Parliamentary Contributory Pension Fund (PCPF)
UK Stewardship Report

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Foreword

Despite the challenges faced by many UK pension schemes throughout the year, and specifically in September 2022 as many schemes faced a liquidity crisis, the PCPF's position remains strong. As a Board of Trustees we have maintained our commitment to responsible investment and focus on good scheme governance. Our Responsible Investment policy continued to be a primary consideration throughout the year as we looked for opportunities arising from a greater understanding of Environmental, Social and Governance (ESG) factors.

We remain committed to responsible investment, responding to climate change risks to our assets as well as considering what opportunities may arise as the investment industry seeks to find solutions for net zero commitments. As part of this work, we completed the equity transition in April 2021, adopting a sustainable and low carbon approach to our passive equity assets in line with the Fund's Climate Risk policy. Changes made to the equity portfolio have reduced the Fund's total carbon emissions by c.77%.

Previously, the Trustees had agreed to invest 10% of Fund assets in renewable energy infrastructure. These investments continued to ramp up over the year as suitable projects were sourced by the underlying investment managers. We also continued to explore other impact investment opportunities where appropriate. In May 2022, when considering investment options to replace a mandate that was maturing, the Trustees also discussed alternative asset classes with an emphasis on responsible investing, such as timberland and farmland. Whilst we ultimately decided to go in a different direction on this occasion, we remain open to considering alternative responsible investment opportunities and will look to receive further training on these assets in the future.

We exercise our responsibility to continue to monitor the voting and engagement activities of our equity managers, and we do this on a quarterly basis, at our investment focused Trustee meetings. We also held two Manager Days this year, over the course of these sessions we met with all investment managers in person and challenged them on topics such as voting practices, ESG integration, and carbon footprint intensity.

As asset owners, we welcome the introduction of the Financial Reporting Council's new UK Stewardship Code and see this as an opportunity to improve the transparency of our stewardship of the Fund and improve standards over time. We are proud to have been included in the first list of signatories to the Code and hope this report provides an update on the work we have done over the year to integrate stewardship into our investment strategies.

Sir Brian H Donohoe
Chairman of the Trustees of the PCPF

Introduction

1. The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The 2012 UK Stewardship Code, published by the FRC, calls for greater collective action among shareholders and outlines 7 Principles for good stewardship practice. The revised UK Stewardship Code (the Code) took effect on 1 January 2020, setting out 12 Principles for asset owners. The Code sets a new higher standard for stewardship reporting for those investing on behalf of UK savers and pensioners. It defines stewardship as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

2. Under the revised Code, signatories are required to submit an annual report on stewardship activities and outcomes. This stewardship report works through each of the 12 Principles of the revised code in turn. It firstly sets out the FRC's definition of the principle, before going on to demonstrate how the Parliamentary Contributory Pension Fund ('the Fund', or 'PCPF') has sought to apply each of these 12 Principles during the period from 1 January 2022 to 31 December 2022.

1. Purpose, strategy, and culture

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.

3. The Parliamentary Contributory Pension Fund ('the Fund', or 'PCPF') is a statutory scheme that is made up of the MPs' Pension Scheme which provides benefits for Members of Parliament (MPs) and certain office holders, and the Ministers' Pension Scheme which provides benefits for paid Government Ministers and certain office holders. The benefit structure of the MPs' Pension Scheme is determined by the Independent Parliamentary Standards Authority (IPSA) and the benefit structure of the Ministers' Pension Scheme is determined by the Minister for the Civil Service (MCS). It is important to note that Members of Parliament, office holders and Ministers are not employees. The payroll for MPs and office holders is handled by IPSA. The payroll for Ministers is handled by Government departments.

4. Given the purpose of the PCPF, the Trustees believe that it is paramount that the Fund's strategy reflects clearly stated objectives, beliefs, and robust responsible investment policy that will stand up to scrutiny from various sources. The long-term vision and overriding objective of the Fund is to ensure that its assets are invested in a manner which meets the need to pay benefits to members as they fall due. The Fund's investment strategy is guided by a set of investment beliefs, as documented in the Fund's Statement of Investment Principles (SIP), which is published on the PCPF website.[1] The SIP was last reviewed in January 2023, along with the Fund's Responsible Investment Policy and Climate Risk Policy.

5. Below is a summary of the Fund's key investment beliefs, which create a framework for the Trustees' decision-making:

Belief	Further information
Clear and well-defined objectives are essential to achieve future success.	The Trustees are aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.
Although manager and stock selection are important, strategic asset allocation is a key determinant of risk and return, and should be prioritised when making investment decisions.	The Trustees understand that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.
Long term investing provides opportunities for enhancing returns.	The Trustees believe that investors with long term time horizons are able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid or may be subject to higher

[1] PCPF website in this report refers to https://www.mypcpfpension.co.uk/investments/.

	levels of volatility (a premium return is required for any such investments).
The strength of employer covenant allows the Fund to take a long-term view of investment strategy.	The Trustees believe that the strength of employer covenant (the UK Government) means that the Fund can take advantage of the benefits associated with a long-term investment horizon, as set out above.
Equities are expected to generate superior long-term returns.	The Trustees believe that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Trustees are therefore comfortable that the Fund maintains a significant target allocation to equities.
Alternative asset class investments provide diversification.	The Trustees believe that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Trustees believe that investing across a range of asset classes (including but not restricted to equities, government bonds, corporate bonds, infrastructure, and property) will provide the Fund with diversification benefits.
Fees and costs matter.	The Trustees recognise that fees and costs reduce the Fund's investment returns. The Trustees monitor the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Trustees have undertaken industry benchmarking of the Fund's investment management fees and the Fund's overall costs and will continue to review this on a regular basis.
Passive management has a role to play in the Fund's structure.	The Trustees recognise that passive management allows the Fund to access certain asset classes (e.g. equities and bonds) on a low cost basis and, have over time increased the proportion of assets managed on a passive index tracking basis within the Fund.
Active management can add value but is not guaranteed.	The Trustees recognise that certain asset classes can only be accessed via active management. The Trustees also recognise that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. By carefully selecting and monitoring active managers, the Trustees seek to minimise the additional risk from active management. The Trustees will monitor active

	managers to ensure their mandates remain appropriate for the Fund.
Environmental, social, and corporate governance ('ESG') issues will have a material impact on the long-term performance of its investments.	The Trustees recognise that ESG issues will impact the Fund's returns, and the Trustees aim to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers.

6. Responsible investment is at the centre of the Fund's investment philosophy. The Trustees recognise that their duty is to act in the best financial interests of the Fund's beneficiaries and they believe that ESG risks can have a material impact on the long-term performance of the Fund's investments. The Trustees have developed a stand-alone Responsible Investment Policy which continues to be a primary consideration when forming their forward-looking business plan. The policy is explained further in this report under Principle 7.

7. The Trustees formalised a Climate Risk Policy in November 2020 which outlines their approach to addressing climate related risks within the Fund. The Trustees acknowledge that climate related risks may negatively impact the Fund and are particularly relevant for investors with long-term time horizons. The policy set out the Trustees' ambition for all PCPF investments to be compatible with net zero emissions by no later than 2050. The Trustees re-examined this objective in May 2022. Having considered the range of possible paths and the speed with which to achieve it, the Trustees reaffirmed the target of meeting net zero by 2050 or earlier, with a view to monitoring this position at regular intervals.

Trustee Board values

In line with their investment beliefs and funding objectives, the Trustees agree the following statement of their culture and values:

"As a Trustee Board we are responsible for ensuring that the Fund's assets are invested in a manner sufficient to meet our overriding objective, which is to pay member benefits as they fall due, we aim to do this by maintaining a funding level of as least 100%.

Our Board is an open, transparent and inclusive body, which actively promotes the principles of equality, diversity and inclusion. Diversity amongst Board members is highly valued, and we recognise that when the board is comprised of individuals with a complementary range of experience and individual skills, this helps to improve our decision making and leads to better outcomes for our members.

Responsible investment is at the forefront of our investment philosophy. We believe that investing in sustainable, well governed companies and practicing active stewardship will have a positive impact on returns in the longer term. We also value engagement, recognising that we can positively influence the behaviour and practices of our investment managers with regard to stewardship through ongoing and forceful engagement, even where assets are invested through pooled funds. This is supported by our Responsible Investment policy."

8. While the Trustees maintain overall responsibility for the management of the Fund, in practice they have appointed Officials from the Finance, Portfolio and Performance Team within House of Commons to

provide a full secretariat and administrative service. Day to day management of the Fund is delegated to Secretariat officials.

9. The Secretariat staff are House of Commons (or 'House') employees and are therefore required to behave in line with House values. These values describe what House staff want their culture to be and help reflect how they work together to deliver a shared strategy and the vision 'Everyone has a voice'.

10. There are four values: Inclusive, Courageous, Trusted, and Collaborative. Each value is described by three supporting behaviour statements to expand on what they mean for how staff behave at the House of Commons.

Inclusive • We value everyone equally • We respect each other • We all have a voice	Trusted • We trust each other to do a good job • We are impartial • We build confidence in Parliament through our integrity
Courageous • We try new things • We own our actions and decisions • We learn from our mistakes	Collaborative • We share our knowledge and experience • We work towards a shared vision • We know we work better in partnership

11. All the above factors combined influence how the PCPF operates and feed into its business plan, which guides important decision-making such as choosing asset managers, setting stewardship expectations, and monitoring delegated activities (see Principles 7 and 8).

12. Below is a selection of activities that demonstrate how the focus on responsible investment is reflected in various aspects of the Fund's operation:

- Opportunities arising from a greater understanding of ESG factors (e.g., renewable energy infrastructure) are considered when setting investment structure.
- Responsible investment considerations are explicitly made for new mandates, including voting and engagement policies.
- Managers demonstrating weaker practices over sustained periods will not be considered for future appointments, and their appointment will be reviewed.
- Analysis of the Fund's carbon exposure and intensity will be carried out annually.
- The Annual Review includes an update on the Fund's stewardship and governance activities, including voting and engagement.

13. One example of integrating investment beliefs with investment decision-making is the steps taken by the Trustees to incorporate impact investment within the Fund's strategic asset allocation over the years.

14. The Trustees have acted on opportunities arising from a greater understanding of ESG factors in recent years and have committed a total of 10% of Fund assets to renewable energy infrastructure mandates. Half of this allocation is committed to a Global Renewable Infrastructure strategy managed by BlackRock, with the first investment made in August 2020. The strategy specialises in building the infrastructure required to generate renewable energy, such as Solar and Wind farms. The remaining half is committed to a strategy with an explicitly stated objective to achieve a positive environmental or social impact, alongside generating a financial return. Foresight Energy Infrastructure Partners (FEIP) were selected to manage this mandate. FEIP targets renewable energy generation and also places a significant focus on supporting infrastructure and technology. The first investment was made in August 2021. The Trustees have continued to invest further capital into both mandates over 2022.

15. In May 2022, the Trustees discussed various investment options to replace a private debt mandate that was maturing. In addition to private debt candidates, the Trustees also considered alternative asset classes with an emphasis on responsible investing, such as timberland and farmland. It is expected that further impact investment opportunities will be considered in the future.

16. To assess how effective the PCPF has been in serving the best interests of the beneficiaries, the Trustees regularly monitor investment outcome and measure success against the Fund objectives to:

- invest predominantly in long term growth assets reflecting the investment time horizon of the Fund
- achieve a rate of return over the long term that is at least equivalent to the assumed level of investment return used when calculating the long-term cost of the benefits
- maintain a funding level of at least 100% over the medium to longer term
- ensure that the Fund's assets provide sufficient liquidity to meet benefit payments as they fall due, and minimise the risk of forced selling
- manage the investments as efficiently and effectively as possible, including from an environmental, social and corporate governance (ESG) perspective. Fees and costs should be reviewed annually and challenged if not as expected to ensure all fees and costs remain reasonable and competitive.
- have due regard to the risk of incurring large and sustained deficits in the future with resulting increases in contribution levels and reducing these risks where possible

17. The Trustees received a funding update in November which suggested the PCPF's funding level had grown from 104.3% as at April 2020 to 130% as at April 2022. The total costs incurred by the Fund for the 12-month period to 31 March 2022 were broadly the same as that observed for the previous Fund year.

18. In November 2022, The Trustees discussed results from the latest annual carbon footprint exercise. The PCPF's equity and bond holdings have a Weighted Average Carbon Intensity (WACI) of 85.5 tCO_2/\$m Sales relative to an equivalent figure of 173.0 for the combined benchmark. The Trustees were content that based on numerous climate risk metrics, their managers are on the whole exposed to lower levels of climate risk than their market benchmarks. Where individual holdings appeared to contribute to the Fund's carbon intensity disproportionally, the Trustees engaged with their investment managers during various meetings to understand the rationale and challenge them where appropriate.

19. The Trustees are satisfied that the Fund has been effective in serving the best interests of its beneficiaries and that the Fund's Responsible Investment Policy has been treated as a primary consideration throughout all relevant decision-making processes.

2. Governance, resources, and incentives

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

Governance structure

20. The PCPF is a funded, public service, trust based pension scheme, governed by a statutory framework under schedule 6 to the Constitutional Reform and Governance Act 2010 (CRaG). The rules of the Fund are set out in the following schemes made pursuant to that Act:

- an administration scheme, made by the Independent Parliamentary Standards Authority (IPSA),
- the MPs' Pension Scheme made by IPSA, setting out the benefits payable to and in respect of members of the House of Commons and certain officeholders, and
- the Ministers' Pension Scheme made by the Minister for the Civil Service (MCS), setting out the benefits payable to and in respect of Ministers and prescribed officeholders.

21. The provisions of CRaG prescribe various matters relating to the structure of the Trustee Board (such as the number and composition of Trustees), requirements for member-nominated Trustees and the Trustees' powers and procedures. In particular, it prescribes that the Trustee Board is made up of the following:

- 1 person appointed by IPSA, referred to as the "IPSA Trustee",
- 1 person appointed by the MCS, referred to as the "MCS Trustee", and
- 8 member-nominated Trustees.

22. Collectively, the ten Trustees of the Fund have a range of legal duties for the Fund as well as maintaining overall responsibility for the management of the Fund. It is the Trustees' fiduciary duty to oversee all aspects of the Fund to ensure that the Fund's assets are invested in a manner which meets their overriding objective to pay benefits to members as they fall due. The Trustee Board maintain oversight of, and overall accountability for, the Fund's effective stewardship, and they are supported operationally by the Secretariat team, led by Gurpreet Bassi, Head of Members' Hub, who also acts as Secretary to the Trustees.

23. The Trustee Board regularly meet for ordinary and investment focused meetings to scrutinise how the Fund operates and address any emerging concerns. Since 2021 the Trustees have increased the number of investment focused meetings to four per year to further strengthen the focus on robust governance and active stewardship. The Trustees agreed to the Fund's Responsible Investment Policy in 2019, which was last updated in January 2023. It sets out the Trustees' policy for incorporating responsible investment (including climate risk) considerations within the investment process. The policy also details the processes for reviewing the Fund's stewardship and investment policies (see Principle 5).

24. The Trustees recognise the importance of ongoing education on a broad range of investment matters, including responsible investment. Arrangements are in place to assess and address the ongoing training requirements of Trustees, to ensure that they keep up to date with new and current issues affecting the Fund's operations. Regular and relevant Trustee training sessions are arranged both during and outside of Trustee meetings. As part of their annual business planning, the Trustees ensure that at least one formal training session is directly focused on responsible investment. Training is sought from the Trustees' investment advisers, investment managers, legal advisers, external specialists and other

engaged pension funds to provide exposure to a range of opinions and approaches to effective governance. The Trustees held a Responsible Investment Training Day in July 2022. The training involved a roundtable discussion on Responsible Investment and climate related reporting at USS (Universities Superannuation Scheme), climate metrics in non-publicly listed assets, and sustainability within real estate.

25. The Trustees have a balance of powers document in place which sets out their responsibilities relating to the administration and governance of the Fund. The roles and responsibilities the Trustees have delegated to the Secretariat are set out in the Secretariat terms of reference.

26. The Secretariat report to the Managing Director of Finance, Portfolio and Performance (FPP). The FPP Team was created to support the House of Commons to be efficient, professional, and fit for purpose and is responsible for financial strategy and corporate business planning. Working in FPP is a natural fit for Members' Hub and has increased in-House financial support and advice that is available to the Trustees.

27. The three-year PCPF Business Plan 2020-21 to 2022-23 was approved by the Trustees in March 2020. The focus of the Business Plan is on improving service received by members, undertaking a governance review of Trustees' procedures and strengthening focus on investment stewardship and responsible investment. During the reporting period, Trustees monitored regular reports provided by the Secretariat at Trustee meetings, on progress made in each area, including Secretariat performance. A new business plan for the 2023-2026 period will be approved by the Trustees in 2023.

Resourcing/Incentives of stewardship activities

28. The Trustees appoint professional external advisers to provide high-quality tailored investment and legal advice and services. Currently Hymans Robertson act as the Fund's investment consultant and Sackers its legal adviser. Hymans Robertson were re-appointed in 2021 through a tender conducted under the LGPS (Local Government Pension Scheme) framework. Their expert advice guides the Trustees' decision-making and covers a wide range of areas relating to pension schemes, including stewardship activities. Over the past year the advisers have been instrumental in supporting the Trustees with their expertise on key areas of stewardship such as:

- Guiding the Trustees in the manager selection process for new investments;
- Supporting the Trustees in conducting an open tender which concluded in March 2022 to appoint a global custodian to provide custody services to the Fund;
- Reviewing contractual terms and agreements in relation to the global custody tender and new investment into Barings Global Private Loan Fund;
- Guiding the Trustees in meeting their climate change commitments as set out in the Climate Risk Policy and providing analysis on the Fund's carbon footprint profile;
- Guiding the Trustees in review of investment policies;
- Discussing investment managers' quarterly voting and engagement reports with Trustees;
- Monitoring managers' adherence to Trustees' investment and stewardship policies;
- Raising the Trustees' and Secretariat's responsible investment concerns with managers;

- Educating Trustees on recent responsible investment trends and drivers, ESG reporting/disclosure guidelines, and impact investing etc.

29. The Trustees require administrative support from the Secretariat team to ensure that the Fund is managed properly. Efficient operation of a pension scheme enables the Trustees to focus on the important issues, leaving sufficient time at meetings for key decision-making. As well as business as usual activity, there has been an increasing focus on strengthening scheme governance and enhancing active stewardship.

30. Over the past few years, the level of engagement with and external interest in the Fund and the Trustees' investments has increased, and this has had resourcing implications within the Secretariat team. Since May 2020, an Investment and Governance Specialist has been appointed to bring a level of investment expertise and renewed focus on investment stewardship. A Members' Hub Specialist dedicated to the PCPF was also added to the team in 2022 to support ongoing projects and an increased focus on administrative and Fund governance. These additional resources have proved to be valuable to both the Trustees and the wider Secretariat team. By increasing Secretariat support the Trustees have ensured that external advisers and suppliers are used in an efficient and appropriate manner, and that all parties are challenged if necessary.

31. The PCPF Trustee Board is made up of ten Trustees, eight are member-nominated Trustees, one appointed by IPSA, and one by the MCS. As of the end of the reporting period, four Trustees were serving MPs. All Trustees bring with them a complementary breadth of knowledge and experience.

