Co-operative Pension Scheme (Pace)

2023 UK Stewardship Code and Responsible Investment report

Introduction

The Pace Trustee is pleased to publish its annual report on responsible investment for the year to 5 April 2023.

This report, which has been prepared for the Trustee by the Co-op Pensions Department, and reviewed and approved by the Pace Trustee, explains what the Trustee and Pace's investment managers have been doing during the year to make sure we meet the requirements of our Responsible Investment Policy, and how we've exercised stewardship on behalf of both the Defined Benefit (DB) and Defined Contribution (DC) sections of Pace.

It also demonstrates how we've complied with the principles underlying the updated UK Stewardship Code, which came into force on 1 January 2020. The Stewardship Code sets out a number of areas of good practice which the Financial Reporting Council (the FRC), the UK's independent regulator responsible for promoting high-quality corporate governance and reporting, believes institutional investors like Pace should aspire to. Appendix 3 lists each of the 12 principles in the Stewardship Code and highlights where they are covered in this report.

This report sits alongside the 'Implementation Statements' for the Co-op and Co-operative Bank sections of Pace, which is a statutory requirement setting out how we've complied with the policies in our Statements of Investment Principles, and also our Taskforce on Climate-Related Financial Disclosures (TCFD) report, quantifying climate risk within Pace DB and Pace DC. These reports are available on the Scheme's website under 'Pace investments' in the 'Useful information' section.

Chris Martin, Chair, Pace Trustees Limited

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Executive summary

As the Trustee of Pace, we're responsible for both DB and DC assets on behalf of Scheme members. Many of our members want to know these pension savings are being invested responsibly, while at the same time providing security for their futures.

This summary provides the highlights from our 2022/23 investment reporting, letting you know how the Trustee has carried out its Responsible Investment Policy over the past year.

Investing responsibly is one of our key aims, and one of the expectations of our stakeholders (both Scheme members and our sponsoring employers).

This year:

- We published our first formal report on Pace's exposure to climate risk and quantified its carbon footprint, and prepared our second report setting out progress against our net zero targets (including Scope 3 carbon emissions) – this will be published by November 2023;
- We've engaged with industry working groups and our DC fund manager to set a policy targeting the elimination of commodity-driven deforestation in our portfolio;
- We made a number of changes to our investment strategy for Pace DC and Pace DB – as mentioned last year, in April 2022 a new passive Shariah-compliant global equity fund was introduced for Pace DC, managed by HSBC, and we entered into a further 'buy-in' policy, covering all pensioner and non-pensioner liabilities for the Bank Section of Pace DB not previously insured; and
- We continued to apply an exclusions list where possible, to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or those based in countries with poor human-rights records.

How do we invest?

We've prepared a Statement of Investment Principles (SIP) for each of the Co-op and the Bank sections of Pace, which are available on the Scheme's website – these are the documents that govern the way the Scheme's assets are invested.

In brief:

- The Pace DB sections aim to pay benefits to members and their dependants as set out in the Scheme's Rules. These benefits are paid out of investments selected by the Pace Trustee.
- Pace DC allows its members to build their own retirement pots; members can choose how they want to invest their money from a selection of investment options offered by the Trustee.

We're committed to achieving these goals in a way that considers broader social and environmental concerns.

We would like our approach to responsible investment to reflect the views of Pace members as far as reasonably possible. We therefore welcome members' views on these issues – we've previously surveyed current employees of the Co-op to understand their responsible investment priorities and the themes which mattered to them, which we considered when setting our Responsible Investment Policy, and also through ad hoc questions from members over the year.

Last year, we introduced Tumelo for members of Pace DC, which allows members to see which companies they are invested in through their pension pot, and to submit preferences for issues they care about at companies' AGMs, which are communicated with the fund manager. By the end of the year, we've seen over 250 'votes' cast on Tumelo; the environment and pay equality were the most popular voting themes.

We will continue to review the data Tumelo provides on issues which are important to our members, and if relevant, use this to inform our engagement priorities in the future.

We believe that our approach to responsible investment should be consistent with the values of our sponsors, and their members and colleagues, again as far as reasonably possible, and we engage with them when reviewing our policies to understand their priorities. Finally, we believe that our Responsible Investment Policy should reflect the extent to which environmental, social and corporate governance (ESG) issues might represent a risk to the Scheme.

Over time, we've worked with the Co-op and The Co-operative Bank to identify three broad issues which we feel reflect the views of these stakeholders. These issues are:

- Climate change and the protection of the environment;
- Labour conditions and equal pay; and
- Corporate governance.

