%</b>

## 2.5 Trustees' policy in relation to rights attaching to investments

As the majority of the Scheme's investments are held in pooled investment vehicles, the Trustees have no control over any of the rights attaching to the underlying investments within those funds. If a matter of concern arises over the activities of one or more organisations in which the pooled funds are invested, then the Trustees may instruct the investment manager to vote in a particular way using the proportion of votes that the Scheme holds.

## 2.6 Engagement Policy Implementation Statement

The Scheme Trustees believe that environmental, social, and corporate governance ('ESG') factors may have a material impact on investment risk and return outcomes and that good stewardship can create and preserve value for companies and markets as a whole. The Scheme Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly

require explicit consideration. The Scheme Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues to the investment decision-making process.

The Scheme Trustees have given their appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. Where applicable, the Scheme Trustees expect the investment managers to exercise voting rights attaching to shares or securities and take account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. The investment managers are authorised to exercise discretion to vote as they think fit, but in doing so to reflect the best interests of the Scheme.

The Trustees consider how ESG, climate change, and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

The Scheme Trustees do not explicitly consult Scheme members when making investment decisions but do update Scheme members, typically on an annual basis, via newsletters on any changes to the Scheme's investment arrangements and also makes available a copy of the Statement of Investment Principles.

The Scheme Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities but may consider this in the future.

## **2.6.1 Engagement with investment managers**

The policy in relation to the Scheme Trustees' arrangements with their investment managers are set out below together with details of how, and the extent to which, the policy has been followed during the Scheme year.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their investment consultant and their investment manager, Legal and General Investment Management ("LGIM"), which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on 29 January 2020. Following this training, the Trustees discussed with their investment consultant to assist the Trustees with establishing their policy in this area. The Trustees have received further training in October 2021 from Mercer and LGIM in relation to ESG, climate change, and responsible investment. The Trustees keep their policies under regular review with the SIP subject to review at least triennially with the last review having taken place in July 2020, which incorporated stewardship regulations.

### **2.6.1.1 Incentivise the asset manager to align its investment strategy and decisions with the Trustees' policies**

In line with Section 3 of the Statement of Investment Principles, investment managers are appointed on the basis of their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Scheme Trustees look to their appointed investment consultant for their forward-looking assessment of an investment manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the investment manager's idea generation, portfolio construction,



implementation processes, and business management in relation to a particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Scheme Trustees and are used in decisions concerning selection, retention, and realisation of investment manager appointments.

If the investment objective of a particular fund changes, the Scheme Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the Scheme Trustees' wider investment objectives.

The Scheme's investment mandates with LGIM and Nordea Investment Funds S.A. ("Nordea") are reviewed following periods of sustained under-performance from their respective investment targets. The Scheme Trustees will review the appropriateness of using active and passive managed funds (on an asset class basis) on an ad-hoc basis.

As the Scheme Trustees invest the bulk of the Scheme's assets in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the investment manager but that appropriate mandates can be selected to align with the overall investment strategy.

#### **2.6.1.2 Incentivising the asset manager to make decisions based on assessments about medium- to long-term financial and non-financial performance of a holding company and to engage with holding companies in order to improve their performance in the medium- to long-term**

The Scheme Trustees will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Scheme Trustees' responsible investment policy. This includes the investment manager's policy on voting and engagement.

The Scheme Trustees meet with their investment managers at Trustee meetings as required and may challenge decisions that have been made, including voting history (in respect of equity investments) and engagement activity.

As set out in the SIP, the Trustees have elected to invest the Scheme's assets through pooled funds. This has the practical result that the extent to which the Trustees can directly influence the ESG policies and practices of the companies in which the pooled funds invest is limited. Of the Scheme's managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held directly (LGIM Equity Funds) or indirectly (Nordea Alpha 10 Multi-Asset Fund). The Scheme's Corporate Bonds and LDI Portfolio held with LGIM are credit and government bond mandates and therefore have no voting rights attached.

The Trustees going forward will review the Nordea and LGIM (Equity) mandates regularly, at least annually, in regard to their approach to ESG and their annual voting and stewardship activities over the year and ensure they remain comfortable the managers' engagement policies are in line with those of the Trustees. A summary of the managers' activity over the year to 31 March 2022 is detailed below:

- Nordea engage with investee companies (and vote) on various issues, such as shareholder rights, board composition, remuneration and risk management.
- Over the last year, Nordea has taken part in 131 ESG engagement cases in relation to the Diversified Growth mandate. In terms of climate-focused engagements, Nordea continue



to support investor-led initiatives that aim to improve climate-related disclosures, like the alignment with the Task Force for Climate related Financial Disclosures ("TCFD") recommendations (e.g., Air Liquide, Grupo Financiero Banorte, Danone). Other important themes in their climate-focused engagements continue to be centered around affordable and clean energy and water management, mainly in Pharma companies (e.g., Bayer, Amgen, Johnson & Johnson). Along with these topics, Nordea also had engagements related to "sustainability" and "life on land" like with Unilever, where they focused on TCFD reporting but also on their deforestation policies.