32. The House of Commons has a dedicated Inclusion and Diversity team that works with parliamentary stakeholders to provide a positive, inclusive working environment where people are valued for the skills and experience that they bring to work. This means making Parliament more accessible, diverse, free from discrimination and meeting the requirements of the Equality Act 2010.

33. The House of Commons is committed to delivering its diversity and inclusion (D&I) priorities as an organisation. The 12-month D&I plan effective from 1 April 2022 to 31 March 2023 consists of:

    - Increasing our diversity monitoring data: we will continue our work to increase the confidential diversity data we hold for our staff. This will help us to ensure decisions are data-driven and evidence-based;

    - Delivering the remaining actions from the Clerk of the House's Black, Asian and Minority Ethnic Advisory Group's action plan and our disability action plan;

    - A consultation exercise: we will gather feedback from our staff, Members of Parliament and their staff, and other key stakeholders including our trade unions, to determine progress made, barriers to tackle, and what to prioritise in our next multi-year strategy.

34. In 2022, all staff were encouraged to take part in shaping the new House D&I strategy which will come into effect from April 2023. Focus groups were run across the organisation to collect feedback on the future D&I strategy, in order to deliver strategic commitments to:

    - Be an employer of choice, ensuring that we have the skills and capabilities we need to meet the challenges we face as an organisation, enabling our people to thrive and adapt;

    - Be an inclusive and diverse organisation, creating a positive and supportive culture where people feel safe to be themselves at work and staff wellbeing is enhanced;

- Engage colleagues, listening and acting on feedback and co-creating solutions;
- Be one team, breaking down silos, delivering together and treating everyone equitably and with respect.

35. The Members' Hub has a diverse workforce and good female representation at management level. Gurpreet Bassi, Head of Members' Hub and Pension Scheme Secretary, is APMI qualified (Associate of the Pensions Management Institute). The team promote Continuing Professional Development (CPD) as part of ongoing personal development. The Secretariat team are members of industry-wide organisations such as the Pensions and Lifetime Savings Association (PLSA) and Pensions Management Institute (PMI), and are encouraged and supported by the management to participate in various industry forums, investment conferences, and e-learning to keep abreast of developments in areas such as stewardship and ESG.

36. The team adopted the Coach and Focus approach launched by House of Commons in 2020 for performance and development and ongoing support and training on Coach and Focus is available through the Learning & Development portal. This new framework aims to reduce bureaucracy and put people before paperwork. Team managers look to nurture and retain talents through regular dialogues that are focused, unbiased, non-judgemental, committed and supportive.

37. In October 2022, a member of the team was nominated for the Star Award, a staff recognition scheme, for going above and beyond and acting collaboratively and courageously when another colleague was in need.

Effectiveness of governance, resources, and incentives

38. The Fund's governance structure is explained under Principle 1.

39. The Fund's stewardship processes and commitments are reviewed regularly. Previously, the Trustees increased the number of investment focused meetings from three to four meetings each year, to ensure increased focus on investment stewardship.

40. The Trustees are supported by the Secretariat team within House of Commons. A robust governance and reporting structure exists between the Secretariat and senior management within the wider Finance, Portfolio and Performance Team.

41. Overall, the Fund's governance structure has been effective in supporting active stewardship, with enhancements being made to certain areas such as resourcing. As the PCPF is a taxpayer funded, public service Pension Scheme, the Trustees are careful in scrutinising their resourcing requirements. Resourcing papers are prepared and brought to ordinary Trustee meetings as and when business needs arise. The decision to increase the resourcing of investment stewardship and appoint a PCPF Investment and Governance Specialist has provided additional support on investment matters, with a focus on ESG issues. Whilst the PCPF, as a taxpayer funded pension scheme, does not directly sponsor reward programmes, the workforce are incentivised by staff recognition schemes through the House of Commons in various areas including investment stewardship.

42. To continue to improve the Fund's governance framework, the Trustees aim to review services currently provided by their external advisers, including those in relation to stewardship, and examine whether certain activities are better carried out in-house. This will reduce external dependency, improve cost efficiency, and ensure that external advisers could be challenged where necessary.

3. Conflict of interest

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

43. The basic principle in relation to conflicts of interest is found in the High Court case of Re Thompson's Settlement [1986] where the Court held that: "…a man must not put himself in a position where duty and [personal] interest conflict or where his duty to one conflicts with his duty to another *unless expressly authorised"*.

44. The Fund encourages its investment managers to have effective policies that address potential conflicts of interest in relation to stewardship.

45. In respect of conflicts of interest within the Fund, The Trustees recognise that they need to be able to identify conflicts of interest, including those in relation to stewardship, and have procedures in place to manage and monitor them appropriately. The Trustees reviewed and updated PCPF Trustees' Policy and Procedure for Managing Conflicts of Interest, with effect from 16 January 2020, to manage potential or actual conflicts of interest that they may have in carrying out their functions in relation to the Fund. The policy is to be reviewed every three years and may be revised from time to time.

46. New Trustees are appointed under procedures that require them to disclose any conflicts of interest. New Trustees are also provided with a Trustee induction training pack which contains a copy of the Conflicts of Interest policy, as well as other information about the Fund and their new role as a Trustee.

<u>Background to the policy</u>

47. In preparing the Conflicts of Interest policy, the Trustees are mindful of the importance of effective and efficient pension scheme governance and in particular of recent developments in the context of managing conflicts of interest, including:

- guidance issued by the Pensions Regulator - though the Fund is not regulated by it,
- the requirements under the Public Service Pensions Act 2013 on certain other public service pension schemes to ensure that their pension board members do not have a conflict of interest - the Fund is not subject to the governance provisions of that legislation and the circumstances of the Fund differ in many respects from those other schemes, and
- the principles set out in the UK Stewardship Code issued by the Financial Reporting Council

48. Although no new material conflicts of interest were declared by the Trustees during the reporting period, they have identified the below indicative examples of other roles and responsibilities, which may give rise to a potential conflict in relation to investment stewardship:

- a Trustee may have roles or responsibilities from employment, private business or personal interests (outside of their membership of the Houses of Parliament),
- a Trustee may have a financial interest in an existing or potential Fund investment or fund manager,
- a Trustee may have views regarding the Fund's investments based on their personal beliefs.

49. In respect of other roles and responsibilities, individual Trustees may have obligations to declare and manage conflicts of interest. For example, Trustees who are members of the House of Commons must

comply with the Code of Conduct approved by the House which includes requirements for members to declare interests and to register certain financial interests (and that register is publicly available).

50. Where a Trustee is an active political campaigner, s/he may have a predetermined interest in the outcome of Trustee deliberations. If that is the case, s/he should consider whether there is a conflict of interest, and if there is make a declaration in line with the policy.

51. The Trustees understand that they are fiduciaries and as such have a duty to safeguard the interests of the Fund's beneficiaries. However, this does not preclude any of them from having other roles or responsibilities which may result in a potential or actual conflict of interest with their role as Trustees.

52. Although these do not apply to the Fund, the Trustees have endorsed the Pensions Regulator's guiding principles in relation to Trustees' own conflicts of interest, which can be summarised as requiring Trustees to:

- understand the importance of conflicts of interest, particularly the need to exercise independent judgement and to be perceived to be doing so,
- identify conflicts (potential and actual), including maintaining a record of each Trustees' relevant interests,
- implement procedures to evaluate, manage and avoid conflicts in a way that ensures decisions are not compromised by conflicted Trustees; encourage a culture of openness where conflicts are disclosed and appropriately managed rather than ignored, and
- agree and document a policy (or procedures) for identifying, managing, and monitoring conflicts.

Conflicts of Interest policy and procedures

53. The Trustees have agreed that they must:

- acknowledge any potential conflict of interest they may have,
- be open with each other on any conflicts of interest they may have,
- adopt practical solutions, and
- plan ahead and agree on how they will manage any conflicts of interest which arise.

54. With these objectives in mind, the Trustees have adopted the following procedure:

- at the commencement of meetings of the Trustees (or any sub-committees they establish), each Trustee is required to declare to the meeting any potential or actual conflict of interest that s/he may have in respect of the business of the meeting, and
- a record of Trustees' declared interests will be made in the relevant meeting minutes.

55. It is the responsibility of:

- each Trustee individually to consider whether, in carrying out any of their functions as Trustees, they may have a potential conflict of interest, and
- the Fund secretary, in consultation with the Fund's Secretariat, to seek to identify any potential conflicts of interest, particularly when preparing the agenda for Trustees' meetings.

56. In each case the person responsible must, where practical, advise the Chair of any potential conflict issues relevant to the business of the meeting (limiting detail if necessary, to avoid placing the Chair in a similar position of potential conflict) prior to any relevant meeting. If it is not practical to advise the Chair in advance, the person responsible must state the potential conflict issue clearly at the outset of the meeting itself. Where the Chair is advised of a potential conflict and the relevant person responsible does not state it at the relevant meeting, the Chair must disclose its existence to the Trustees.

57. It is for the Chair to decide on the action (if any) required to manage a potential conflict of interest and to advise the Trustees of any actions taken. In taking that decision, they may have regard to such factors as they consider relevant, including (but not limited to) the perception of Fund members or other Fund stakeholders.

58. Where a conflict is identified outside of a Trustees' meeting, the Chair will consult with the Fund Secretary or the Fund's Secretariat prior to making a decision. Where the conflict is identified at a Trustees' meeting, the Chair will consult with the other Trustees prior to making a decision. In either case, the Chair may additionally consult with any of the Trustees, the Fund secretary, the Fund's Secretariat, or any appointed professional advisers as s/he sees fit.

Managing a conflict of interest

59. Steps that may be taken to manage a conflict might include (but are not limited to): a decision being delegated to a sub-committee of the Trustees which does not include the conflicted Trustee; or the conflicted Trustee being required:

- to leave the meeting during, or refrain from contributing to, the discussion on the conflicted matter,
- to withdraw from voting on the conflicted matter, and/or
- to draw to the attention of the other Trustees that s/he holds information that may be confidential to another party that is relevant to the discussion or decision (without being required to disclose that information where the Trustee owes a duty of confidentiality in respect of that information or to that other party).

60. Where steps are taken to manage a conflict of interest, the existence of the conflict and the action taken will be recorded in the relevant meeting minutes.

Investment stewardship

61. The Trustees recognise that with an increased focus on responsible investment matters, there is a potentially greater scope for individual Trustee views regarding some aspects of the Fund's investments to conflict with Trustee fiduciary duties when setting the Fund's investment strategy and reviewing investment options.

62. Trustees should note that where there is a financial interest, they must declare a conflict of interest. However, Trustees may have an 'interest' other than financial gain which may need to be declared as a potential conflict of interest.

63. Procurement of investment related services is an important area where potential conflicts of interest may arise. The PCPF follows the Public Contracts Regulations 2015 (PCR 2015) which require contracting authorities to take appropriate measures to prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators. Prior to any involvement in the procurement process, the PCPF

tender evaluation panel are asked to declare whether they have any direct or indirect, financial, economic or personal interest that would give rise to any Actual Conflict of Interest or Perceived Conflict of Interest that might compromise or be perceived to compromise their impartiality and independence in the procurement process. The procurement team will then consider the position and take any necessary measures to ensure compliance.

64. During the reporting period the Trustees completed an open tender for global custody service. The evaluation panel for the tender followed the standard procedure and no actual or perceived conflict of interest has been declared in these instances.

65. A similar process applies when Trustees assess new investment opportunities such as the replacement for the M&G Illiquid Credit mandate as it matures and enters the repayment phase from 2022.

4. Promoting well-functioning markets

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

66. The Trustees recognise that as asset owners they have the important duty of working with others to promote a well-functioning financial market, and address risks of a market-wide and systemic nature.

67. The Secretariat maintain the PCPF Risk Register to help identify key risks the Fund is faced with, monitor their likelihood and impact, and document mitigations to be put in place. This includes market-wide and systemic risks. The Risk Register is reviewed and updated regularly and taken to every Trustee meeting for discussion.

68. Throughout the reporting period, the risk of 'failure of Fund assets to provide expected returns due to impact of climate change or other significant market uncertainties' remained a top scoring risk on the Register. This reflects an ongoing focus on addressing climate change and additional market-wide risks identified during the year.

<u>Macroeconomic risks</u>

69. The year 2022 has seen significant volatility across markets, driven predominantly by macroeconomic forces. These drivers included the war in Ukraine, energy supply issues, high inflation, and the fallout following the UK government's mini budget.

70. Russia's invasion of Ukraine in February 2022 sent immediate shock waves to the global financial markets, with profound longer-term implications. This geopolitical risk was identified as a major risk of market-wide and systemic nature immediately and the Risk Register was updated and taken to the March Trustee meeting for review and discussion. The Secretariat and advisers also acted quickly and started working with the investment managers to assess if and where direct exposure to Russia might exist within the portfolio.

71. The Trustees noted during their meeting in March that the situation in Ukraine was causing near term market distortions, including the risk of higher inflation, and was having a negative impact on global financial markets. However, the longer-term implications would be much harder to quantify. Specific to the PCPF, it was confirmed that direct Russian exposure represented a very small part of the Fund's holdings, and the investment adviser would expect any impact to be minimal in the context of the Fund's total assets.

72. Due to the economic uncertainty and risk of stranded assets, the Trustees considered continued investment in Russian assets to be inappropriate, and not in line with the commitments they have made as responsible investors. They made the decision to engage with their investment managers to divest from Russian assets, wherever practically possible.

73. As the situation remained dynamic, the Trustees continued to monitor wider market movements as well as any specific impact on the Fund's investments through regular updates received from Hymans Robertson. Despite inflationary pressures and fears of a recession, the investment adviser remained comfortable with the Fund's strategic asset allocation and did not recommend any rebalancing action.

74. In September 2022, UK pension schemes were tested further following the government's mini-budget announcement, which caused gilt yields to spike. The largest daily upwards yield move since the 1980s was observed on 23rd September 2022, when 20-year nominal gilt yield recorded a 42bps rise. This has

impacted just about every private sector DB pension scheme in the UK, particularly in respect of their leveraged Liability Driven Investment (LDI) strategies, where government bond positions were used to directly hedge movements in the value of liabilities. The PCPF does not have exposure to LDI strategies and therefore has not faced the liquidity and operational issues experienced by many other pension schemes, however the Trustees were mindful of this crisis and monitored the situation closely as liquidity risk could rapidly spread to other areas of the market.

75. Given the change in economic backdrop and extreme market volatility, the Trustees believed it would be prudent to consider whether the Fund's investment strategy remained appropriate. They instructed Hymans Robertson to conduct a review. It was completed in November and showed that even though it had been an extraordinary year in terms of political events and macroeconomic risks, the Fund remained robust and the funding level was expected to increase. The expected return on assets relative to the liability discount rate calculated as of 30th September 2022 was notably higher than when the analysis was previously conducted as of 31st March 2021.

76. Further analysis showed that changes made to the Fund's investment strategy in recent years have increased diversification through exposure to new asset classes, reduced regional concentration risk, enhanced robustness through the full economic cycle via multi-factor strategy, and improved inflation protection through infrastructure assets.

77. When exploring lessons learned throughout 2022, when market-wide and systemic risks where abundant, the Trustees questioned whether the intended role of the Fund's protection assets such as gilts has been fulfilled. They will examine this in further detail in 2023 so as to reduce the impact of market volatility and the risk of being a forced seller during periods of market stress.

Climate change

78. Climate change presents a systemic and material risk to the ecological, social, and financial stability of every economy and country in the world and is increasingly having a real impact on both Trustees and sponsors of defined benefit schemes. It is also particularly relevant for investors with long-term time horizons. While climate change poses a key financial risk over the lifetime of schemes, it also provides opportunities for investors to positively impact the world that savers will retire into.

79. In November 2020, the Trustee Board formalised a Climate Risk Policy, which outlines their approach to addressing climate related risks within the Fund. The policy sets out the Trustees' longer-term ambition for 100% of the Fund's assets to be compatible with net zero-emissions by 2050 or earlier, in line with the Paris Agreement.

80. Recognising their current investment arrangements and governance budget, the Trustees' primary focus over the near term will be on climate-related risk exposure within their equity and real asset holdings, which account for c.70% of the Fund's assets. Having completed the equity transition in April 2021, switching from equity funds tracking traditional market indices to a combination of sustainable and lower carbon approaches, the Fund has achieved significant reduction in its carbon emissions intensity. In summary, the change has reduced the Fund's Weighted Average Carbon Intensity (WACI) by c.51% and the total carbon emissions by c.77%.

81. In November 2022, the second annual carbon footprinting exercise showed that the Fund's equity and bond holdings have a WACI of 85.5 $tCO_2/\$m$ Sales relative to an equivalent figure of 173.0 for the combined benchmark. The Trustees were content that based on numerous climate risk metrics, their managers are on the whole exposed to lower levels of climate risk than their market benchmarks. Where

individual holdings appeared to contribute to the Fund's carbon intensity disproportionally, the Trustees engaged with their managers to understand the rationale for this during meetings held in November.

82. The Trustees have committed a total of 10% of Fund assets to renewable energy infrastructure, including 5% to the BlackRock Renewable Power Infrastructure Fund and another 5% to Foresight Energy Infrastructure Fund. During the reporting period, these investments grew steadily as fund managers continued to call capital to fund new projects. Further impact investment opportunities have also been considered. In May 2022, the Trustees discussed various investment options to replace a private debt mandate that was maturing and considered alternative asset classes with an emphasis on responsible investing, such as timberland and farmland.

83. The Trustees recognise that one important tool to tackle the climate risk challenge and promote well-functioning markets is by engaging with investment managers and monitoring their voting and engagement approach. The Trustees strongly emphasise the importance of engagement on climate-related risks through dialogue with their investment managers. In particular, the Trustees encourage their managers to support engagement with investee companies on climate-related issues, and promote an increase in the disclosure on climate-related risks by companies to investors.

84. The Trustees expect their managers to engage with investee companies (see Principle 9-11) and exercise voting rights (see Principle 12) on their behalf, in line with the Fund's stewardship policy and climate risk objectives. As climate change is considered an ESG issue of importance by the Trustees, as well as a market-wide and systemic risk, the Trustees encourage their managers to work with other stakeholders and participate in collaborative engagements where appropriate to advance industry initiatives and influence issuers.

85. The Trustees believe that collaboration with other asset owners can be an effective method for engaging with investment managers and raising awareness of climate-related issues on a wider scale basis. In conjunction with other stakeholders, the PCPF has been playing its role in bringing pressure on companies, investors, and policymakers to tackle climate change. Whilst it is hard to point to specific changes that are attributable to the PCPF alone, there is evidence that collective efforts have resulted in changes. For instance, the Fund's asset managers have reported an increasing number of instances where shareholders worked in tandem to successfully put pressure on fossil fuel companies to move towards more sustainable energy resources and to improve their reporting of climate change impact.

86. The Fund's investments in renewable energy infrastructure have also had tangible outcomes in addressing climate change. Foresight's infrastructure investments, for example, support the energy transition and global decarbonisation agenda, which requires significant investment in low carbon generation, along with supporting flexibility assets and grid infrastructure. From financing the UK's largest solar farm, to providing flexibility services in moments of blackout and investing in some of the largest onshore wind turbines in the Nordics, Foresight is working to create a sustainable legacy of clean power. To contribute to the transition to a sustainable planet, Foresight has invested more than £3bn into clean energy projects worldwide through a number of funds raised from both institutional and retail clients. The clean energy infrastructure portfolio comprises over 275 assets with a capacity of 2.7GW across the UK, Europe and Australia, including solar, onshore wind, bioenergy, hydro, battery storage, reserve power and energy efficiency projects.