This year, we undertook work to understand deforestation risk within Pace DC, alongside a working group of investors formed by Make My Money Matter, and considering Global Canopy's Deforestation Free Pensions guidance. We've updated our Responsible Investment Policy to reflect this, and further detail is set out on page 17.

Our Responsible Investment Policy is available on the Scheme's website. The website also works as a platform for us to communicate with our members on important information such as changes to the DC fund range, and reporting on stewardship and climate change.

About us

The Co-operative Pension Scheme (Pace) is a UK-registered occupational pension scheme with assets held on behalf of members by PACE Trustees Limited (the Trustee).

In 2018, Pace was separated into two legally separate sections. The Co-operative Bank is the only employer in the Bank Section; all other employers participating in Pace are in the Co-op Section.

Both the Co-op Section and the Bank Section contain historic defined benefit (DB) and defined contribution (DC) sections, the latter for members who are currently contributing.

At 5 April 2023, there were over 70,000 members of Pace with DB benefits. This comprised 36,000 members with pensions already in payment and 37,000 members who are yet to retire; Pace's DB assets at that date were just over £7.6bn.

The DB Section of Pace (Pace DB) closed to future accrual in 2015. DB benefits were built up based on a member's salary and length of membership.

The DC Section of Pace (Pace DC) was established in 2012 and since 2015 is the only section of Pace which has actively contributing members. At 5 April 2023, there were just over 80,000 members of Pace DC, all still contributing or yet to draw benefits (when members draw their benefits from Pace DC by taking cash, buying an annuity or transferring out, they leave the Scheme). The total value of members' pension pots as at 5 April 2023 in Pace DC was around £760m.

The average age of members of Pace DC is approximately 41, while the average age of members of Pace DB (both pensioners and non-pensioners) at the last actuarial valuation in 2022 was higher at approximately 61; we therefore assume a longer time horizon when looking at investment strategy for Pace DC than for Pace DB.

The remainder of this report sets out how we, and our asset managers, have aimed to be responsible asset owners over the year.

Over time, we've implemented a lower-risk investment strategy for Pace DB. This means that we invest more in bonds and bond-like investments and less in shares (equities) and other riskier investments, aiming to reduce the volatility of Pace's funding position and improve security for members and employers. As part of this journey, in early 2020 we purchased insurance policies with Aviva and Pension Insurance Corporation (PIC), two UK insurers, to match the pension payments due to some members of the Co-op and Bank sections of Pace DB. In December 2022, the Bank Section of Pace entered into a further 'buy-in' transaction to purchase a bulk annuity insurance policy with Rothesay Life, a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, covering all pensioner and non-pensioner liabilities not previously insured.

As we don't have control over how the annuity providers invest, we don't cover the insurance policies in this report, although we did consider their responsible investment policies when they were selected. All three set their own responsible investment priorities and, in particular, have established frameworks for managing climate risk within the investments supporting the insurance policies they have issued.

For both sections of Pace DB, for our 'invested assets' (i.e. those not held via annuity insurance contracts) it is our policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques. The asset allocations for both sections of Pace DB are shown below:

		Allocation (5 April 2023)	
Asset class	**Region**	**Co-op Section**	**Bank Section**
Investment Grade Credit	UK	8%	-
Investment Grade Credit	Global	16%	-
Illiquid Credit	Global	11%	-
Alternative Inflation Linked Property	UK	5%	-
Alternative Assets	Global	1%	-
Liability Driven Investment and cash	UK	35%	2%*
Annuity policies	-	24%	98%

*The Bank Section's principal assets are the annuity policies with PIC and Rothesay Life. The section also holds some cash to meet ongoing costs.

The assets invested for Pace DC are administered by Legal & General Assurance Society Ltd, via a range of funds selected by the Trustee as appropriate and from which members can make their own choices. More details of the funds available for Pace DC are shown on page 36.

In April 2022 a new passive Shariah-compliant global equity fund was introduced for Pace DC, managed by HSBC; the fund was selected based on the Scheme's investment consultant's assessment of the manager's capabilities and the structure of the underlying index, and compliance with the principles of Islamic finance, with input from the Co-op's Rise network, a network of colleague volunteers working together to amplify the lived experiences of minority ethnic colleagues across the Co-op.

How do we exercise 'stewardship'?

'Stewardship is 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.'