- LGIM's direct engagement with companies is a way they seek to identify ESG risks and opportunities. On-going dialogue with companies is a fundamental aspect of LGIM's responsible investment commitment. LGIM aims to raise the performance of the whole market through their ESG capability and engagement of companies globally.
- Over the last year, LGIM were eligible to vote on a total of 72,829 resolutions, voting on 72,717 resolutions (c.99.8% of all eligible votes) in relation to the three equity mandates managed by LGIM. In terms of climate-focused engagements, LGIM continued to hold directors to account for their management of climate risk and took action against 100 companies under LGIM's 'Climate Impact Pledge', the dedicated engagement programme on climate issues.

The investment performance report is reviewed by the Trustees on a bi-annual basis – this includes ratings (both general and specific ESG) from the investment advisers. All the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustees have discussed the reasons with the investment consultant. When implementing a new manager, they would consider the ESG rating of the manager. The investment performance report includes how each investment manager is delivering against their specific mandates.

The Scheme Trustees delegate all voting and engagement activities to the investment manager. When required, the Scheme Trustees will question investment manager's voting decisions if they deem them to be out of line with the investment fund's objectives or the objectives and policies of the Scheme.

Investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

When the investment managers present to the Trustees, the Trustees or investment consultant may ask the investment managers to highlight key voting activity. The Trustees do not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity on behalf of the Trustees is detailed below:

### **Legal and General Investment Management – Passive Equities**

It should be noted the information below is related to the three equity mandates managed by LGIM.

Key information on the votes undertaken over the prior year are summarised below:

- LGIM voted in 72,717 resolutions over the 2022 year.
- Of LGIM's total number of votes, c.82% were votes for the proposal with management and c.16.9% were against management. The remaining c.1.1% of the votes were split between withhold votes and abstained votes.
- Most votes in the past 12 months have been director and routine business related. Climate and ESG related votes contribute a small proportion of the overall votes for the year.

### **Nordea Asset Management – Diversified Growth – Active**

In terms of voting, Nordea votes both by proxy and by attending annual general meetings. Nordea's Funds utilise two external advisors; Institutional Shareholder Services and Nordic Investor Services. However, all voting decisions are those of Nordea; the external advisors only provide input and second opinion when prompted.

Nordea has an aggregated voting strategy, where it strives to vote for as large a part of its total holdings in any given company as possible.

Key information on the votes undertaken over the prior year are summarised below:

- Nordea voted in 2,296 resolutions out of a possible 2,296 (100% of voteable resolutions).
- Nordea aligned with management in c.86.7% of votes and voted against management in the remaining c.13.3% of votes.
- Most votes over the past 12 months have been director and routine business related, for both management and shareholder proposals.
- In relation to the ESG and climate related votes, Nordea voted in favour of a Report on Integration of ESG Metrics into Executive Compensation Program at Republic Services and a Report on Annual Climate Transition at Autozone. Nordea have continued to vote against ratifying the Executive Officer of Oracle's Compensation, again citing that bonuses and share-based incentives should only be paid when management reach clearly defined and relevant targets.

Over the prior 12 months, the Trustees have not actively engaged with the Scheme's managers on their voting activity. Going forwards, when investment managers present, the Trustees may be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change.

The investment manager is aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage the Scheme's assets. If the Scheme Trustees are dis-satisfied, they will reconsider the investment manager appointment and may replace them.



### **2.6.1.3 Align the evaluation of the asset manager's performance and the remuneration for asset management services with the Scheme Trustees' policies**

The Scheme Trustees receive investment manager performance reports on a six-monthly basis, which present the performance record over differing time periods: 6 months; 1 year; and 3-year periods. The Scheme Trustees review the absolute performance, relative performance in comparison to a benchmark or suitable independent market index, and against the investment manager's stated tracking error (over the relevant time period).

If the investment manager is not meeting their investment objectives, the Scheme Trustees may review the mandate and the annual management charges levied by that particular manager. The Scheme Trustees did not review any of the investment manager appointments during the Scheme year.

### **2.6.1.4 Monitoring portfolio turnover costs incurred by the asset manager**

The Scheme Trustees receive MiFID II reporting from each of their investment managers but do not analyse the information.

The Scheme Trustees do not currently monitor portfolio turnover costs but may look to do so in the future.

### **2.6.1.5 The duration of the arrangement with the asset manager**

The Scheme Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

The funds in which the Scheme's assets are invested are open-ended funds and therefore there is no set duration for the investment manager appointments. The Scheme Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or asset manager; or
- The investment manager appointment has been reviewed and the Scheme Trustees have decided to terminate that appointment.

## **2.7 Employer-related investments**

During the year the Scheme had no employer-related investments within the meaning of Section 40(2) of the Pensions Act 1995.