87. As an asset owner of modest size, the PCPF might not have the resources available to larger pension schemes to meaningfully contribute to industry initiatives and collaborations. However, the Trustees collaborate with their peers and other organisations to understand the developing trends and regulatory changes in managing climate risk. For instance, the Trustees have heard from Institutional Investors Group on Climate Change (IIGCC) and explored their framework that was developed to help guide asset

owners in net-zero planning and implementation. In July 2022, the Trustees invited the Head of Responsible Investment at USS (Universities Superannuation Scheme), for a roundtable discussion on the challenges faced by pension schemes in climate related reporting and meeting the net zero target.

88. The Trustees understand that for society to achieve a net zero carbon future by 2050 or earlier, systemic change and collaboration in the investment community will be crucial. The Trustees are aware that many of their investment managers are signatories to, or active participants of, relevant industry initiatives such as ShareAction, Carbon Disclosure Project, and Climate Action 100+. Whilst the Trustees are satisfied that good progress has been made during the reporting period to address climate change as a market wide and systemic risk, they are keen to explore what role they may play in the future by interacting with other stakeholders, such as investors, issuers, policymakers, and not-for-profits. They will also consider participation in industry initiatives such as the IIGCC where appropriate.

5. Review and assurance

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

89. The Trustees are responsible for reviewing the effectiveness of internal controls and assuring effective stewardship, undertaken directly or on their behalf. The Secretariat are tasked with the development and maintenance of the Fund's control framework. This includes a combination of internal controls such as senior management sign-off, Trustee Board oversight, and internal audit. All important policies and documents go through various stages of internal review and sign-off by authorised persons.

90. In authorising investment managers to make investments on their behalf, the Trustees receive sufficient information to make informed decisions and to understand the risks associated with those investments. Specifically, they take advice from Hymans Robertson, their investment consultant, and receive regular updates in relation to the investment managers' investment performance and stewardship activities.

91. The organisations that provide the Fund's custodianship and administration functions are subject to review by their respective internal audit units, which operate to relevant professional Internal Audit Standards. On behalf of the Trustees, the Secretariat review independent reports on internal operational controls for the custodian and the administrator where appropriate.

92. The Trustees set out in the Fund's Responsible Investment Policy their approach to enable effective stewardship, including policies and processes such as:

Explore the possibility of incorporating the United Nations' Sustainable Development Goals into their investment beliefs and broader policy.	Ongoing
Review the benchmarks of any index-tracking mandate. Seek input from advisers and investment managers to understand the potential implications and impact of ESG factors on different approaches.	At least triennially
Monitor investment managers' compliance with the Principles of Responsible Investing (PRI) reporting requirements.	Annually
Monitor equity managers' records as set out in the Fund's policy on voting and engagement activities.	Quarterly
Request that investment managers provide details of any change in their house voting policy and review any changes against the ISS guidelines.	Annually
Monitor investment managers' adherence to this policy. Review annual compliance report submitted by managers. Publish a summary of voting and engagement activity undertaken by managers and issues on which they have been challenged as part of the stewardship report submitted to the FRC.	Annually
Aim to meet all investment managers on an annual basis. Managers are asked to address Responsible Investment matters as part of presentations to Trustees, setting out how these are incorporated within the investment process.	Annually

Monitor investment managers' compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels, and broader ESG issues.	Ongoing
Consider analysis of the Fund's carbon exposure and intensity. Monitor exposure to climate related risks within its equity portfolio on an annual basis.	Annually
Complete a report on the Fund's Stewardship and Governance activities, including voting and engagement undertaken on behalf of the Fund, to be included in the Annual Review issued to all members of the Fund. Maintain transparency and accountability to stakeholders, and include disclosure of the Fund's top 20 equity holdings.	Annually
Review Trustees' own adherence to the policy and publish the results of this assessment as part of the annual stewardship and governance report.	Annually
Ensure ongoing Trustee education on a broad range of investment matters. Plan at least one formal training session that is directly focused on Responsible Investment.	Annually
Undertake a review to assess the investment adviser's performance against strategic objectives set by Trustees.	Annually
Review the Responsible Investment Policy to ensure it remains appropriate and in line with the long-term objectives for the Fund, as well as broader industry developments.	Annually

93. As part of internal assurance, the Fund's policies are reviewed regularly and revised from time to time. For example, in September 2022, the Trustees conducted a proxy voting review to ensure voting guidelines adopted remain consistent with the Fund's Responsible Investment Policy. Having considered four sets of guidelines, the Trustees concluded that the ISS (Institutional Shareholder Services) Sustainability guidelines are the most robust and comprehensive in addressing ESG issues. As sustainability-minded investors, the Trustees decided to instruct their equity managers to switch to the ISS Sustainability guidelines in line with their responsible investment beliefs.

94. During 2022, the House of Commons Internal Audit function carried out an internal audit review of the Members Estimate Control Framework which included key elements of financial processes relating to the PCPF. Overall, the report provided the highest rating for the PCPF – which was a Substantial level of assurance over the Framework for the scope areas audited. It was concluded that this opinion was given as there was clarity over scope and roles and responsibilities internally within the House and by third parties contracted to deliver services impacting the Members Estimate and appropriate assurance was obtained over the third party pension scheme administrator's internal controls. In addition, operational processes helped to ensure compliance with rules and policies and supported good quality governance and senior management oversight (monitoring and reporting).

95. External assurance complements internal controls by helping the Trustees manage key risks and evaluate potential pitfalls. The Trustees use independent professional services provided by accountants, lawyers, and other professionals to assure the Fund’s key documents, policies, and processes.

96. Audits are one example of services provided by such professionals to assure that stewardship reporting provided to members and the public is fair, balanced, and understandable. The National Audit Office (NAO) carry out independent audits on the Fund’s Annual Report and Accounts and scrutinise stewardship information included in the Implementation Statement to assure its accuracy and impartiality. The Implementation Statement is prepared by the Secretariat in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, and sets out in detail how the Trustees have complied with the Fund’s stewardship policy during the scheme year.

97. The Trustees also seek advice from Sackers, their legal adviser and other authorities regarding any significant changes to the Fund’s policies, including those in relation to stewardship practices, before sign-off. For example, the Trustees go through statutory consultation with IPSA and MCS on changes made to the Statement of Investment Principles before finalising the document. During the reporting period, Sackers reviewed contractual terms and agreements in relation to the global custody tender and the new investment into Barings, and assured the integrity and accuracy of information from a legal perspective.

98. As part of ongoing monitoring of investment managers’ compliance with PCPF’s stewardship polices, Hymans Robertson, the Fund’s investment adviser, is asked to prepare independent voting and engagement reports every quarter, to be reviewed during Trustee meetings. This is to ensure that stewardship reporting is fair, balanced, and understandable and that Trustees can challenge managers where they fall short of expectations.

99. During the reporting period, the Trustees have taken reasonable steps to review their policies, received internal and external assurance in relation to stewardship undertaken directly or on their behalf, and ensured their stewardship reporting is accurate and understandable.

100. The Trustees are satisfied that majority of the Fund’s stewardship policies are up to date. With guidance from their investment adviser, the Trustees last reviewed and updated their Statement of Investment Principles, Responsible Investment Policy, and Climate Risk Policy in January 2023. They will also consider the next steps to deliver the Fund’s net zero target in line with the Climate Risk Policy.

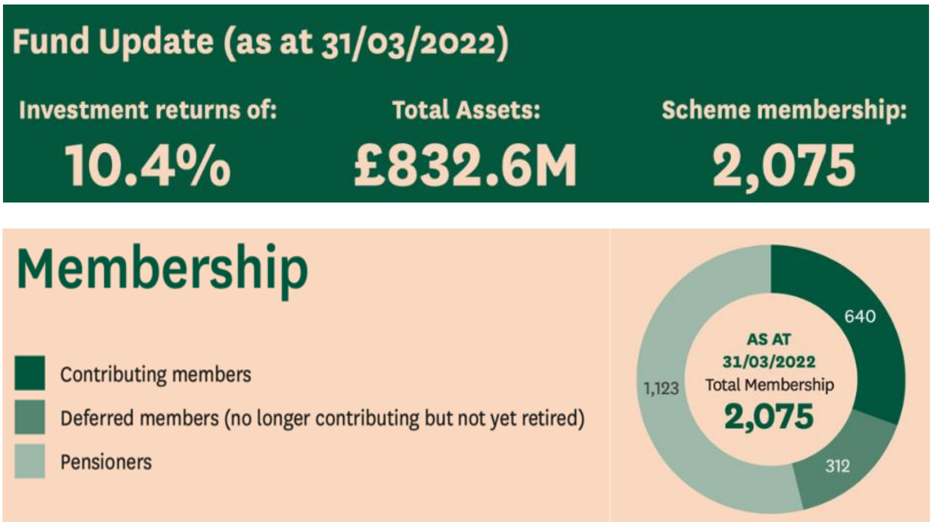
6. Client and beneficiary needs

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

101. The Fund is a contracted-out defined benefit pension scheme. Details on the background and structure of the Fund can be found under Principle 1 and 3.

102. The PCPF Annual Review is the Trustees' main formal written communication to beneficiaries about all scheme matters including stewardship activities and investment outcomes and includes a summary of the accounts for the year. Specific sections are dedicated to responsible investment updates, voting and engagement and investment performance. As well as being posted to all scheme members (active, deferred, pensioner and dependant pensioners) the Annual Review is available in electronic form on the PCPF website.

103. A summary of the Fund's profile as of 31st March 2022 (Fund year end), taken from the Annual Review, is as follows:



104. Below is a summary of the age profile for each set of members as of 31st December 2022:

- Active – average age of 53 years
- Deferred – average age of 55 years
- Pensioners – average age of 76 years
- Spouses/Dependants – average age of 85 years
- Total membership – average age of 67 years

105. Due to the nature of the Fund and the strength of employer covenant (HM Treasury), the Trustees believe that the Fund can take advantage of the benefits associated with a long-term investment horizon as the investments can better withstand periods of price volatility. As a long-term investor, the Fund may choose

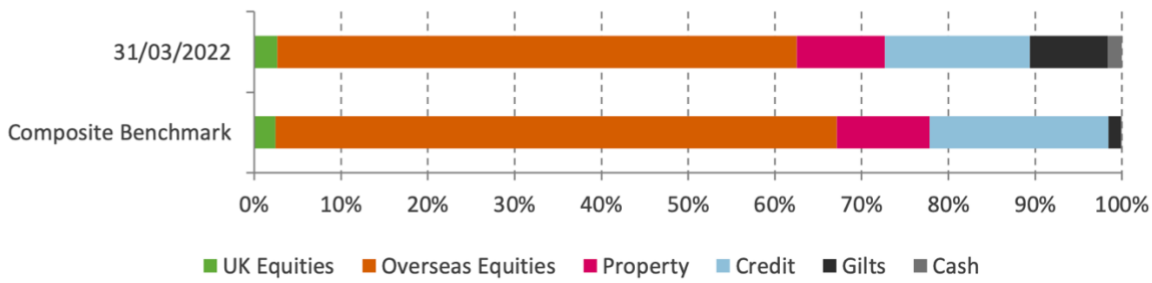
to gain additional compensation by investing in assets that are illiquid or may be subject to higher levels of volatility (a premium return is required for any such investments).

106. The Trustees acknowledge that climate change is a systemic risk that may negatively impact the Fund as the Fund invests predominantly in long term growth assets. They have developed a Climate Risk Policy to detail their approach to addressing climate related risks. A carbon exposure analysis at Fund level is carried out annually.

107. The Trustees seek to ensure that the Fund's assets provide sufficient liquidity to meet benefit payments as they fall due, and minimise the risk of forced selling. Due to market-wide liquidity concerns and volatility around September 2022, the Trustees instructed their investment adviser to conduct a review of the Fund's investment strategy and long-term cashflow position. The review was completed in November 2022 and showed that despite challenging market environment, the Fund's strategy was still expected to outperform the actuarial discount rate as well as provide liquidity.

108. Given the membership turnover that is unique to this Fund, with new members joining and active members moving to deferred or pensioner status at each General Election, the Trustees must manage potential liquidity risks as Retirement activity increases from time to time. The Trustees have made plans to review the Fund's protection assets in 2023 in light of the upcoming General Election to build up sufficient cash buffer in advance of this event.

109. Below is an overall breakdown of Fund assets across different asset classes versus the composite benchmark as of 31st March 2022:



110. In addition, a breakdown of Fund assets at the manager and mandate level as of 31st March 2022 is included below:

The manager proportions and mandates at the year-end (31/03/2022) are shown in the table below:

Manager	Mandate	Holding as at 31.3.22 %	Target allocation %
BlackRock Advisors (UK) Ltd	Low Carbon Global equities — passive	26.4	25.0
MFS International (UK) Ltd	Global equities — active	16.2	16.0
Schroders Pension Management Ltd	Sustainable Global equities – multi factor	18.9	17.0
BlackRock Advisers (UK) Ltd	Renewable Power Infrastructure	0.4	1.0
Foresight Group LLP	Energy Transition	0.7	1.0
M&G	European Loans	9.7	10.0
M&G	Illiquid credit	4.1	5.0
Multi-managers	Property	10.0	10.0
PIMCO Europe Ltd	UK bonds	6.7	7.5
BlackRock Advisers (UK) Ltd	UK Gilts	6.3	7.5
Transition cash*	Cash	0.6	0.0
Total		100.0	100.0

* Cash balances include balances held by Fund's custodian, Northern Trust, and the balance of the Trustees' bank account.

111. The Fund has committed 5% of assets to the Global Renewable Power Fund managed by BlackRock, and 5% to Foresight Energy Infrastructure Partners. The positions are being built gradually, funded from selling listed equity, as and when the managers call capital.

112. In May 2022, the Trustees discussed various investment options to replace the M&G Illiquid Credit mandate that was maturing. Having completed the manager selection process, the Trustees made their first investment into Barings Global Private Loan Fund in December 2022. As a direct replacement for M&G Illiquid Credit, the target allocation remains at 5%, and the positions are being built gradually as and when the manager calls capital.

113. The PCPF website is an important tool to keep members updated on the Fund's key policies and stewardship reporting. Documents such as the Responsible Investment Policy, Climate Risk Policy, and quarterly voting reports are published and updated in a timely manner. The PCPF Stewardship Report is also available on the website and sets out the work the Trustees have done to integrate stewardship with investment strategies on an annual basis. The Annual Review mentioned above, which is sent to all members, is also available on the website.

114. The Trustees recognise the importance of ensuring members have all the information they need and a forum to express their views. Therefore, regular members' surgeries are held, typically once or twice a year, and after General Elections, for active members to meet the Chair in person, ask questions, and express opinions. A members' surgery was held in May, after the Annual Review was issued, to update members on scheme matters. The Chair also met with serving members at the pensions stall in October 2022 and addressed questions regarding investment stewardship as well as other scheme and benefit related queries.

115. During 2022, the Trustees took steps to increase the engagement on stewardship matters, by issuing a letter on responsible investment to all serving members in March. The letter outlined the progress the Fund has made on sustainable investing, set out the process the Trustees follow in relation to investment considerations, and signposted the PCPF Stewardship Report for further details. The Trustees also took this opportunity to update members on the due diligence being carried out regarding the Fund's exposure to Russia following Russia's invasion of Ukraine.

116. Pension News, PCPF's annual newsletter, was launched in summer 2022 and also made available online. The newsletter, produced in the summer, provides all active members with a mid-year update on PCPF's investments, along with updates and useful information relevant to serving members. A dedicated Responsible Investment section brings members up to date on key ESG topics such as climate risk, sustainable investments, and regulatory reporting. The 2022 newsletter featured one of PCPF's underlying assets in action, to illustrate how these investments can contribute to the local community. The Trustees are committed to keeping members informed of investment and stewardship activities through new communication methods such as the summer newsletter. This publication also complements the Annual Review which is issued at the start of every year.

117. The Trustees continued to receive ad-hoc correspondence from members throughout the year on important stewardship topics such as climate risk. Information released in the Annual Review and the new annual newsletter has also encouraged members to engage with the Trustees on scheme matters. In addition, there has been a significant increase in member correspondence following Russia's invasion of Ukraine, querying the Fund's potential exposure to Russian assets. The Trustees value transparency when communicating with members and where topics of interest become significant across the membership, which tends to occur with the active membership at times, the Trustees are keen to address their responses to all active members.

118. The Trustees recognise that with an increased focus on responsible investment matters, there is potentially greater scope for individual member's views regarding certain aspects of the Fund's investments to conflict with Trustees' fiduciary duty to safeguard the interests of the Fund's beneficiaries. The Trustees strive to manage any potential conflicts of interest and adopt a balanced approach when taking members' views into account. Details on the Trustees' conflicts of interest policy are addressed under Principle 3.

119. Beneficiaries' views are also sought informally. There were four serving Members of Parliament and two members of the House of Lords who sat on the Trustee Board as at the end of 2022. Scheme members who are serving in Parliament often engage with their colleagues who are Trustees to express views in relation to the Fund.

120. The above methods combined have been effective in enabling the Trustees to understand the views of the beneficiaries. While the Trustees respect certain moral/ethical views that could be held by individual members, they have a duty to balance the interests of all members and to act fairly when making investment decisions. Given the nature of the Fund, and the broad spectrum of views that our members hold, it has not always been possible to act on individual member's views. However, in considering these views and making decisions the Trustees have taken a fair and balanced approach and have ensured that their fiduciary duty is always given the utmost priority.

121. For instance, the Trustees acted in line with many members' views and formulated a Climate Risk Policy in 2020 as this is aligned with their investment beliefs. However, the Trustees have not made a decision to back campaigns such as fossil fuel divestments in the Fund's positioning due to potential conflicts of interest with their overriding fiduciary duty to invest in the best financial interests of the members. Through engaging with their investment managers, the Trustees have seen ample evidence that often the

best strategy may well be to exercise their 'voice' more as an investor in the first instance, in preference to simply exiting an investment (see Principles 9-12). The Trustees believe that exploring how to further stewardship and engagement activities should be a precursor to any divestment decisions.

122. Whilst improvements have been made over the reporting year to the frequency and method of communication with active members, the Trustees intend to examine how the PCPF Annual Review could be made more accessible and engaging to all members from 2023 onwards. They may also explore whether additional tools could be used to improve in-year communication with members in the future.

7. Stewardship, investment and ESG integration

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

123. The Trustees are responsible for ensuring that the Fund's assets are invested in a manner which meets their overriding objective to pay benefits to members as they fall due. The Trustees recognise that responsible investment considerations pose a financially material risk to the Fund. Responsible investment is considered to be those investment practices where Environmental, Social and Governance (ESG) issues are explicitly or implicitly integrated into investment management processes and asset ownership practices. The Trustees go through regular training on ESG related issues to ensure they are fully aware of the implications ESG factors can have on the Fund's investments.

124. The Trustees acknowledge that there are a broad range of ESG risks which operate over different timeframes with differing potential degrees of impact on the Fund. Of these risks, the Trustees have identified that climate risk warrants more detailed scrutiny given the potentially widespread and uncertain impact on financial, economic, and demographic outcomes. The Trustees also regard executive remuneration as a material governance-related risk and support the mitigation of this risk predominantly through active engagement by investment managers.