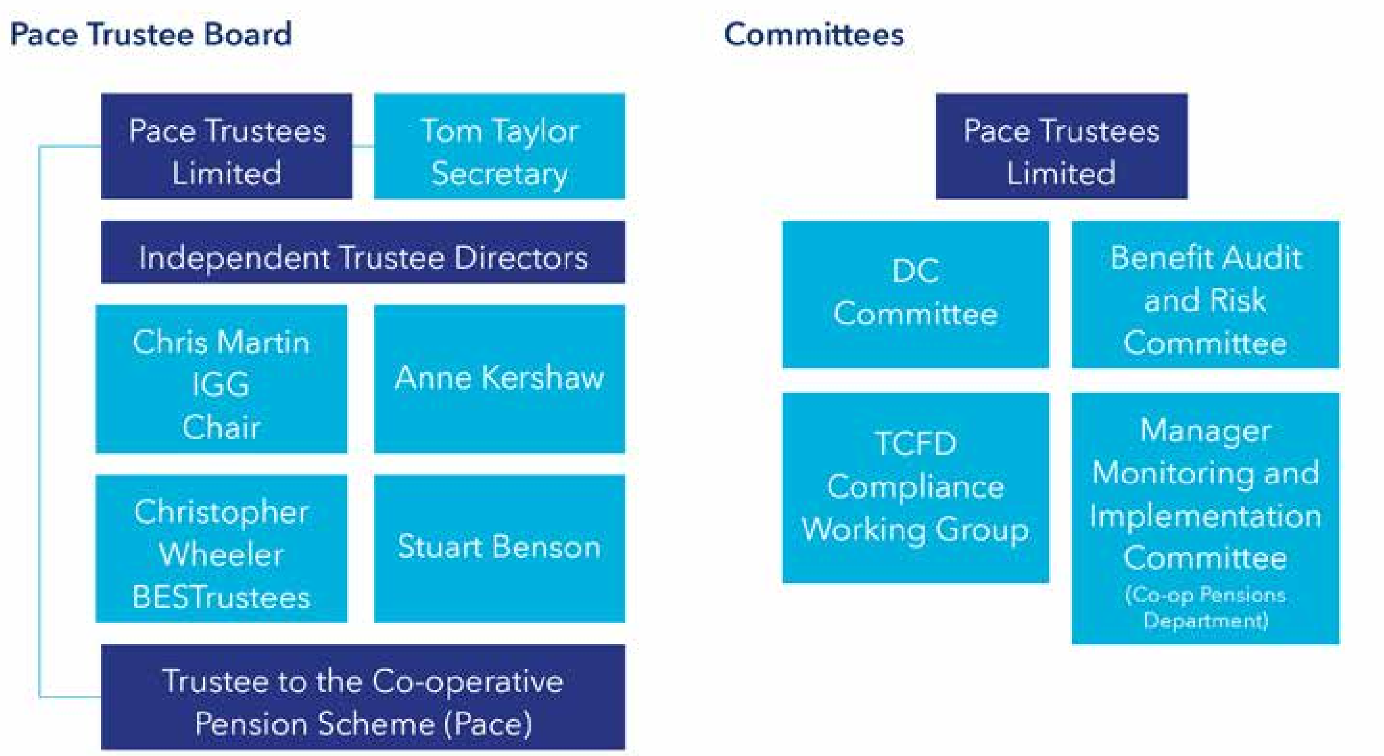
The 2020 UK Stewardship Code

We're committed to achieving our investment objectives in a way that considers broader social and environmental concerns, and by investing responsibly.

Governance structure

The Pace Trustee is ultimately responsible for managing Pace, and ensuring its duties and objectives are met. The structure and composition of the Board is illustrated below.

The Trustee believes that an effective governance structure is crucial to achieve best practice. To ensure that the appropriate level of skill, attention and diligence is applied to all areas of managing the Scheme, the Trustee has appointed a number of Committees to oversee specific areas, where members are selected based on relevant knowledge and experience. These are detailed in the figure below.



The Trustee Board consists of four experienced professional Trustee Directors. The Trustee retains responsibility for setting the investment objectives for Pace DB and for making decisions on asset allocation and the selection, retention and termination of investment managers. The DC Committee is responsible for the development and operation of Pace's investment policy for Pace DC. As set out below, the Trustee also takes advice from its DB and DC investment consultants (Mercer and LCP), while the Co-op Pensions Department also supports the Trustee and the Committees in their activities.

The Trustee believes that the governance structure, choice of service providers and investment managers enables it to be an effective steward of assets.

Resources

Responsibility for the day-to-day management of assets is delegated to our appointed investment managers, and their approach to implementing responsible investment principles is monitored by the Manager Monitoring and Implementation Committee (MMIC), which consists of senior members of the Co-op Pensions Department, including the Scheme Secretary of Pace.