125. A stand-alone Responsible Investment Policy was agreed in July 2019 and last updated in January 2023 and sets out the Trustees' policy for incorporating responsible investment (including climate risk) considerations within the investment process. These factors are integrated into each stage of the investment decision-making process: assessing investments prior to holding, monitoring through holding, and exiting investments. The Trustees work closely with the Fund's investment managers to help support good corporate behaviour. The Fund's Responsible Investment Policy enables the Trustees to document their position and expectations for their fund managers and to hold managers accountable for the decisions they make.

<u>Setting investment strategy/structure</u>

126. The Fund's investment strategy represents the broad balance between different asset classes such as equities, debt and real assets. The Trustees frame their investment strategy by reference to long-term risk and return assumptions which make implicit allowance for operational and many systemic ESG risks. The Fund's investment structure represents the allocation to different mandate types within each broad asset class.

127. The Fund's investments are held either directly or through pooled arrangements and both active and passive strategies are used. The Trustees recognise that in practice the means of their engagement with ESG issues will vary depending on how the assets are held and managed, and that the integration of stewardship and investment differs across different types of funds and asset classes.

128. With active investment mandates, the Trustees expect their managers to take account of ESG-related risks and issues as part of their investment analysis. The Trustees engage with their active managers to understand how ESG-related risks are considered in the decision-making process, and to determine that this is consistent with the Fund's policy.

129. With rules-based or index-tracking mandates, the Trustees recognise the influence of benchmarks on the selection of assets by investment managers. Therefore prior to entering into such mandates, the Trustees take into account their ESG characteristics and actively consider alternative approaches in their decision-

making. For example, BlackRock Low Carbon Tracker and Schroders Multi-factor Equity were chosen specifically with PCPF's carbon footprint in mind. BlackRock Low Carbon fund achieved 73% reduction in weighted average carbon intensity (WACI) vs MSCI World Index. Schroders Multi-factor Equity also achieved 50% carbon intensity reduction vs the benchmark by incorporating ESG risk factors at the stock level. The Trustees review the benchmarks of any index-tracking mandate on at least a triennial basis. As part of this process, the Trustees seek input from their advisers and investment managers to understand the potential implications and impact of ESG factors on different approaches.

130. The Trustees also consider opportunities arising from a greater understanding of ESG factors when setting their investment structure and considering new investments. In May 2022, the Trustees considered alternative asset classes with an emphasis on responsible investing, such as timberland and farmland, when discussing investment options to replace a private debt mandate that was maturing.

<u>Setting expectations and monitoring compliance</u>

131. In selecting new investment managers for the Fund, where relevant to the investment mandate, the Trustees explicitly consider potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision-making. The Trustees impose minimum standards for all managers and monitor compliance with these standards on a regular basis. When appointing new managers, the Trustees will consider ESG issues in setting benchmarks, performance criteria, and manager remuneration.

132. The Trustees expect all their investment managers to be signatories to the United Nation's sponsored Principles of Responsible Investment (PRI) or to be able to provide an explanation as to the reasons for not signing. The Trustees aim to monitor their investment managers' compliance with the PRI reporting requirements annually.

133. The Trustees support the FRC UK Stewardship Code and believe that, where relevant, the Fund's investment managers should be signatories to the Code. The Trustees monitor the investment managers' compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels, executive remuneration, and broader ESG issues on an ongoing basis.

134. The Fund's investment managers are expected to incorporate ESG-related issues into their regular reporting. This includes information on voting and engagement, in addition to details on how they are assessing and managing ESG-related risks in relation to their respective mandates.

135. The Trustees recognise that reporting of ESG integration in asset classes other than listed equity is still evolving and are keen to continue the dialogue with their non-equity managers. As part of the responsible investment workshop held in July 2022, the Trustees invited BlackRock to speak about measuring climate metrics in non-publicly listed assets. ICG (Intermediate Capital Group), a global alternative asset manager, was also invited to discuss sustainability within real estate. When meeting with their property managers in November 2022, the Trustees asked them to elaborate on plans towards implementing EPC B, as well as stewardship activities such as tenant engagement and sustainable campaigns.

<u>Voting</u>

136. During the reporting period, the Trustees have investment in listed equity assets through three different mandates, managed by MFS (active equity), Schroders (index tracking), and BlackRock (index tracking). The Trustees believe that failing to exercise voting or other rights attached to shares could be contrary to the interest of the beneficiaries of the Fund. They have therefore instructed the investment managers to take this into account in exercising such rights on their behalf. The Trustees have instructed the

managers to provide them with a statement on their corporate governance and voting policy, and to report on their voting record in each of these mandates on a quarterly basis.

137. During the reporting period, the Trustees have adopted the sustainability voting guidelines issued by Institutional Shareholder Services (ISS) as the basis against which they will judge good voting practice.

- For segregated mandates, the Trustees have instructed their managers to adopt the ISS sustainability voting guidelines. Where a manager does not vote in line with the ISS sustainability guidelines, this will be reported to the Trustees and explanation will be required.
- For pooled mandates, where possible the Trustees will instruct their managers to adopt the ISS sustainability voting guidelines. Where not possible to instruct their managers how to vote, the Trustees will review the policies employed by the manager against the ISS sustainability guidelines and where appropriate request that the manager take account of the ISS sustainability guidelines in the execution of voting policy.

138. The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustees require that their active managers provide an explanation where votes have not been cast in accordance with the Fund's policy. The Trustees review managers' voting activities on a regular basis and challenge managers on voting practices during regular review meetings. The Trustees also monitor investment managers' voting on particular companies or issues that affect more than one company.

139. On an annual basis and where relevant, the Trustees request their investment managers to provide details of any change in their house voting policy and review any changes against the ISS sustainability guidelines.

140. In making any future manager appointments, the Trustees will assess the manager's voting policy as part of the due diligence process.

Engagement

141. The Trustees believe that their investment managers are accountable to them for all engagement activity and should be able to demonstrate, when challenged, the reason for any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place, and the consequences should engagement be unsuccessful. The Trustees believe that engagement activity may differ across mandate types and asset classes and is not limited to listed assets.

142. In appointing new managers, the Trustees assess the prospective manager's approach to engagement to ensure consistency with the Trustees' own policies and reporting requirements. The successful candidates are expected to demonstrate that their approach is consistent with the Fund's policies and in line with developing best practice.

143. The Trustees adopt an evidence-based approach to assessing engagement activity by managers. The Trustees receive regular quarterly update on their equity managers' engagement activity. The Trustees recognise the difference in how investment managers carry out engagement activity for non-listed assets such as private debt and real assets, and request that their non-equity managers complete annual compliance reporting providing specific examples of engagement. Where appropriate, the Trustees challenge their investment managers on actions taken.

Stewardship and decision-making

144. The Trustees believe that they can influence the behaviour and practices of their investment managers with regard to stewardship through ongoing and forceful engagement, even where assets are invested through pooled funds. Where the practices adopted by their investment managers differ from the Trustees' policy, the managers will be challenged on their approach. Managers exhibiting weaker practices over a sustained period will not be considered for future appointments to the Fund and their appointment will be reviewed.

145. The Trustees seek to ensure that their asset managers have integrated stewardship and investment on their behalf and ask the managers to provide evidence as part of stewardship reporting. MFS used the below case study to demonstrate how they have made use of information gathered through stewardship to inform decision-making. More examples can be found under Principle 9-11.

Case Study: Comcast and Liberty Broadband

The MFS Global Equity portfolio has owned shares of Comcast since 2017. Governance is one of the most material risks influencing our long-term investment thesis and we have actively engaged with company management to address governance concerns including over boarding (directors serving on too many boards), board independence, dual share classes, executive compensation, and board diversity. These engagements have provided some positive signs of improvement, particularly about over boarding and board independence.

We continue to own Comcast in the portfolio as we remain positive on the long-term growth and return prospects of Comcast and Charter Communications – the two biggest US cable companies – mainly driven by continued growth and penetration of broadband internet services. We believe Comcast's valuation is very attractive and has discounted ESG risks. However, we continue to view governance as a key risk for Comcast, which may have a negative impact on its capital allocation discipline, while Charter Communications management has demonstrated strong capital allocation and a clear focus on returns.

Since 2020 we have built a position in Liberty Broadband – which provides exposure to Charter Communications through an ownership stake at a valuation discount. During 2022 we added to Liberty Broadband while maintaining the Comcast position in the portfolio. The combination of Comcast and Liberty Broadband has provided a significant exposure to the United States (US) cable industry while balancing ESG risks against fundamentals and valuations. As a reminder, given our approach to integrate ESG factors into our investment process, we will not make investment decisions solely based on an ESG view.

8. Monitoring managers and service providers

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

Monitoring investment consultant

146. The Trustees set strategic objectives for their investment consultant, review their performance against these objectives as part of ongoing good governance, and assess this annually. This is in line with guidance from The Pension Regulator which suggests performance is monitored annually, with a detailed review every three years.

147. Hymans Robertson, the Fund's investment consultant, create and update workplans to translate strategic objectives set by the Trustees into short-term and mid-term tasks and milestones. These workplans are taken to each investment focused Trustee meeting for discussion and approval. As part of ongoing assessment, the Secretariat ensure that Trustees' feedback, outcome of the discussion, and agreed actions are documented and agreed by all parties.

148. The Trustees adopt an evidence-based approach when assessing their investment consultant's performance against objectives. Progress made against the workplans forms the basis of ongoing evaluation. In addition, Hymans Robertson are asked to provide evidence with example measures of success alongside each objective to assist annual assessment.

149. During the reporting period Hymans Robertson were able to demonstrate with quantifiable measures and specific examples that the services have been delivered to meet the objectives. For example, the Fund's performance (net of fees) for the 3-year period to 31 December 2022 was 3.7% p.a., behind the assumed level of investment return used when calculating the long-term cost of benefits of 4.8%. Over the longer term, performance remains comfortably ahead of the assumed increase in long-term cost of benefits. The funding level as of 30 April 2022 was estimated by GAD to be c.130%. The funding level is expected to have fallen slightly towards the end of 2022 but is expected to remain comfortably above 100%. Over the period 1 January 2022 to 31 December 2022 the funding level has remained above 100%. The annual management fees for the 12 months to 31 March 2022 were confirmed to be 0.24%, unchanged from the previous 12 months and considered reasonable and competitive.

150. The Trustees provide regular feedback to their investment consultant about the services they deliver and are vocal about any potential areas for improvement. The Trustees are committed to having this type of open dialogue with their investment consultant. Annual in-person review meetings with a senior partner at Hymans Robertson have been re-instated, where feedback on their services is shared. During the review meeting held in October 2022, the Secretariat shared a few minor areas for improvement and followed up with a call in April 2023. While there is a formal policy for escalation, the Trustees have been able to address any minor issues through their regular engagement with Hymans Robertson and any feedback provided has been acted upon quickly.

Monitoring investment managers

151. The Fund's investment structure represents the allocation to different mandate types within various asset classes. When appointing new investment managers for the Fund, where relevant to the mandate, the Trustees set comprehensive investment guidelines including benchmarks, performance criteria, manager remuneration, and responsible investment expectations. The Trustees impose minimum standards for all managers and monitor their performance on a regular basis.

152. The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Fund's investment managers. It is critical that the managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

153. The Trustees are supported by Hymans Robertson, their investment adviser, in developing stewardship practices to monitor the investment managers. The investment consultancy team at Hymans Robertson include a senior consultant specialised in responsible investment. The team have been instrumental in guiding the Trustees as they develop robust procedures to ensure their managers are held to account. Hymans Robertson also prepares quarterly voting and engagement reports to help monitor equity managers' adherence to the Fund's stewardship policies.

154. The Trustees' Responsible Investment Policy, available on the PCPF website, sets out the Trustees' approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

155. The Trustees value regular dialogue with their managers regarding investment performance and stewardship activities, undertaken in conjunction with their investment adviser. They meet regularly with their managers and consider how expectations have been met both during these meetings and through reporting provided by their investment adviser. Hymans Robertson are required to provide input and analysis to assist the Trustees in evaluating asset managers' performance. They prepare quarterly investment monitoring reports and discuss with the Trustees market outlook, asset allocation, manager performance, and manager ratings. The Trustees use these findings to identify any potential issues and inform their decisions regarding any further engagement with the managers.

156. During the reporting year the Trustees became concerned about the performance of a fixed income manager. The Secretariat and the Trustees engaged with the manager on multiple occasions to understand what had led to the underperformance and monitored the situation through regular business updates during investment meetings. The Trustees have highlighted their expectations to the manager and will continue to monitor developments and factor in any updates when making decisions about re-investing with the manager.

157. As mentioned under Principle 7, the Trustees seek to ensure that their managers are exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustees have asked MFS, BlackRock, and Schroders, their equity investment managers, to report on how votes are cast on a quarterly basis. The results are analysed by Hymans Robertson and taken to Trustee meetings for discussion and a summary is published on the PCPF website to increase transparency. The Trustees also scrutinise significant votes, identified within the Responsible Investment Policy as votes on issues that are of particular concern, i.e., climate change and executive remuneration.

158. The Trustees monitor the managers' voting records and challenge their decisions where appropriate, in particular, where there is a vote against shareholder resolutions, a vote that is not in line with voting policy, or where the managers' opinions differ.

159. For example, the equity managers reported a significant vote in Q2 2022 regarding the shareholder resolution for United Parcel Service, Inc. to report on climate lobbying aligned with Paris Agreement. The

Trustees compared the votes and asked for clarification as to why their votes were different. The equity managers then provided justification below:[2]

- MFS - voted for the proposal and against management.

Rationale: The company and its shareholders are likely to benefit from a review of how the company's and its trade associations' lobbying positions align with Paris Agreement.

- BlackRock - voted against the proposal and with management.

Rationale: The company already has policies in place to address the request being made by the proposal, or is already enhancing its relevant policies.

- Schroders - voted for the proposal and against management.

Rationale: The company has been asked to issue a report describing how its lobbying efforts align with the 1.5 degree temperature goal as well as plans for mitigating against climate risk. This review would provide extra transparency into the company's efforts to align with the Paris temperature goal and their preparedness against potential climate risk, therefore Schroders are supportive of this resolution.

160. The Trustees held two Manager Days in November 2022, where they met with all their investment managers in person to address topics such as manager ethos/style, market overview, portfolio positioning, performance review, and ESG integration. For example, MFS discussed a few Canadian railway names held in the fund, the engagement approach taken with them on ESG issues, and the progress made over time. The Trustees probed whether engagement around sustainability has resulted in measurable changes, and whether divestment has ever been used where engagement fails. When meeting with the property managers, the Trustees received an update on the suspension of redemptions in the aftermath of the LDI (Liability Driven Investment) crisis and asked how the interest of the remaining investors would be protected as redemptions get fulfilled. The managers were also asked to elaborate on their plans towards implementing EPC B by the deadline of 2030.

161. The Trustees believe that they can influence the behaviour and practices of their investment managers through ongoing and forceful engagement. Trustees will challenge their managers if they fail to manage the assets in line with the Fund's investment and stewardship strategy. Managers exhibiting weaker investment performance or stewardship practices over a sustained period will not be considered for future appointments to the Fund and their appointment will be reviewed.

162. The Trustees monitor their investment managers' performance on a regular basis and have been able to address any minor issues through regular engagement with the managers. The Trustees are satisfied that the Fund's investment and stewardship policies have been followed during the reporting period.

[2] Source of information: quarterly voting and engagement reports.

9. Engagement

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

163. The Trustees believe that successful engagement with investee companies can protect and enhance the long-term value of the Fund's investments. Day-to-day responsibility for managing the Fund's holdings is delegated to the appointed investment managers.

164. The Trustees consider that, in most cases, its managers are best placed to engage with investee company management due to (a) the practical constraint of investment in pooled funds which limits their own ability to make alternative directions, (b) the resources available to these managers, which are funded by the investment management fees paid by the Trustees, and (c) the existence of relationships between investment managers and the underlying investee companies.

165. The Trustees expect their investment managers to monitor investee companies, engage with company management where necessary, and report on voting, governance, and engagement activity. Reports from investment managers on voting and engagement activity are reviewed on a regular basis.

Index-tracking equity managers

166. As of December 2022, the Fund had allocation to index tracking equity through two pooled funds, BlackRock Low Carbon Tracker (24%) and Schroders Multi Factor Equity (16%).

167. The **BlackRock** ACS World Low Carbon Equity Tracker Fund replicates the MSCI World Low Carbon Target Reduced Fossil Fuel Select Index. It does so by investing in securities that form this index. Therefore, the outcome of engagement has no impact on what securities the fund holds.

168. While index-tracking funds cannot exit holdings in specific companies, BlackRock believes this is precisely the reason engagement with investee companies is so important. As part of their fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all engagements and votes at company meetings. BIS engages company leadership on key topics emphasising governance practices including management of environmental and social factors that potentially have material economic, operational, or reputational ramifications for the company. BlackRock determines engagement priorities based on observation of market developments and emerging governance themes and evolve them year over year as necessary.

169. The BIS team's key engagement priorities in 2022 include:

- Board quality and effectiveness – Quality leadership is essential to performance. Board composition, effectiveness, diversity and accountability remain a top priority.
- Climate and natural capital – Climate action plans with targets to advance the transition to a low carbon economy. Managing natural capital dependencies and impacts through sustainable business models.
- Strategy, purpose and financial resilience – A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience.
- Incentives aligned with value creation – Appropriate incentives reward executives for delivering sustainable long-term value creation.

- Company impacts on people – Sustainable business models create enduring value for all key stakeholders

170. Over the reporting period BlackRock carried out a total of 1,058 engagements with 600 individual companies for the Low Carbon Fund. Below is an overview of the engagement metrics.

Engagements by region[3]	Number	%
Americas	573	54%
EMEA	328	31%
APAC	157	15%
Engagement themes	Number	%
Governance (G)	943	89%
Social (S)	472	45%
Environmental (E)	544	51%
Key engagement topics	Number	%
E- Climate Risk Management	467	44%
E- Environmental Impact Management	101	10%
E- Operational Sustainability	147	14%
S- Human Capital Management	333	31%
S- Social Risks and Opportunities	200	19%
G- Board Composition & Effectiveness	458	43%
G- Business Oversight/Risk Management	248	23%
G- Corporate Strategy	355	34%
G- Executive Management	139	13%
G- Governance Structure	195	18%
G- Remuneration	478	45%
G- Sustainability Reporting	147	14%

171. BlackRock is committed to enhancing the transparency of their stewardship practices. Where the manager believes it will help investors understand certain voting decisions at shareholder meetings, a Voting Bulletin is published to explain the rationale for how BlackRock has voted on select resolutions, and (where relevant) provide information around engagement activity with the issuer. This could include interim or final outcomes of such engagements – depending on whether the engagement has concluded – and any escalation undertaken, including any voting action as a result.

172. BlackRock assesses the effectiveness of engagements based on the targets set at the outset and amends them as the situation changes. In setting the objectives, the BIS team work with portfolio managers and other internal and external experts to build knowledge of the issues, propose a sound course of action, and identify desired outcomes. Therefore, the measures for each engagement will be different. BlackRock may suggest ideas for addressing certain issues but looks for the company to identify the most appropriate course of action. BIS monitors developments and assesses whether the

[3] Engagements include multiple company meetings during the year with the same company. Most engagement conversations cover multiple topics and are based on BlackRock's vote guidelines and engagement priorities found at: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-orities

company has addressed the concerns. BlackRock remains open minded about adapting its position in light of progress through the engagement.

173. BlackRock has been successful in engagements with a significant number of companies and continues to engage with some as the nature of the engagement is longer term. BlackRock will persevere with those companies where engagements have, to date, been less effective than expected and will not support management proxy proposals if a company proves unresponsive to engagement.

174. BlackRock provided a few case studies to illustrate the details of such engagement activity.

Case Study 1: HCA Healthcare, Inc.

HCA Healthcare, Inc. (HCA) is a leading provider of health care services in the U.S. At the 2021 AGM (annual general meeting), BIS did not support the re-election of the independent presiding director of HCA's board. The company did not have TCFD (Task Force for Climate related Financial Disclosures) aligned reporting, despite having a material risk from the carbon dependency of their business. HCA had not designated a board committee to oversee ESG issues, so we held the most senior outside director responsible for ensuring an appropriate approach by the board to overseeing key business risks.

After the 2021 AGM, HCA's board formalized committee oversight responsibilities of ESG issues by documenting the various committees' roles in their respective charters and, among other things, designated the Audit and Compliance Committee responsible for overseeing HCA's policies and practices regarding ESG issues. In addition, shortly before the April 2022 AGM, HCA disclosed their scope 1 and scope 2 GHG (greenhouse gas) emissions and published their first TCFD-aligned report. Given the significant progress that HCA made, particularly with respect to reporting climate-related risks and opportunities since the 2021 AGM, BIS supported the re-election of the Chair of the Audit and Compliance Committee at the 2022 AGM.

Case Study 2: CVS Health Corporation

CVS Health Corporation (CVS) is a U.S. diversified health solutions company. The May 2022 AGM agenda included a shareholder proposal asking the company to develop and publish a policy that provides paid sick leave for all employees.

A similar proposal was submitted by the same shareholder last year, but last year the SEC (U.S. Securities and Exchange Commission) allowed CVS to exclude it from the AGM agenda. In our engagement, and as highlighted in the company's public disclosures, management discussed their commitment to offer comprehensive and competitive wages and benefits to employees, which include, among other things, annual bonuses, 401(k) plans, stock awards, an employee stock purchase plan, health care and insurance benefits, paid time off, flexible work schedules, family leave, dependent care resources, employee assistance programs and tuition assistance. They noted that all full-time employees (representing more than 70% of CVS' workforce) have access to paid sick leave, as do many part-time employees.

While BIS recognizes the importance of frontline workers to CVS' long-term success, we did not support the shareholder proposal because it was overly prescriptive and attempted to direct business decision-making. We believe that policies on employee wages and benefits should be determined by company management, with reference to relevant regulations and appropriate board oversight. We do not believe that shareholders are well placed to direct policy on a matter core to the company's ability to deliver their strategy and balance the interests of all stakeholders. Given the importance of frontline workers to the company's success, we will continue to engage with CVS on their approach to human capital management.

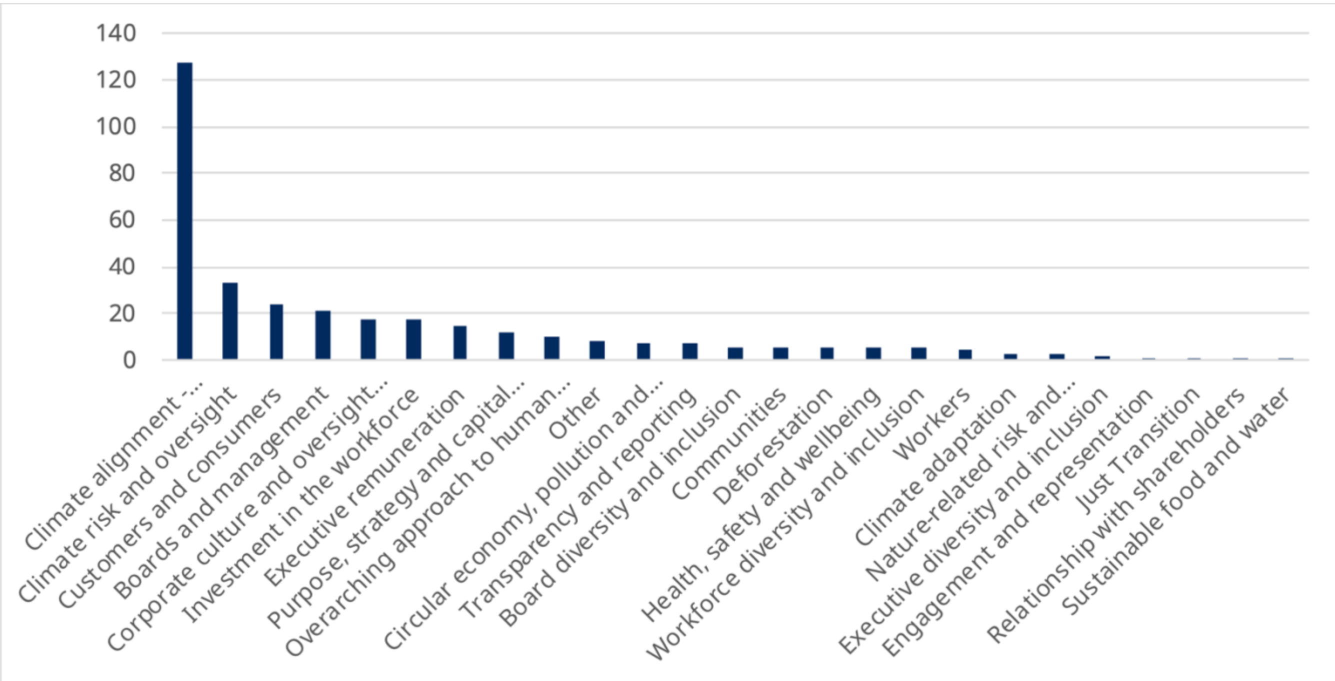
175. **Schroders** seeks to build a process that draws from the strengths of both the Schroders Systematic Investments team (SSI) and Schroders Sustainable Investment team and to put engagement at the core of Schroders' value proposition to clients.

176. SSI provides holdings data along with an engagement score to the Sustainable Investment team. This score can then be used to identify the most urgent engagement targets. The ESG team will engage the highest scoring names as a priority and will work down the list subject to having available resources.

177. Schroders has a points-based process and stocks accrue points as they hit a range of engagement triggers. Not all triggers attract the same points and the exact formulation for the score will change over time. SSI will actively seek feedback from the Sustainable Investment team. The points system is based on a number of metrics, including: indicators of weak governance, non-disclosure of Scope 1 and 2 emissions, lack of carbon emissions reduction targets, lack of board gender diversity, United Nations (UN) Global Compact Violator or very severe controversies, third party ratings, and SustainEx score vs peer group.

178. SustainEx is Schroders' proprietary ESG metric. It scientifically combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm's social and environmental impact. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if the costs they externalise are pushed back onto companies' own books.

179. Schroders engaged with over 45% of the Sustainable Multi-Factor Equity Fund on an asset weighted basis as of December 2022. Below is a summary of engagements for holdings in the Fund grouped by broad topic over 2022.



180. Schroders has also provided examples of engagement activity during 2022, including:

Case Study 1: Apple

Over the third quarter of 2022, our Sustainable Investment Team engaged with US tech giant, Apple, three times to ask for more clarity on a number of environmental and social topics, as well as encouraging them to increase their disclosures around them.

Initially, we wrote to Investor Relations to recognise that the company is leading in many aspects of its climate change work. We outlined a number of questions around the nuance of its climate change targets and longer term plans beyond 2030. On human rights, we asked for more information about how they assess the effectiveness of their due diligence process in light of recent reports alleging the use of illegally sourced gold in its supply chain.

We had a follow up meeting with the investor relations team where we pushed the company for further action on climate change (particularly circular economy), human rights and diversity. We discussed why Apple has set a 'carbon neutral' target, rather than 'net zero' which the company explained they view as largely the same. In light of this, we have asked them to clarify their offsetting strategy. Finally, we sought to understand the company's speak up mechanisms and asked it to improve disclosure around inclusion.

After the meeting, we shared detailed feedback on the company's ESG programmes at its request. We noted strengths in its climate goals, but reiterated our objectives and that we see an opportunity for the company to lead more on its product circularity work. On human rights we noted opportunities for more outcomes-based disclosure. We also reiterated our request for diversity and inclusion disclosure and finally explained that we are seeing more companies include ESG metrics in pay, which could present an opportunity for Apple.

We will continue to engage and review their action against the targets we have set over the coming months.

Case Study 2: Johnson & Johnson

In the second half of 2022, we engaged with Johnson & Johnson as part of our climate engagement priorities. We requested a meeting to discuss climate change and corporate culture. Climate change continues to be a critical issue for Schroders; earlier in the year we set our science-based targets, which committed us to aligning our financed emissions to a 1.5°C by 2040. Having reviewed the company's sustainability report, we had some questions to clarify their ongoing work, specifically around Scope 3 and longer-term targets. We were also particularly interested in the work around the impact of climate change on human health, and how this links to the R&D (research and development) strategy. Additionally, we outlined that we wanted to discuss their overall approach to culture and innovation.

During a subsequent call with the company, we sought clarity on the scope of its climate goals and the key challenges the company faces. The company acknowledged that Scope 3 remains a challenge, and we noted that the company could expand its current Scope 3 goals to include relevant downstream emissions. The company noted that we will likely see an evolution of the targets with the separation of the consumer business. After the meeting, we wrote to the company to share examples of other US -based pharma companies that have extended their Scope 3 targets to include relevant downstream emissions. As well as climate, we discussed issues such as employee engagement and how the company is approaching product safety, particularly in light of recent acquisitions.

<u>Active equity manager</u>

181. The Fund has a 16.5% target allocation to an active global equity mandate, managed by MFS.

182. During 2022 MFS met with 29 companies held in the PCPF portfolio. Many of these companies were met more than once as part of the research process. There were multiple engagements with management

teams, Board members and specific company representatives on a wide range of sustainability and ESG topics, where they are relevant and material to that company.

183. As an active manager, MFS believes open communication with issuers is vital to ensuring all issues, including ESG risks and opportunities, receive adequate attention from management teams and other stakeholders. MFS strive to maintain a regular dialogue with the companies they invest in. Overall, MFS' long-term approach to investing inspires a long-term approach to engagement. Their multi-year engagement horizon typically allows them to develop very strong relationships with portfolio companies. As a result, MFS can have more candid and insightful discussions as they foster these long-term dialogues.

184. MFS believes that engagement is an effective tool to better understand issuers' risk and reward profiles as well as to achieve meaningful change. MFS is committed to engaging with investee companies on a wide range of ESG topics including climate change, plastics, remuneration, succession planning, supply chain issues and workforce disclosure.

185. Below is a selection of recent engagement examples provided by MFS. Whilst actions and outcomes are ongoing, the manager has included comments on how engagements have helped inform investment decisions, where relevant.

Example 1: Danone

MFS reengaged with Danone on a shareholder vote on their climate change plans, which they aren't going to hold during the next AGM. We hope that continued pressure will result in the vote being held at future AGMs. Danone's categories have traditionally been viewed as attractive based on their "healthy" credentials., however, category growth has slowed since 2015, and Danone has materially underperformed their categories due to poor execution. Recent changes suggest governance and execution should improve which will hopefully lead to performance more in line with their categories and possibly a re-acceleration of the dairy category with improved innovation from Danone as category leaders. The company's ESG commitment is strong, although Danone haven't necessarily outperformed their peers in terms of tangible results.

Example 2: Hoya

Several members of our investment team hosted a meeting with Hoya's new Chief Sustainability Officer. The meeting was set up by the company who reached out to us to discuss our ESG materiality framework for Hoya, including which issues we think are the highest priority for them to focus on and disclose on.

We focused on four key areas: cyber and data security, employee management, supply chain labor and conflict materials and carbon emissions. Specifically on employee management, we had a two-way conversation about what disclosure information investors were looking for on this topic and suggested looking into joining the Workforce Disclosure Initiative to see if it would meet their needs. We felt that it was an encouraging meeting. The management seemed genuinely open to our ideas and feedback, and we believe investors will appreciate them taking a fresh look at ESG integration into their business. The company still have work to do, but it makes sense for them to figure out the material issues on which to spend its efforts and resources.

Example 3: Richemont

Members of our investment team recently engaged with the chair of Richemont, ahead of the company's annual general meeting. The engagement occurred following a dispute between the chair—a majority shareholder of the group— and Bluebell Capital who requested that Richemont add a number of votes to the AGM. These proposed votes addressed the matters of Richemont board elections and multiple by-law amendments affecting board share ownership. Following discussions with the company, we determined that

Richemont's board composition has seen steady improvement in recent years and that the company was being strategically managed with a long-term mindset, maintaining alignment with MFS interests. Though we will continue to monitor the progress being made in overall board composition, we remain confident in Richemont's management following this inquiry.

Credit/Private debt manager

186. The Fund has a 15% target allocation in credit/private debt, through M&G European Loan Fund (10%) and M&G Illiquid Credit Opportunities Fund (5%). As the latter was maturing, Barings Global Private Loan Fund was chosen as a replacement and an initial investment was made in December. The target allocation remains 5% and approximately half of the capital commitment has been funded by year end.

187. The **M&G** Leveraged Finance team conducts engagements with borrowers and sponsors to attest to governance models, environmental and social operating guidelines and to probe on key issues such as climate, diversity and inclusion, cyber-security and lobby for greater disclosure. This activity is undertaken jointly by fund managers and analysts and in consultation with M&G's Sustainability & Stewardship team. All engagement notes are structured, including ESG objective, engagement key takeaways and ESG investment decision consequences. Engagements, formal and informal, are recorded via the ESG dashboard and may be retrieved for review at company or fund level. A regular calling programme on ESG themes is held with all major sponsors.

188. M&G highlighted that the European loan market is a private one and often involves investing in newly-created entities, where ESG data and policies are not always readily available. As a private investor, M&G aims to use its influence to encourage target-setting and ESG disclosure.

189. Below is a selection of engagements undertaken by M&G during 2022.

COMPANY Ceva Sante Animale
OBJECTIVE FOR ENGAGEMENT • Objective 1: Encourage the company to disclose Scope 3 emissions and set interim and long-term Paris aligned, SBTi (Science based) targets. • Objective 2: Encourage improved cybersecurity disclosure following the breach in November 2020. • Objective 3: Encourage public disclosure of Ceva Sante-specific data on the percentage of revenue and spending on anti-microbial resistance (AMR). ACTION AND OUTCOME Emissions disclosure is improving with work on calculating Scope 3 analysis in progress. Management are currently considering interim and long-term SBTi targets, however they are not yet in a position to quantify and commit to these. A sustainability report is expected with the 2021 annual accounts. We will continue to encourage the setting of medium and long term GHG emission reduction targets and check the breadth and depth of the 2021 ESG/Sustainability report. The company has positively taken a number of steps to improve their cyber-security, including a two year road map for implementing security projects with weekly meetings to discuss progress and Exco oversight. However, there is no ISO 27001 certification of IT systems. We will follow up on progress in 12 months. With regards to AMR, the company are focused on the lower risk molecules and methods, and are developing alternatives. Bilateral sharing of this information with M&G is positive, however a wider public disclosure was not

yet forthcoming.

COMPANY Adevinta
OBJECTIVE FOR ENGAGEMENT • Objective 1: Improve D&I disclosures by producing a gender pay gap report and set numerical targets for D&I improvement at different levels of the workforce. • Objective 2: Improve Modern Slavery practices by asking the company to commit to organising independent audits on a regular basis and to provide detail on internal responsibility for managing supply chain and modern slavery risks. • Objective 3: Publicly disclose the success of their talent development programmes (e.g. Women in Leadership) and to disclose metrics such as the percentage of female (and ethnic minority) employees that have been promoted to senior positions as a result of these programmes. ACTION AND OUTCOME M&G met with the Head of Sustainability and Investor Relations at Adevinta to make our expectations known. The company informed us that they are planning to expand their DEI (diversity, equity, and inclusion) efforts into disability, ethnicity and sexual orientation but are facing challenges due to GDPR (data protection) limitations and variation in regulations across markets. They currently don't produce a gender pay gap report in the UK due to this lack of data, but Adevinta are looking to report on this from next year. By the end of 2022 they plan to conduct a taxonomy review of all suppliers and create risk metrics. For 2023, Adevinta will go one level deeper and establish a specific plan for different categories of suppliers, which includes both social and environmental aspects. The company run an Early Women in Leadership Programme which they are tracking. We voiced that it would be useful to see the successes of these programmes publicly disclosed, which the company noted and said that they will endeavour to do so in their upcoming reports. Overall, we are happy that the direction of travel for Adevinta is positive, but we will continue to monitor the situation to ensure that disclosure is improved and our asks are implemented. We await the company's 2024 report.

190. As a debt investor, **Barings** has limited control in engaging with portfolio companies on ESG-related risks in comparison to an equity investor, who tends to have controlling rights. However, one advantage of the private debt market is the direct relationship with key stakeholders, including private equity sponsors and issuer management teams. Barings focuses on partnering with reputable private equity sponsors, as they play a critical role in influencing ESG practices, given the control they have over the company. The benefit of these relationships and the private nature of the asset class is that Barings is able to stay in constant communication with both the sponsor and the portfolio company management teams. This allows the investment team to closely monitor any potential ESG-related concerns and a view into the company's controls.

191. Through this meaningful engagement and partnership with private equity partners, Barings has created tangible engagement opportunities, specifically through customizing the loan documentation to include an ESG margin ratchet. Barings partners with sponsors and borrowers to provide economic benefits to issuers in an effort to incentivise good ESG behaviours and outcomes. This effectively means that if a company meets a certain number of specified ESG criteria, it can get a reduction in its borrowing costs (5–15bps). Criteria can include actions such as improved board oversight, internal sustainability

professional oversight, data improvements and measured positive change through key performance indicators (KPIs).

192. As of 31 December 2022, Barings has closed over 55 transactions (including add-ons) with ratchets that promote positive ESG practices, which include KPIs related to Environmental, Social and/or Governance targets. Barings has also started to track the KPIs to be used in the prioritisation and pursuit of engagement objectives with borrowers.

<u>Real estate and infrastructure fund managers</u>

193. During the reporting period, the Trustees have investment in real estate assets through three funds, which collectively accounts for 10% of target allocation:

- Schroder UK Real Estate Fund
- UBS Triton Property Fund
- BlackRock UK Property Fund

194. These managers invest directly in real estate assets (and under certain circumstances, other real estate funds) rather than in listed companies, therefore their engagement activity is predominantly focused on occupiers, third party managers and suppliers, community, and investors.