The duties of the MMIC and DC Committee include considering in detail performance monitoring, risk assessment, and operational and implementation matters. The committees report back to the Trustee on key issues raised at their meetings in quarterly Trustee Board meetings or at ad hoc meetings when needed. The MMIC also reviews the internal control reports produced by investment managers across the Co-op's pension schemes. This review includes looking at the operating effectiveness of the investment managers' organisations and highlighting any exceptions noted as a result of testing carried out by auditors. The MMIC engages with managers where their reports have been qualified by auditors, and monitors their progress to remediate any issues.

The in-house team is responsible for ensuring that there is effective governance and risk management. Tom Taylor, a solicitor with over 15 years of pensions experience, is the Scheme Secretary of Pace and Lead Governance Manager; the MMIC is chaired by James Giles, Head of Pensions Investment and Risk, who is a Fellow of the Faculty and Institute of Actuaries with over 15 years' pensions and investment experience.

Investment managers

Following changes in 2017 to reduce risk in our investment strategy, Pace DB no longer invests in company shares (either directly or through pooled funds). Nevertheless, we've acknowledged the importance of considering ESG factors (and specifically climate risk) in investment decision-making and reserve the right to use a more direct engagement approach with investment managers and investee companies.

In such situations, we may:

- Work with investment managers and other institutions to engage with companies; and
- Contact investee companies directly or through our investment managers.

We encourage our appointed investment managers to commit to the Stewardship Code. Our managers have their own policies to demonstrate how they monitor and engage with the companies in which they invest, to protect and enhance value to clients, and which we review. All eight of Pace DB's investment managers have (as at 5 April 2023) published statements of compliance with the UK Stewardship Code, and links to their statements can be found in Appendix 1. We're delighted that last year's Stewardship Code report by Pace also met the FRC's expected standard of reporting, and that Pace therefore continues to be a signatory of the UK Stewardship Code in its capacity as an asset owner. This year's report reflects the FRC's ongoing feedback.

In addition, all of Pace's mandates are managed by signatories to the United Nations backed Principles for Responsible Investment (UNPRI).

Investment consultants

As well as appointing asset managers, we as a Trustee have appointed investment consultants to provide specialist advice in relation to both Pace DB and Pace DC.

Each year, we set our investment consultants specific objectives in relation to their advice to Pace to ensure a high quality of service (in line with the requirements of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019). At the end of each year, we formally review their performance against these objectives using a balanced scorecard approach.

These objectives cover the consultants' demonstration of value add; their delivery of speciality services (including in relation to support on climate risk, building on the criteria set out by the Investment Consultants Sustainability Working Group's 2021 trustee guide for assessing investment consultants on climate competence); the proactivity of their advice; their support with scheme management and compliance; and the overall relationship and service standards.

We formally assessed our consultants in December 2022 and remain confident that they continue to meet their objectives. However, in the interests of good governance, we review informally throughout the year, too, and provide feedback as and when required.

Review and assurance

Under the Stewardship Code, signatories should review their policies, assure their processes and assess the effectiveness of their activities.

A summary of Pace's relevant policies and processes together with the review process is set out below.

Statement of Investment Principles	The Co-op and Bank sections of Pace each have a Statement of Investment Principles (SIP), which is reviewed annually and after any significant change in investment policy by the Trustee, with advice from Pace's DB and DC investment consultants; the sections' sponsors are consulted on changes. The SIPs cover our policies on market-wide risks such as changes in interest rates and currency fluctuations, as well as our approach to other systemic risks such as climate risk. The two SIPs were reviewed and updated in April 2022 to reflect the addition of the Pace Growth (Shariah) Fund to the Pace DC self-select fund range. In addition, the Co-op Section SIP was updated in March 2023 to reflect the termination of its segregated Asset Backed Securities mandate, while the Bank Section SIP was updated in March 2023 to reflect the buy-in transaction described on page 6.
Risk register	The Trustee maintains a risk register, summarising the key risks to which Pace DB and Pace DC are exposed, and which Committees are responsible for managing these risks. This includes a heat map to aid us in identifying and focusing attention on the risks for which controls need to be implemented or strengthened. The risk register also shows a summary of the top key residual risks, current mitigations, developments and ongoing actions to help us put further controls in place. The risk register is considered quarterly and formally reviewed annually. It has been amended over the year to reflect the buy-in implemented for the Bank Section and changes to the Co-op Section's LDI collateral management policies.
Responsible Investment Policy	Pace maintains a Responsible Investment Policy covering both DB and DC investments. This policy was reviewed over the year and updated in March 2023 to include specific support for the ambitions of the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity Driven Deforestation by 2025 (see page 17).
Trustee Statement on Oversight of Climate Change Risks and Opportunities	This statement documents the governance processes the Trustee has put in place to ensure that it meets its statutory and fiduciary obligations in relation to effective governance of climate-change risks and opportunities. This was originally implemented in December 2021, and so was not formally reviewed until June 2023 (after the year end for this report).