195. For instance, working with appointed Property Managers and on-site Building Managers, **BlackRock** aims to establish active tenant sustainability programmes that regularly engage with tenants on a range of ESG issues. Examples of engagement activities have included focused events on energy efficiency and reduction, including the launch of 'Carbon Challenges' and 'Switch-off Week' campaigns. Energy savings achieved during these campaigns have been reported back to tenants to raise awareness of energy performance 'quick wins' and help encourage longer-term behaviour changes that drive ongoing reductions in energy consumption and wastage. BlackRock's tenant engagement programmes also address wider sustainability issues, including water efficiency, waste management and recycling, local wildlife conservation, and health and wellbeing. Further examples have included 'Waste Aware' and 'Zero Waste to Landfill' campaigns, on-site tree-planting and landscaping activities, introducing tenant yoga classes and other wellbeing activities, and establishing on-site bike rental and cycling clubs.

196. **Schroders** also provided examples detailing engagement activities with local community groups and occupiers, including:

Example: Two Ruskin Square, Croydon

The development targets delivery of an operational Net Zero Carbon scheme through integration of sustainability from design to operation. Community and stakeholder engagement is critical to delivering successful and vibrant schemes and for this project, 757 volunteering hours and 386 hours of education engagement have been undertaken to date. An example of a tangible output from this work is that an 18 -year-old Croydon resident claiming unemployment benefit took part in a week's work experience placement with Lesterose, the onsite bricklaying trade contractor, and was offered paid employment before he had even completed his placement demonstrating the clear positive impact achievable through meaningful and consistent engagement with the local community. The Local Employment and Training Strategy means that Living Wage is stipulated in all subcontracts and forms

part of the policies by our developers Stanhope and LendLease. Schroders' Supplier Code includes a clause on modern slavery and is implemented across the building's supply chain to tackle this issue. To challenge stereotypes and to actively promote diversity and inclusion, the site's contractors, Lendlease, and lift engineers, Kone, undertook education sessions for over 200 year 8 students at the local Norbury High School for Girls, with a particular focus on women targeting careers within the built environment sectors. Through the provision of positive education and networking opportunities, we aim to raise awareness of and aspirations about the vast range of careers available and break down the barriers to entry to our industry. 12 team members volunteered at 'Trees for Cities' to plant over 500 trees and plants in Crystal Palace Park, furthering green community spaces and contributing to offset the carbon emissions associated with 2 Ruskin Square.

197. The Fund has committed 5% of assets to the Global Renewable Power Fund managed by BlackRock, and 5% to Foresight Energy Infrastructure Partners. The positions are being built gradually, funded from selling listed equity, as and when the managers call capital.

198. **BlackRock** Global Renewable Power III (GRP III) Fund is a private market fund that focuses on large scale climate infrastructure assets, with a focus on renewable power generation assets (predominantly wind and solar), as well as a smaller allocation to renewable supporting infrastructure assets such as energy storage, energy distribution and electrified transport.

199. The Climate Infrastructure team has mostly taken majority controlling stakes, but also does sometimes take minority. The team's ability to take majority or minority ownership positions facilitates engagement with the full spectrum of sponsors from the small developers that prefer to sell outright, to the large utilities that want to retain a significant ownership stake. In the instance that it is a minority owner, BlackRock will seek the appropriate governance and exit rights in the investment documentation. For example, with the $100m investment into Revel (known as Prospect), BlackRock was able to obtain board seats despite taking a minority investment.

200. With all of GRP III's portfolio companies (no matter the % stake), BlackRock takes an active management approach by engaging closely with the management teams, and working collaboratively to execute the business and strategic plans of each company.

201. Below are some examples of engagement activities within GRP III:

Investment		Engagement Examples
Rakore	New Zealand – Residential solar and battery	• New Zealand's generation sources are more remotely located from most major loads. As a result, the amount of electrical power that can be delivered through the grid is constrained in some major centres. SolarZero's business model allows for consumers to take a decentralised approach by installing solar panels on their homes to produce zero-emissions electricity and become less reliant on the grid. • SolarZero's analysis indicates that an average consumer (based in Auckland) may reduce their annual energy bill by 7-25% through the installation of its services. • As all projects are roof-top, this provides opportunities to increase renewable energy generation with no incremental land use or new development, significantly reducing potential ESG

		risks and impacts associated with impacts on local communities and/or biodiversity. • Supporting clean energy job creation, the company provides employment to c.126 people across New Zealand.
Revel/ Prospect	USA – Electric Vehicle (EV) Infrastructure	• The Fund's investment in Revel directly facilitates the acceleration of EV adoption and the electrification of urban transport. • Revel's commitment to net-zero is foundational to their overall strategy and their well-established electric mobility brand. • The ride sharing and moped rental businesses only use 100% electric powered vehicles and bikes for its service. Notably, the moped rental segment aims to offer a cheap convenient transport option in underserved urban communities where they are located. • To date Revel has purchased Renewable Energy Credits (RECs) to offset 100% of their energy usage, and in the future as Revel's load grows, they will source renewable energy for its operations directly, through on-site Distributed Energy Resources and long-term PPAs (private wire purchase agreements). • The ride-share segment's model offers a full-time, salaried, benefited employment option for drivers vs. competitors' gig-economy model.

202. **Foresight** has developed the Sustainability Evaluation Tool ("SET") to assess the overall sustainability performance of any investment it makes. This analysis occurs by scoring potential investments against a 'Minimum Threshold' score for each asset class. Every potential investment should meet this minimum threshold in order for the investment to be pursued. Meanwhile areas of under-performance will require justification, mitigation or risk re-profiling in order to continue with the investment process.

203. The five key indicators that Foresight identifies as crucial to its investment process are:

- Sustainable Development Contribution: towards decarbonisation
- Environmental Footprint: localised environmental impacts
- Social Welfare: role in the local communities
- Governance: compliance with laws and regulations
- Third Party Interactions: supply chain sustainability

204. Sustainability and counterparty ESG is a topic which is engaged on early into any investment decision. Foresight considers engagement with companies a key part of its investment process and believes that it will be instrumental in improving their ESG standards. Foresight will typically meet investee companies face to face, primarily during a one-on-one meeting but also as part of group events. Dialogue will take place over email and phone where necessary. The level of engagement between Foresight and the investee company will vary depending on many factors. Meetings to carry out periodic monitoring will be the primary driver of engagement. Where Foresight believes that its engagement will have a beneficial impact on the performance of the company or the standards of their ESG reporting, it may increase its engagement with the management team and, where necessary, the Board.

205. All 11 investments made by Foresight have met the required standards before the investments were made, with all future investments being subject to the same process.

<u>Bond manager</u>

206. The Fund has a 7.5% target allocation to the Low Duration Opportunities Fund managed by PIMCO.

207. As one of the largest bondholders in the world, PIMCO has a large and important platform to engage with issuers to drive meaningful change on sustainability dimensions. Importantly, PIMCO prioritises engagement where financial exposure, influence and thematic exposure are the greatest. Engagement is an essential tool for delivering impact in ESG investing – PIMCO believes that ESG investing is not only about partnering with issuers that already demonstrate a deeply unified approach to ESG, but also about engaging with those with less advanced sustainability practices. This can be a direct way for PIMCO to influence positive changes that may benefit all stakeholders, including investors, employees, clients, society and the environment.

208. The objective of engagement is to influence change, improve returns and reduce risks for clients. PIMCO believes that bondholder engagement in the research phase is critical to understanding the risk and reward profile of an issuance and ultimately making buy/sell decisions. At present, engagements are focused on the corporate and sovereign asset classes, though PIMCO has engaged on structured credit issuances and with municipal issuers and continues to work to expand coverage of asset classes.

209. PIMCO provided below examples of engagement activities conducted with issuers held in the Low Duration Opportunities Fund in 2022:

Example 1: Banking

Theme	Net Zero Interim Target Setting, Human Rights & Client Engagement
Background	PIMCO had a 1x1 call with the investor relations team, focusing on climate change and human rights.
Engagement	Discussed progress on sectoral target setting, financed emissions, client engagement on transition, clarifications on sector policy and grievance and remediation for human rights. We also discussed the issuer's gaps in their lending policies on natural capital and alignment with net zero and are reviewing the policy, though unlikely to be updated in 2022. We encouraged HSBC to clarify their approach to assess and engage clients on transition progress, including clear criteria for assessing clients' transition progress (e.g. against 1.5C pathways, net zero framework by Transition Pathway Initiative or Climate Action 100+). We recommended more explicit reference to net zero in sector policies, particularly setting out time-bound expectations for all carbon-intensive sectors to have a credible transition plan and/or net zero targets. Furthermore, PIMCO recommended the issuer to set clear criteria for assessing client transition progress, defining engagement strategy, outcomes and escalation process.
Outcomes and next steps	The issuer recognized the room for improvement in strengthening human rights due diligence in lending and intend to improve over the coming years.

	The issuer is reviewing the lending policies, with updates expected through 2022.

Example 2: Gas and electric utility holding company

Theme	Greenhouse Gas Emissions, Delivery on Business & Balance Sheet Strategy, Board, Management & Ownership, ESG Bonds
Background	PIMCO led a 1x1 meeting with Chief Financial Officer and Treasurer to discuss business strategy on coal retirement, solar, sustainable finance and balance sheet strategy.
Engagement	PIMCO discussed the company's energy choices including coal retirement planning, solar supply and sustainable financing. The company is working with state and federal to ensure responsible and just energy transition. Discussion also evolved around balance sheet strategy, management team, and progress on nuclear plant coming online.
Progress to date	PIMCO flagged the importance of an explicit date on coal phase-out, encouraged doing in-house traceability, and suggested opportunities in sustainable financing (mix of green and social using just transition).

10. Collaboration

Principle 10 - Signatories, where necessary, participate in collaborative engagement to influence issuers.

210. The Trustees are willing to act collectively with other investors and expect their managers to collectively engage with other investors, where appropriate. They encourage their investment managers to actively participate in collaborative engagements with other investors, fund managers, and organisations where this is deemed to be in the best interests of the Fund. The Trustees will consider opportunities to collaborate with other stakeholders and industry bodies, bearing in mind the resources available to support the Fund.

Index-tracking equity managers

211. **BlackRock** contributes to the stewardship ecosystem through collaboration in client engagements, public policy, industry partnerships such as PRI, SASB (Sustainability Accounting Standards Board), and Ceres, and improving the corporate governance landscape.[4] For instance:

- BlackRock publishes reports and guides on engagement and ESG issues to contribute to a body of knowledge available to support ESG analysis by investors and more sustainable financial performance by companies.
- BlackRock addresses relevant emerging issues at a market wide or policy level through responses to consultations, which are available on the firm's website.
- BlackRock supports a number of collaborative initiatives to advance a more sustainable capital markets system which encourages effective corporate risk management and more efficient capital deployment.

212. BlackRock invests in nearly 16,000 companies across 85 markets and multiple sectors on behalf of clients. This diverse exposure provides the impetus to work at the market and systems level to improve shareholder protections, disclosure standards, and corporate governance and stewardship frameworks globally. BlackRock participates actively in over 40 global, regional and market level organizations and initiatives to advance good practice and to share perspectives on ESG integration and stewardship. In these forums, BlackRock discusses emerging trends and public policy issues, for the sake of improving industry and governmental standards and driving adoption by companies. The manager also contributes to public policy through direct engagement with policy makers and responses to public consultations that help to shape the frameworks within which BlackRock and the investee companies operate.

213. A significant portion of BlackRock Investment Stewardship (BIS) team's work involves engaging with clients, prospects, consultants, and industry groups. Each year BIS has more than 300 such meetings. Most meetings involve the sharing of perspectives to communicate expectations and agree areas of focus. Beyond these types of engagements, BIS responds to numerous client due diligence questionnaires, requests for information or requests for proposals that seek insight into aspects of the stewardship work in relation to specific products and investment mandates. The increasing scope of these interactions demonstrates the growing level of client interest in governance matters, including environmental and social issues.

[4] For details, see https://www.blackrock.com/corporate/literature/publication/blk-profile-of-blackrock-investment-stewardship-team-work.pdf

214. BIS generally engages individual issuers independently, rather than alongside other asset managers or asset owners. BlackRock believes this approach enables the firm to best advance clients' long-term financial interests. Particularly, BIS is sensitive to the regulatory ramifications of collaborative engagement, particularly with respect to U.S. issuers and issuers with U.S.-listed securities. BIS may participate in collaborative engagements with other shareholders in limited instances, where permissible under local regulations and a market norm, and where the clients' long-term financial interests could be more productively advanced through joint dialogue. When BlackRock does engage collaboratively, BIS determines the engagement objectives independently, including with whom and how best to partner.

215. BlackRock engages the global investment and corporate community to promote a sustainable financial system through a number of coalitions and shareholder groups. Industry affiliations provide important forums in which to advocate for BlackRock's views on a variety of corporate governance and sustainability topics, as well as listen to the views of its peers.

216. During the reporting period, **Schroders** conducted collaborative engagements on topics such as climate change, human capital management, human rights, and natural capital and biodiversity. The manager provided the below case study to illustrate collaborative engagement in action.

Case Study: US food service company

In April 2022, we signed a collaborative engagement letter, coordinated by the Interfaith Centre on Corporate Responsibility (ICCR), which asked the company to provide an update on the progress of its antibiotics use commitments. The letter asked the company to make a public update on its website, no later than April 30, 2022, committing the company to release its beef sector antibiotics reduction targets no later than June 30, 2022. It also urged the company to honour the commitment set forth in its 2017 Vision for Antibiotics Stewardship (VAS) to set a global antibiotic use policy for pork. Finally, the letter asked the company to restore its practice of meeting with a diversity of stakeholders on this issue, including representatives from non-governmental organizations and other experts outside the sphere of industry influence.

Following this, we joined a collaborative investor call with the company on its beef and pork antibiotic policies in May 2022. During the call, the company remained vague around the new timelines for publishing beef antibiotic use targets, after failing to meet its initial goal of setting targets by 2022. Specifically, we also pushed the company to better explain how the targets will differ by market, and what additional challenges it has faced with its pilot programmes beyond Covid which have caused the delays. Whilst the company acknowledged the point about greater transparency and stated it will provide clearer timelines by the end of 2022, uncertainty around the topic and company progress remains.

<u>Active equity manager</u>

217. **MFS** believes that collaborative engagement can generate positive impacts for industries, individual companies and a wide range of stakeholders, including shareholders. MFS actively participates in a number of industry initiatives, organizations and working groups that seek to improve, and provide guidance on, corporate and investor best practices, ESG integration and proxy voting issues. During the reporting period, MFS remained active participants in many industry groups, such as Climate Action 100+ and the Workforce Disclosure Initiative (WDI).

218. In addition, MFS joined several new industry initiatives in 2022. For example, as a member of the Interfaith Centre on Corporate Responsibility (ICCR), an association advocating for corporate social responsibility, MFS signed a letter in 2022 supporting the "just transition" to a net zero economy. Such a just transition would address the interconnected issues of climate change, racial injustice, public health

and economic inequity. The letter called on companies, investors and policymakers to ensure that the transition to a decarbonized economy supports racial and economic equality by prioritizing “high-road” jobs (ones that provide family-friendly benefits, pay a liveable wage, promote health and safety, etc.), a respect for human rights, positive community impacts and the remediation of harms.

219. MFS has also joined Investors Against Slavery and Trafficking, an Australian super led initiative that brings investors together to collectively engage with corporates on eradicating modern slavery in the supply chain. MFS became the lead investor on this engagement with Samsung at the end of 2022 in order to collectively and constructively work with the company to improve labour treatment in their supply chain and improve sustainability over the long term.

220. MFS also provided notable examples of collaborative engagements in policy advocacy, including:

Example 1:

In August 2022, we wrote a letter commenting on the SEC’s proposal related to enhanced disclosure by investors on ESG practices. We stated our support for the primary goals of the proposal which are to discourage “greenwashing” and to provide concise, comparable ESG disclosure to investors, as well as our concern for certain aspects of the proposal that could create investor confusion. We also put forth suggestions to address these concerns.

Example 2:

We also wrote a letter to the Occupational Pensions Stewardship Council in response to questions they raised pertaining to the process of providing investors in pooled investment vehicles with the flexibility to individually vote proxies. We summarized our current stewardship practices and stated our belief that measures that allow investors in pooled investment vehicles to vote individually at shareholder meetings of portfolio companies could potentially weaken stewardship practices rather than enhance them, welcoming further dialogue with the council if needed.

Credit/Private debt manager

221. **M&G** Investments is an active member of the Climate Action 100+ (CA100+) group of investors, and co-leads on engagement with miner Rio Tinto, chemicals company BASF, auto maker VW, and energy company Total Energies, representing the 617 members of CA100+.

222. M&G is also active in working groups on BP and Shell and chemicals company LyondellBasell. For instance, as LyondellBasell does not have a net-zero 2050 commitment target, M&G signed a collaborative CA100+ letter requesting additional topics at the company’s 2021 AGM. The topics were regarding the company’s climate change commitments and strategy and whether the company should adopt an annual advisory vote on its climate strategy. Both discussion topics at the AGM were accepted by the company, however it was unable to provide substantive detail in response to questioning. M&G will continue to engage in order to influence greater change.

223. M&G sits on the Corporate Programme Advisory Group, which helps set future CA100+ priorities and has also been asked to co-chair the new Natural Capital Committee for the International Corporate Governance Network (ICGN). The committee is looking to set a framework for natural capital, the options for investors to focus on, and a set of recommendations.

224. Within Leveraged Finance, M&G collaborates with other investors and market participants via important collectives such as the Loan Market Association and the European Leveraged Finance Association

(ELFA). M&G is a Board Member of both and has participated in several sector-specific ESG roundtables for issuers and investors organised by the ELFA and the PRI.

Real estate and infrastructure fund managers

225. The real assets managers recognise the importance of industry engagement, the contributions they can make to progress the sector, and the value that such engagement can bring to their own investment strategies and methodologies.

226. **Schroders** Capital Real Estate, for instance, has been an active member since helping to found the Better Buildings Partnership (BBP) in 2017. BBP is a collaboration of the UK's leading commercial property owners who are working together to tackle some of the industry's biggest challenges and improve the sustainability of existing commercial building stock. As part of this membership, Schroders attended industry meetings, working groups and roundtables. Members of the BBP meet formally on at least a quarterly basis and in addition Schroders is an active member of a number of supplementary commitment and working groups including the BBP Climate Commitment, Owner-Occupier Forum, and Real Estate Environmental Benchmark.

227. **Foresight** Energy Infrastructure Partners (FEIP) has collaborated with investors in the form of co-investment acquisitions, such as the Skaftåsen wind farm, located in Harjedalen municipality of Central Sweden, which would be the first in the world to feature the most powerful onshore wind turbines developed to date.

228. In addition, below is a selection of collaborative engagement initiatives that members of the FEIP team have taken part in during the reporting period:

Date	Who with	Subject	Detail
Feb-22	UK Sustainable Investment and Finance Association (UKSIF)	UKSIF Net-Zero Inquiry - Strengthening the role of Investor Stewardship	A series of roundtables being conducted by UKSIF to feed into policy direction about how to achieve the world's first Net-Zero financial system.
Jun-22	Principles for Responsible Investment (PRI)	PRI - Human rights in private markets investing	As part of its human rights workstream, the PRI organised a roundtable for private markets investors to discuss key challenges and effective approaches for addressing human rights in the investment process.
Oct-22	RBS International	Science Based Targets	Roundtable discussion on what lenders can do to better drive sustainable and decarbonised investment activities.

Bond manager

229. PIMCO's effort on collaborative stewardship through engagement includes joining other investors in outreach to companies as well as developing and shaping ESG guidance for companies alongside industry groups.

230. Below is a selection of initiatives that PIMCO has developed or led to drive sustainable finance in fixed income, with a focus on the Sustainable Development Goals and climate change.

Example 1 – American Agribusiness and Food Company

PIMCO encouraged the company to quantify impacts and exposures and use frameworks and regulations as part of their disclosure efforts, share the detailed scenario outlook for agricultural commodity prices and markets based on climate science (including potential long-term implications under several scenarios with increased physical risks), detail transmission channels for financial risks and quantify the potential financial impacts & areas of vulnerability, and elaborate on their climate resilience strategy.

Example 2 – Retail Electricity and Power Generation Company

PIMCO encouraged that the company confirm the ratchet-up of decarbonisation target is in line with the net zero pathway for utilities in the US, provide guidance for carbon emissions expected by around 2025-2026, set a phase-out date for unabated thermal coal in line with net zero (2030), develop a pathway for natural gas in line with net zero, quantify/give an order of magnitude concerning the contribution of the different levers of decarbonisation strategy/transition plan ideally over different timeframes.

11. Escalation

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

231. Responsibility for day-to-day interaction with issuers is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Managers are expected to disclose escalation activities as part of their annual statement of compliance with the Fund's stewardship policy.

Index-tracking equity managers

232. **BlackRock** believes that engagement meetings should have an agenda and an anticipated outcome. The manager expects that an engagement will help shape a company's approach to an issue, improve a company's disclosure, or inform a voting decision.

233. In identifying the need and preparing for an engagement, the BlackRock Investment Stewardship (BIS) analyst determines the desired outcomes and timeframe within which BlackRock would expect to see them delivered by a company. The BIS team uses a global engagement tracking tool in BlackRock's proprietary Aladdin® Research platform. It facilitates the team's ability to monitor and report engagements and share insights with BlackRock investment teams. This monitoring and tracking mechanism enables BlackRock to measure progress over time, especially as many of the engagements are long-term and ongoing.

234. BlackRock may vote against management, including against corporate directors (and in favour of certain types of shareholder proposals) should companies fail to demonstrate material progress against specific measures. The BIS analyst, in consultation with senior team members as appropriate, determines how to escalate should a company not be responsive to the engagement or subsequent votes against management. An initial next step in escalation after an engagement with company management could be to engage with senior members of the board. The most frequent voting escalation is to vote against additional management proposals or for relevant shareholder proposals if a company's response to BlackRock's original vote was insufficient.

235. As a predominantly indexed investor, BlackRock does not have the option to selectively divest from companies in most strategies, as is the case with the Low Carbon Fund. Below case study[5] illustrates how BlackRock used voting as an escalation method.

Case Study: Amazon AGM, Item 1g. Elect Judith A. McGrath BIS did not support the re-election of the Chair of the Leadership Development and Compensation Committee because of our concerns about the Board's response to various human capital management risks, which we believe may create adverse impacts that could expose the company to legal, regulatory, and operational risks and jeopardize their long-term success. As the Chair of the Leadership Development and Compensation Committee, Director McGrath is responsible for overseeing Amazon's strategies and polices related to human capital management within the workforce, including policies on diversity and inclusion, workplace environment and safety, and corporate culture. BIS determined that the board could be more proactive in responding to stakeholder concerns regarding human capital management and the assessment of the associated human capital risks for the company. We believe that the successful management of these issues contribute to the

[5] For details see BlackRock' vote bulletin: https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-amazon-may-2022.pdf

company's ability to deliver the durable, long term shareholder returns our clients depend on to meet their financial goals.

236. **Schroders** would ordinarily hope to address concerns through regular meetings that Schroders analysts, investors and ESG specialists hold with company management. However, there may be instances where a company does not respond constructively, the concerns have not been sufficiently addressed or Schroders does not feel confident that the company intends to address these concerns. Under these circumstances, Schroders may decide to extend the engagement activity and/or escalate specific areas of concern in order to effect the change. Intervention will generally begin with a process of holding additional meetings with company management to enhance the understanding of their stance and help the company to understand Schroders' position. Should this initial step fail, further escalation may be considered.

237. Schroders sees the actions of escalation as a spectrum and it may be appropriate to work though the various sanctions step by step over a multi-year period. For the purposes of Sustainable Multi-Factor Equity (SMFE) there is an additional escalation option that falls between voting against and full divestment. Forced Underweights are essentially soft divestments and may be most appropriate for use on-the-way to a full divestment or for large index companies where divestment may create unacceptably high levels of tracking error.

238. In 2022 Schroders did not have any incidents of escalation reaching the point of divestment. Divestment is reserved for companies where Schroders has significant concerns (for example multiple severe controversies) and the investee companies have failed to respond to attempts to engage or have shown insufficient progress over a reasonable time period.

239. An example of the systematic framework being used in practice to monitor holdings and target escalations is outlined below.

Case Study: Daeduck Electronics

Daeduck Electronics was highlighted by the Systematic Investment team's engagement framework as a priority for engagement, primarily driven by governance issues.

After discussion between the investment and sustainability teams, we agreed that – although the issues are common for a company of its size in the Korean market – we would engage as we would like to see Daeduck Electronics as a best-in-class company. We wanted to highlight our concern around the recent increase in director salary cap where no justification was provided. We also wanted to work with the company to set an example for the broader market, with the belief that this could lead to improved governance in the region.

However, the company was unresponsive to our attempts to get in contact. As a result, we have decided to escalate our concerns by voting against management on appropriate resolutions at their upcoming AGM, in line with our voting and escalation policies.

<u>Active equity manager</u>

240. MFS believes escalating an engagement is an effective way to assert influence and ultimately be a good steward of client's capital. MFS does not maintain a prescriptive framework with rigid milestones for engagement escalation as the manager views every engagement as a unique endeavor. Also, MFS does

not prioritize specific issues for escalation as all engagement and investment decisions are rooted in economic materiality, which by its nature varies depending on the company and the circumstances it faces. MFS does, however, recognize that its unique position as a large shareholder often allows it to garner more attention from management. Therefore, when it is in the clients' best long-term interests, MFS does not hesitate to escalate an engagement on issues that are considered economically material.

241. MFS' escalation methods are the same regardless of account type, asset or geography. If the outcome of direct engagement is unsatisfactory, MFS may consider using a variety of escalatory tactics. The approach taken depends on the circumstances and may change in light of progress made by the company or other developments.

242. MFS provided the below example where escalation has already been effective and changes have or are being made by the issuer.

Case Study: Rolls Royce

Our team of analysts and portfolio managers had several engagements recently with Rolls Royce (RR) including their Chief People's Officer & Non-Exec Director (to discuss restructuring and employee relations) and Chief Sustainability Officer & Chief Technology Officer (to discuss the climate policy).

MFS also engaged on a collective basis as part as our membership of the Climate Action 100+ Working group on Rolls Royce. Our conversations focused on the company's efforts to reduce the climate impacts of air travel, with a particular focus on sustainable aviation fuels and alternative propulsion technologies (e.g., hydrogen). The company has already run both large and small engines on 100% sustainable aviation fuels. However, the adoption of such fuels will likely continue to be constrained by regulation for some time. The team was more positive on the company's small modular nuclear reactor business. Given that nuclear has always suffered from cost overruns and higher than expected energy prices, RR is going to manufacture these small module reactors in a central facility which will reduce time to energy production and the higher costs associated with traditional reactor construction.

Going forward the team will track the firm's progress on publishing a clearer pathway towards net zero emissions, including its approach to lowering scope 3 emissions, which represent the bulk of its total emissions. Additionally, the team plans to closely monitor and engage on the company's strategic investment in technology.

We continue to hold Rolls Royce in the portfolio and continue to engage on these issues.

Credit/Private debt manager

243. During the reporting period, **M&G** has generally been satisfied with the outcomes of engagements, however the manager has in prior years escalated, and even divested, where engagement objectives were not achieved.

244. M&G provided the below case study on Ineos, including timeline, to demonstrate the activity and outcome of escalation undertaken on behalf of the PCPF in the past.

Case study: Ineos

- Nov 2020
  - Engagement with Group Technology Director (GTD) to encourage Ineos to provide investors with greater transparency with regard to disclosures on material ESG risks, such as climate change, as well as tangible targets and actions on carbon emission reductions across the group. While Ineos have made individual achievements, they have been within business siloes. The objective of this engagement was to encourage Ineos to provide investors with a more holistic understanding of the ESG standards and targets so that we could be comfortable that the company is managing material ESG risks and acting responsibly, particularly in relation to carbon emissions and waste management.
  - Ineos has made progress from a bottom-up level with regard to carbon emission reduction, usage of renewable energy, the circular economy and waste reduction.
  - However, information provided has not made it easy for investors to understand the risk at group level nor how Ineos ranks versus industry peers on ESG metrics, targets and progress.
  - Ineos recognised and appreciated our constructive feedback. We learned that the company would publish group level ESG reports on a newly established group website.
  - While Ineos have not made a public commitment to net zero greenhouse gas emissions by 2050, they are making concrete and incremental short- to medium-term actions and targets with that goal in mind, in line with regional targets and requirements.
  - While aware of the risks, we decided to monitor the situation, pending publication of carbon emission disclosure and targets, renewable energy content, circular economy actions, and waste reduction.
- Aug 2021
  - Sustainability report is published. It is a welcome start and includes GHG emissions reduction interim targets and circular economy goals plus earmarked €3bn for 'ESG investments' but little detail, including on implementation.
  - Capital Markets Day outlines zero emission hydrogen cracker plans.
- Sept 2021
  - Email engagement with follow-up clarification questions sent to GTD regarding stated climate roadmaps and a breakdown of the €3bn of ESG related investment that was referenced. We also probed on the state of play regarding Scope 3 emissions estimation.
  - Responses were received but still somewhat light on detail.
  - M&G reached out to other investors to check attitude with a view to possible joint approach to petition for more disclosure but met little support/interest.
- Nov 2021
  - Reduction of heavy overweight exposure in the fund, the relatively underpowered ESG disclosure compared to listed peers having resulted in a low ESG score, undermining the confidence to maintain a high conviction position in the name, strong financial performance of Ineos notwithstanding.

245. **Barings** recognises that the Global Private Finance Team's direct positioning or relationship with private equity sponsors can be leveraged to pursue the progression of engagement objectives. Barings will attempt to partner with borrowers through meaningful dialogue to achieve engagement objectives over time, before seeking to escalate engagements. Barings is looking to continue and strengthen its engagement approach with borrowers, with a focus on the pursuit of ESG data collection and the leverage of sustainability linked margin ratchets.

<u>Real estate and infrastructure fund managers</u>

246. The managers have commented that escalation (with issuers) in the traditional sense does not apply to funds investing directly in real assets. However, engagement, and escalation where appropriate, form part of the property manager and vendor monitoring process.

247. For instance, the Property Manager will speak with the relevant BlackRock Asset Manager to discuss the outcomes of annual tenant satisfaction surveys and ensure that any issues or complaints are formally actioned against agreed objectives and timescales. Any issues identified through the surveys, or through wider conversations with tenants, are also addressed in the Quarterly Meetings held between BlackRock and Property Managers.

248. BlackRock also provided below case study to demonstrate how climate related issues were flagged and addressed in a timely manner through engagement activities.

Case Study: The Atrium, Uxbridge (Office) In 2022, the team reviewed the Atrium and identified plant inefficiencies and large out of hours energy usage that were significantly higher than the previous year. To address the situation, we engaged with our Property Managers and Mechanical & Electrical Consultant to explore and remedy the asset's operational inefficiencies. The focus group established that an Intelligent Building Operating System ("IBOS") should be installed to best understand the building's requirements and demands, whilst providing fully optimised systems to support the energy pathway towards net-zero. The IBOS system has been integrated throughout the whole building (including chillers, boilers, and extract fans). The system has enabled performance tests that can run autonomously, and has the capacity to detect pending issues and likely failures within the asset. The reported performance data is regularly analysed to allow targeted maintenance and remote maintenance / control via the platform. Over the last 6 months, there has been a 22% reduction in energy consumption that has an estimated saving of approximately £27k and an estimated saving that equates to 69 tonnes of carbon emissions. This provided a significant environmental benefit as well as substantial cost saving to tenants, that would not have been picked up as quickly without rigorous environmental monitoring. We also engage regularly with tenants to ensure that plant running times reflect their occupancy times to ensure that we are not running the plant longer than necessary, without compromising tenant comfort.

<u>Bond manager</u>

249. PIMCO views stewardship and engagement as a long-term and dynamic process that evolves over several years. While changes may take time (years) to materialise, PIMCO analysts reinforce and follow up on ESG engagement objectives as part of their regular interactions with issuers. PIMCO's escalation

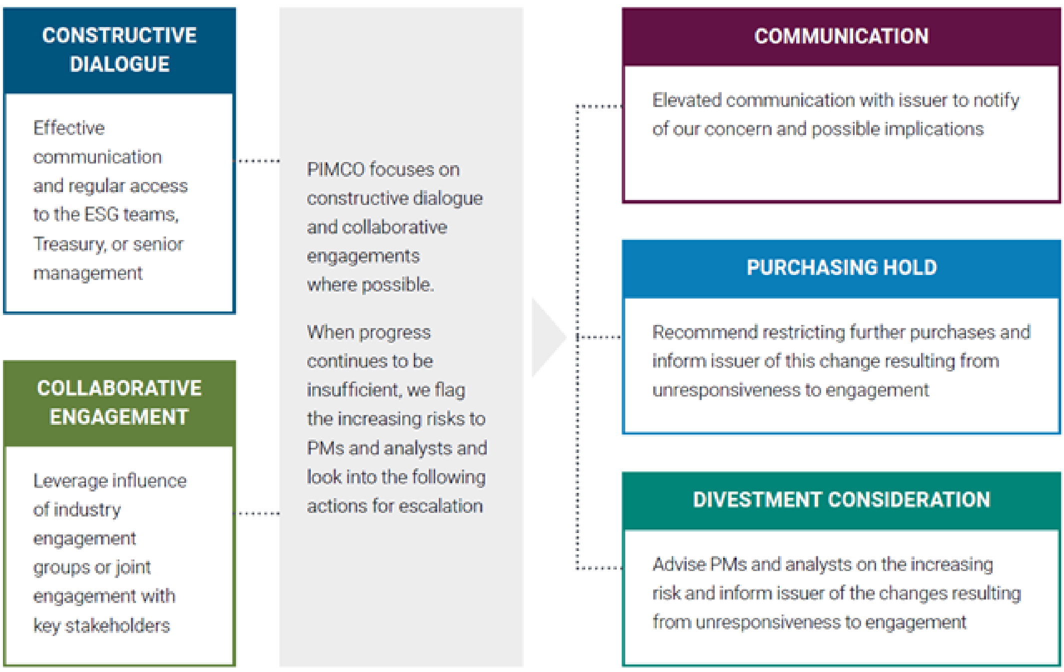
approach applies consistently across assets, geographies and funds, in line with their obligation of fiduciary duty and treating clients fairly.

250. Progress is tracked by both the interim steps taken by issuers and effective communication (e.g., responsiveness, openness to suggestions and references). If there is a need for accelerating progress, PIMCO focuses on potential breakthrough points via constructive dialogues (e.g., providing references and examples to overcome technical hurdles, or meeting with senior management).

251. Engagements may be escalated in the following scenarios:

- Controversy Driven: Negative idiosyncratic event/controversy occurs and issuer fails to communicate mitigation efforts or resolve.
- Inadequate progress: Moderate ESG-performing issuer with engagement aspirations showing limited progress in pace or level of ambition.
- Reluctance to engage: Issuer lacking willingness to participate in constructive ESG discussions, to disclose key and/or quality ESG information.

PIMCO ESG ENGAGEMENT AND ESCALATION APPROACH



252. While PIMCO does not disclose specific engagements where progress may be slower than desired, any lack of progress or response is taken into consideration. Ultimately, the persistent lack of response or progress from issuers and prevailing evidence of ESG risks is reflected in the issuer ESG assessment, sustainability bond assessment, and investment recommendations for PIMCO strategies, including dedicated ESG portfolios.

Example – Real Estate Investment Trust company

Given the slightly weaker disclosure at issuance, PIMCO engaged with the company after issuance to share our expectations on impact reporting and best practices for ESG bonds more broadly. However, the company did not publish any impact reports two years into the three-year maturity. PIMCO reached out to the company about timeline for the impact report publication and had not received any expected timeline for the disclosure. We escalated to the company that we would assume the bond program misaligned with ICMA (International Capital Market Association) principles in the absence of such update and highlighted the lack of plan to align its overall environmental disclosure with industry standards such as TCFD and SASB. PIMCO spoke with their Treasury team several times to reinforce our recommendations and potential impacts on ESG assessment for the program.

12. Exercising rights and responsibilities

Principle 12 - Signatories actively exercise their rights and responsibilities.

253. The Fund has delegated to its investment managers the responsibility for voting and engagement in relation to the investments that they manage on the Fund's behalf. Failure to exercise voting or other rights attached to the assets could be contrary to the interest of the beneficiaries of the Fund. The Trustees expect investment managers to take this into account in exercising such rights on their behalf.

254. As mentioned under Principle 7, the Trustees have asked their equity investment managers to report on how votes are cast on a quarterly basis. The Trustees have also monitored what shares and voting rights they have and any significant votes cast through these quarterly reports. For segregated mandates, the managers have been instructed to adopt the ISS Sustainability voting guidelines. For pooled mandates, the Trustees will review the policies employed by the manager against the ISS Sustainability guidelines and where appropriate request that the manager take account of them in the execution of voting policy.

Index-tracking equity managers

255. As a fiduciary, **BlackRock** is built to support the long-term value of assets the clients are invested in. From BlackRock's perspective, sound management of business-relevant sustainability issues can contribute to a company's sustainable long-term financial performance. Incorporating these considerations into the investment research, portfolio construction, and stewardship process can enhance long-term risk adjusted returns for clients.

256. Voting is the most broad-based form of engagement BlackRock has with companies, providing a channel for feedback to the board and management about investor perceptions of their performance and governance practices. BlackRock votes annually at more than 18,000 shareholder meetings, taking a case-by-case approach to the items put to a shareholder vote. The analysis is informed by internally developed proxy voting guidelines, pre-vote engagements, research, and the situational factors at a particular company.

257. BlackRock aims to vote at all shareholder meetings of companies in which the clients are invested. In cases where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, BlackRock will review the resolutions to assess the extent of the restrictions on voting against the potential benefits. BlackRock generally prefers to engage with the company in the first instance where there are concerns and give management time to address the issue. BlackRock will vote in favour of proposals where it supports the approach taken by a company's management or where engagements have been made on matters of concern and the management are expected to address them. BlackRock will not support management proposals where the board or management may not have adequately acted to advance the interests of long-term investors. BlackRock ordinarily refrains from abstaining from both management and shareholder proposals, unless abstaining is the valid vote option (in accordance with company by-laws) for not supporting management, there is a lack of disclosure regarding the proposal to be voted, or an abstention is the only way to implement the voting intention. In all situations the economic interests of clients will be paramount.

258. BlackRock's voting guidelines are intended to help clients and companies understand its thinking on key governance matters. They are the benchmark against which the manager assesses a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. BlackRock applies these guidelines pragmatically, taking into account a company's unique circumstances where relevant. Voting decisions are informed by research and engagement as necessary.

The voting guidelines are reviewed annually and updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

259. In 2022 BlackRock expanded the voting choice options available to clients invested in certain index strategies. The PCPF took the opportunity to instruct BlackRock to vote in line with the ISS Sustainability guidelines for the investments in the Low Carbon Fund. BlackRock confirmed on 30th September 2022 that this has been implemented as requested.

260. Below is an overview of voting metrics in relation to the Low Carbon Tracker fund for the year 2022.

Summary Voting Statistics	Number	%
Votable Meetings	958	
Meetings Voted	932	97.29%
Votable Ballots	964	
Ballots Voted	936	97.10%
Votable Proposals	**Number**	**%**
Total	13468	
Proposals Voted	12777	94.87%
FOR Votes	11598	86.12%
AGAINST Votes	1017	7.55%
ABSTAIN Votes	74	0.55%
WITHHOLD Votes	65	0.48%
Votes WITH Management	12061	89.55%
Votes AGAINST Management	716	5.32%
Management Proposals	**Number**	**%**
Total	12890	
Proposals Voted	12247	95.01%
FOR Votes	11521	89.38%
AGAINST Votes	566	4.39%
ABSTAIN Votes	72	0.56%
WITHHOLD Votes	65	0.50%
Votes WITH Management	11582	89.85%
Votes AGAINST Management	665	5.16%
Shareholder Proposals	**Number**	**%**
Total	578	
Proposals Voted	530	91.70%
FOR Votes	77	13.32%
AGAINST Votes	451	78.03%
ABSTAIN Votes	2	0.35%
WITHHOLD Votes	0	0.00%
Votes WITH Management	479	82.87%
Votes AGAINST Management	51	8.82%

261. BlackRock publishes vote bulletins[6] detailing the analysis, engagements, and votes in relation to a small number of high-profile proposals at company shareholder meetings, so that interested clients and others can understand the rationale behind BlackRock's votes.

262. A selection of case studies of stocks held in the Low Carbon Fund[7] is included below to illustrate how BlackRock has exercised voting rights on behalf of the PCPF, with a focus on executive remuneration and climate change risk.

Case Study 1: General Motors

Following the 2021 AGM of General Motors, a U.S. automobile manufacturer, at which BIS supported management on pay, we discussed with management how they might enhance their compensation disclosures. In our view, there was an opportunity for the company to better articulate their strategic pivot to electric vehicles (EV) and how it was being factored into future compensation decisions. Per the company's 2022 proxy statement, General Motors responded to shareholder feedback and provided additional detail on the goal setting process for the short-term incentive plan. The company also made changes to the design of the long-term plan, adding "Electric Vehicle financial performance measures that reward performance" among other adjustments. BIS subsequently supported the company's Say on Pay proposal at the June 2022 AGM, which received 92.3% shareholder support.

Case Study 2: Costco Wholesale Corporation

Costco Wholesale Corporation (Costco) is a major retailer based in the U.S. that operates through membership warehouse stores and e-commerce websites. A week before the 2022 AGM, the company published new quantitative targets for GHG emissions reductions, including a commitment to reduce global scope 1 and 2 carbon emissions by 2% per year. BIS had considered not supporting the re-election of Costco's board chair for the lack of forward-looking scope 1 and scope 2 GHG emissions reduction targets. We supported his re-election given Costco's updated climate risk disclosures provided ahead of the AGM. In addition, we did not support a shareholder proposal requesting that the company adopt science based GHG emissions reduction targets because, in our view, Costco had been responsive to shareholder feedback. We believe investor engagement with the company, including by BlackRock, helped accelerate the disclosure of new GHG emissions reduction targets that, once met, may help Costco effectively manage their adaptation in the energy transition.

Case Study 3: QBE Insurance Group Limited

At the May AGM of QBE Insurance Group Limited (QBE), an Australian insurance company, BIS supported a shareholder proposal seeking enhanced disclosures on GHG reductions targets and the company's plans to reduce underwriting exposure to the oil and gas sector. The proposal, which BIS also supported last year, is not, in our view, overly prescriptive or unduly constraining on management. BIS believed that the company could enhance their climate-related disclosure to better enable shareholders to assess the company's progress year-over-year.

263. **Schroders** recognises the responsibility to make considered use of voting rights. Schroders votes on all resolutions at all Annual General Meetings/Extraordinary General Meetings globally unless restricted from

[6] See website: https://www.blackrock.com/corporate/about-us/investment-stewardship#vote-bulletins

[7] For details see BlackRock' voting spotlight: https://www.blackrock.com/corporate/literature/publication/2022-investment-stewardship-voting-spotlight.pdf

doing so (e.g., as a result of share blocking). Schroders aims to take a consistent approach to voting globally, subject to regulatory restrictions that is in line with published ESG policy.

264. In 2022, of votes relating to companies held in the Fund, Schroders voted on approximately 93% of total resolutions and instructed a vote against management at 15.3% of the votes. In total, Schroders voted on 3,961 proposals.

265. Schroders will engage and vote on any issue affecting the long-term sustainable value of an investee company. The majority are targeted around issues required by local stock exchange listing requirements (e.g., director elections, acceptance of reports and the allocation of income, approval of remuneration policies and reports). Schroders also actively engages and votes on shareholder resolutions and has dedicated sustainable investment analysts who use their expertise to make these voting decisions.

266. On a monthly basis, Schroders produces a global voting report which details shareholder proposals for companies during the period and how the votes were cast, including votes against management and abstentions, along with the rationale behind these decisions. Schroders also publishes a public voting history with the rationale for votes against management, or for management when the matter is contentious. It is Schroders' default process to follow up any votes against management with an email outlining the reasons for voting against them.

267. Schroders does not blanket follow the recommendations of a proxy voting provider. Schroders evaluates voting resolutions and, where it has the authority to do so, votes in line with fiduciary responsibilities in what is deemed to be the interests of the clients. Schroders' Corporate Governance specialists assess each proposal, applying the voting policy and guidelines to each agenda item. In applying the policy, Schroders considers a range of factors, including the circumstances of each company, long-term performance, governance, strategy and the local corporate governance code. Schroders' specialists will draw on external research, such as the Investment Association's Institutional Voting Information Services and ISS, and public reporting. Schroders' own research is also integral to the process; this will be conducted by both the financial and Sustainable Investment analysts. For contentious issues, Corporate Governance specialists consult with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

268. Below is a case study provided by Schroders on voting during the reporting period:

Case Study: Voting at Oil & Gas AGMs

Companies' long-term success depends on their ability to transition their business models to a net zero or 1.5 degree pathway and adapting to a changing climate is vital to ensuring those businesses thrive. For companies that have already committed to act, engagement and voting is our route to holding them to account for their progress.

In 2022, we pre-declared our voting intentions in support of climate shareholder resolutions at three oil & gas majors – Chevron, ExxonMobil and Shell – to encourage a faster shift towards net zero. The resolutions were:

• Chevron: Item 5 - Stockholder proposal to adopt medium- and long-term GHG reduction targets

• ExxonMobil: Item 6 - Reduce Company Emissions and Hydrocarbon Sales

• Shell: Resolution 21 - Set and publish targets that are consistent with the goal of the Paris Climate Agreement

For Chevron and ExxonMobil, our decision to vote for these shareholder resolutions reflects our aspirations for these companies to show more ambition and transparency in their transition to net zero. These companies lag

behind peers in setting net zero targets that take into account the carbon emissions of the oil and gas that they sell. Shell has an ambition to achieve net zero greenhouse gas emissions by 2050 or sooner across Scope 1, 2 and 3 emissions relating to operations and the use of energy products and are making progress in setting interim climate targets. Our decision to vote for the resolution is a signal of our desire for the company to continue to demonstrate their focus on reaching net zero. We also supported the climate report Shell's management presented to shareholders, reflecting the progress they have made in strengthening and broadening their climate targets and developing their decarbonisation strategies. The resolutions were not broadly supported by shareholders, but our public support of them reflects our expectations and ambitions for these companies. We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. We continue to engage with these companies with a particular emphasis on the net zero transition. At the end of 2022, we wrote to each company to ask for a follow up in the new year to discuss updates and progress against our climate expectations.

Active equity manager

269. As requested, MFS votes in line with ISS' Sustainability Proxy Voting Policies effective 1st December 2022. Prior to the change, the manager voted in line with ISS' Standard Proxy Voting policies.

270. For accounts where clients have given MFS the authority to vote proxies, MFS votes all proposals in accordance with the guidelines set forth in the MFS Proxy Voting Policies and Procedures. All proxy voting decisions are made in what MFS believes to be in the best long-term economic interests of clients.

271. Below is a summary of overall metrics provided by MFS in relation to the voting activity during 2022:

How many meetings were you eligible to vote at?	87
How many resolutions were you eligible to vote on?	1,403
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	93.51%
Of the resolutions on which you voted, what % did you vote against management? *	6.49%
Of the resolutions on which you voted, what % did you abstain from voting?	0.00%
In what % of meetings, for which you did vote, did you vote at least once against management?	34.90%
* Abstentions are counted as votes against management	

272. MFS highlighted votes during the reporting period that they considered most significant, including:

SIGNIFICANT VOTES FOR THE SCHEME	VOTE 1
Company name	Oracle Corporation

Date of vote	16/11/2022
Summary of the resolution	Elect Directors (Compensation Committee)
How you voted	As requested by the client, MFS voted in line with ISS recommendations: Against Management. For those accounts voting in line with MFS' policies, MFS voted Against Management.
Rationale for the voting decision	As a reflection of our strong, ongoing concerns with the company's pay practices, MFS also voted against the re-election of the members of the compensation committee for the second consecutive year due to what we consider to be poor responsiveness to shareholders in addition to consecutive years of low say-on-pay vote results.
Outcome of the vote	70.3% (average)
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	Multiple years of low level support for the executive compensation plan indicates that the compensation committee continues to demonstrate insufficient responsiveness to shareholder concerns. We expect the compensation committee to enhance its engagement efforts with shareholders in order to understand their concerns and demonstrate accountability by making meaningful changes to the executive compensation program so that it better aligns with the expectations of shareholders.
On which criteria have you assessed this vote to be "most significant"?	Vote is linked to certain engagement priorities, vote considered engagement with the issuer, vote relates to certain thematic or industry trends, etc.

SIGNIFICANT FOR THE SCHEME	VOTE 2
Company name	Oracle Corporation
Date of vote	16/11/2022
Summary of the resolution	Advisory Vote to Ratify Named Executive Officers' Compensation
How you voted	As requested by the client, MFS voted in line with ISS recommendations: Against Management. For those accounts voting in line with MFS' policies, MFS voted Against Management.

Rationale for the voting decision	MFS voted against the executive compensation proposal due to ongoing year over year concerns around the structure and magnitude of the executive pay program, as well as the lack of performance-based vesting conditions attached to the company's long term incentive plan.
Outcome of the vote	66.8%
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	The level of support demonstrates significant shareholder concern. We hope to see a meaningful response from the issuer, including engagement efforts to identify and address shareholders' concerns.
On which criteria have you assessed this vote to be "most significant"?	Vote is linked to certain engagement priorities, vote considered engagement with the issuer, vote relates to certain thematic or industry trends, etc.

Credit/Private debt manager

273. Unlike public equity holders, who may only own a tiny fraction of a company's shares, in **M&G**'s private debt business, the manager often is one of the primary sources of finance for the borrower, which can provide significant access and influence to engage. Within Leveraged Loans M&G's approach is to utilise its status as a very large, private-side lender, and exploit the lobbying and questioning opportunities that this affords. This status also provides M&G with a platform to encourage meaningful change directly with the borrower.

274. Approach to seeking amendments to terms and conditions in indentures or contracts:

Within Fixed Income, investment analysts seek to engage with companies prior to investment to enhance covenant packages where possible, in the context of market norms. For private assets, the relevant analyst is responsible for the initial legal, structural, financial and credit due diligence of each asset prior to investment, as well as the ongoing monitoring throughout its life. Generally, these are buy and hold assets, and this places increased responsibility on the analyst to review the relevant transaction documents at the time of the investment and to enhance any covenant packages where possible. Amendments are typically sought by the borrower, not the investor, but M&G will typically engage with the issuer to determine whether these are appropriate and, where necessary, to secure changes to the proposal and/or compensation for investors to agreeing to the waivers. The work on amendments is undertaken on a case-by-case basis, and is based on the merits of the request in hand.

275. Approach to seeking access to information provided in trust deeds:

Other than as summarised or replicated in the disclosure documents, access to trust deeds will generally only be undertaken by M&G's legal representatives at the time of an amendment request or specific stressed scenario. On occasion Trust Deeds have formed part of the original suite of disclosed transaction documents, but this is unusual.

276. Approach to impairment rights:

Following on from the above, M&G notes that many developed market financial sector borrowers are covered by legislative resolution regimes and regulatory requirements, which limit M&G's ability to amend contract terms and conditions here. Financial sector analysts, therefore, seek a deep understanding of the laws and regulations in the borrower's host country, in order to assess the impairment risk for a particular investment. In some cases, analysts are able to engage with and/or provide feedback to a particular jurisdiction's regulators and/or resolution authorities, in order to play a part in informing their policy stance.

277. Approach to reviewing prospectus and transaction documents:

For private assets, due diligence is carried out at the initial structuring phase to determine the borrower's ability to repay and avoid default. One of the benefits of private assets is the close ongoing relationship with borrowers which can give M&G significant access and influence to engage. M&G has active, iterative relationships with its borrowers and consequently the borrowers are willing and able to engage on any ESG issues or improvements identified. M&G's due diligence process involves assessing all investment risks which have the potential to impact on the performance of the investment – including ESG risks. The analyst will be responsible for this process as per above.

278. Across **Barings** private credit, sustainability-linked margin ratchets are offered to all new borrowers and a large number of borrowers agree to include provisions in their loan agreements to encourage post-closing conversations. An ongoing challenge as part of this is looking to convert these provisions at scale into the formalised selection of meaningful KPIs. Project Fusion is an example where Barings managed to achieve improved disclosure and changed behaviour against prioritised material ESG issues through meaningful KPIs.

279. In Q2 2022, Barings closed a deal to finance the merger between two of its existing portfolio companies, which provide high acuity mental health care for children and adults. During the negotiation process, Barings engaged with the Private Equity Sponsor and proposed an ESG ratchet into the terms of the loan agreement. The Sponsor agreed and whilst the KPIs are to be set post-closing, Barings and the Sponsor have already engaged with a third party ESG provider, Sustainalytics, to assess and calibrate the KPIs in advance of finalising the ESG ratchets in September. As discussed with the Sponsor pre-closing, the KPIs will encompass both general environmental & governance targets (e.g. carbon footprint, waste management, gender equality), as well as more specific targets related to Fusion's quality ratings from public bodies (e.g. Ofsted, Care Quality Commissions). Sustainalytics' evaluation will follow the Sustainability-Linked Bond Principles and will assess the strength of the selected KPI as well as its ambitiousness compared to the company's historical performance and peers. Sustainalytics will monitor the KPIs and provide annual assessments on which the ESG ratchets will be based.

<u>Real estate and infrastructure fund managers</u>

280. The real estate managers do not invest in any listed companies and as such exercising voting rights in the traditional sense does not apply. However, they do recognise that there are other forms of rights and responsibilities in this asset class.

281. For instance, in terms of responsibilities, **UBS** sees climate change, energy needs and water scarcity as among the biggest challenges of the century. UBS Real Estate & Private Markets (REPM) recognises that real assets such as properties and infrastructure contribute significantly to CO^2 emissions and the consumption of natural resources.

282. UBS has established a comprehensive approach to environmental and social factors, and to corporate governance across each of the investment disciplines. Responsible ownership and operation of real property can have a significant positive impact on the environment and returns for clients, and REPM operates with this in mind.

283. While the financial objectives of clients remain its primary focus, REPM's responsible investment strategy also considers long-term resilience, climate change, environmental, social and governance aspects. At REPM, sustainability plays a major role in corporate, fund and asset-level decisions.

284. Specific to UBS Triton, the team continued to engage with all tenants to improve outcomes for both occupiers and the fund, to enhance tenant experience and work towards achieving the fund's sustainability objectives (e.g. net zero by 2050). All Triton tenants have been formally surveyed about their general experience as occupiers and about sustainability. From time to time, UBS also carry out more targeted occupier surveys. For example, during 2022, UBS carried out a bespoke survey and focus groups at Imperium and Worton Grange in order to develop a new programme of events and wellbeing activities post-COVID. The results of these surveys are being considered at Fund level to help define future sustainability strategy and enhance outcomes for the occupiers more widely.

285. **Foresight** Energy Infrastructure Partners (FEIP) has full control over investments. This is due to having a full representation on the Boards of the Project Companies owned. Foresight therefore retains the right to choose which third-parties are contracted. Throughout the process of contracting a third-party, companies are asked to provide all their ESG policies as part of the due diligence.

286. FEIP has the majority voting rights on all investee company Boards. This provides complete control over the investments. ESG is a topic on every Board agenda and it is closely monitored. FEIP believes there are no barriers to stewardship with their investments. Each contracted entity can be subject to ESG due diligence. If a company fails this due diligence they may not be contracted. The ESG due diligence requires third-parties to demonstrate both an appropriate commitment to the management of sustainability and ESG considerations and an ability to report on stipulated sustainability and ESG metrics.

<u>Bond manager</u>

287. PIMCO believes that for financial markets to prosper over the super secular horizon, growth cannot come at the cost of society. The economic disruption from poorly managed ESG risks is already being felt and the winners and losers of the transition to a net zero carbon economy are emerging. This is particularly relevant for bond investors, as ratings agencies increasingly report on bond issuers' ESG risks in a way that affects their cost of capital.

288. PIMCO takes the rights and responsibilities as a bondholder seriously, and looks to work with issuers through a variety of credit events, including new issuances and reverse enquiries, changes to their capital structures through restructurings and defaults as well as through collaborative engagement on material ESG topics.

289. PIMCO engages with issuers by proactively reviewing prospectuses of green, social, sustainability and sustainability-linked bonds (SLBs). PIMCO engages issuers to discuss the rationales and stringency of their ESG-labelled bond frameworks and shares its view on best practice, looking to raise the standards on ESG bonds.

290. Sustainability-linked bonds are particularly pertinent to PIMCO's approach to stewardship and engagement, especially in the context of exercising its rights and responsibilities on seeking amendments in bond indentures and contracts. SLBs are bonds where key performance indicators are structurally

linked to the issuer's achievement of climate or broader Sustainable Development Goals (SDGs), such as through a covenant linking the coupon of a bond. In this case, progress, or lack thereof, toward the SDGs or selected KPIs then results in a decrease or increase in the instrument's coupon. These bonds can play a key role in encouraging companies to make sustainability commitments at the corporate level, particularly through aligning to the UN SDGs or Paris Agreement. PIMCO engages regularly with companies on the issuance of SLBs, as well as the associated KPIs, reporting, and disclosures. This requires PIMCO to discuss bond contracts, terms and conditions as well as indentures directly with issuers. To support the engagement effort on SLBs (as well as broader ESG-labelled bond issuance), PIMCO developed a succinct guidance document to summarise expectations for issuers and bankers when bringing new sustainable bonds to market. The guidance builds on existing ICMA principles and guidelines to ensure that bond frameworks demonstrate a connection with issuers' sustainability strategy, the Paris Agreement and SDGs, and that impact reporting meets the evolving needs of ESG-focused investors.