External assurance

On a rolling quarterly basis, the MMIC reviews each investment manager's internal controls reports. Any exceptions are discussed with the investment manager and followed up by MMIC until they are resolved in a satisfactory manner.

Managing conflicts of interest

We have a clear procedure for identifying and managing conflicts of interest which may arise from time to time.

The Trustee Board meets at least quarterly, and in advance of each meeting, Trustee Directors are asked to consider if they have:

- Any material personal interest in the outcome of any discussions on the agenda;
- Any involvement in negotiating on funding or on any other matter on behalf of the Co-op or The Co-operative Bank;
- Any knowledge acquired from another role which would materially impact on decision-making, and which may not be shared with the Board; and
- Any difficulties in treating discussions as confidential.

The Trustee maintains a Register of Interests which sets out the relevant interests of the Trustee Directors. The Register is reviewed at each quarterly meeting and is updated on an ongoing basis as and when the Scheme Secretary is advised of any required changes or updates.

Potential conflicts of interest might arise if, for example, a Trustee Director were to have a relevant relationship with an investment manager being considered for appointment, or where they were a trustee for a pension scheme sponsored by a company Pace was considering engaging with or disinvesting from. These conflicts are managed by obtaining appropriate legal advice where necessary, with full disclosure being made within minutes of meetings and the Trustee Director(s) in question absenting themselves from discussions if appropriate.

How we communicate with members

We believe it's important to be transparent, so we tell our members how we invest in order to show the Scheme is exercising its responsibilities as an asset owner effectively.

The following documents are reviewed at least annually and are publicly available on the Scheme's website:

- Pace's Statements of Investment Principles (SIP) for the Co-op and Bank sections;
- Pace's Implementation Statements (again, for the Co-op and Bank sections);
- Responsible Investment Policy;
- The Scheme's annual report and accounts;
- Our annual Stewardship Code report; and
- An annual Taskforce on Climate-Related Financial Disclosures (TCFD) report.

In addition, we have dedicated sections in our annual report and accounts and our shorter members' annual report focused on responsible investment.

What has the Trustee been doing this year?

Responding to systemic risks

Climate risk

Climate-change risk is perhaps the most pressing challenge facing our planet and represents a material risk to pension scheme assets. In addition, around the globe, governments have been introducing regulations to step towards decarbonisation, and these regulations themselves are expected to have an impact on some financial assets – it is therefore a risk we need to recognise and manage.

We published our first report in line with the TCFD framework in October 2022, and our second report will be published by November 2023. Our reporting, and the TCFD framework, covers four areas:

- **Governance:** an organisation's governance around climate-related risks and opportunities (i.e. establishing processes for assessing and managing climate-related risks and opportunities);
- **Strategy:** the actual and potential impact of climate-related risks on investment strategy and funding strategy (including scenario analysis);
- **Risk management:** the processes used by the organisation to identify, assess and manage climate-related risks (e.g. monitoring voting/engagement on climate, and considering investment choices); and
- **Metrics and targets:** the metrics and targets used to assess and manage relevant climate-related risks and opportunities. Trustees must report on a minimum of two emissions-based metrics, one of which must be an absolute measure of emissions and one which must be an intensity-based measure of emissions; a forward-looking alignment metric looking at how a scheme's investments are aligned with the Paris Agreement goal of pursuing efforts to limit the global average temperature increase to 1.5°C above pre-industrial levels; and one additional climate-change metric.

Our analysis, supported by advice from our investment consultants and scheme actuary, shows that given the de-risked investment strategy for Pace DB, the investment returns and funding strategy for both DB sections is not expected to be materially impacted by climate risk, although the effect on the less mature DC Section could be more significant. We do, however, recognise that there are limitations to climate scenario modelling (which have been highlighted by a report from the Institute and Faculty of Actuaries and the University of Exeter), and that there is a reasonable likelihood that physical impacts are grossly underestimated by these models, so we are not complacent.

We've agreed to manage the DB and DC investments in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. We believe this decision is consistent with our fiduciary duty to our stakeholders, and is supported by the Co-op and The Co-operative Bank's net zero commitments, market developments, regulations, and the emergence of credible methodologies and tools. This objective is also consistent with the goals of the Paris Agreement and the UK government's legally binding targets.
More details of our net zero commitment can be found in our TCFD report on the Scheme's website.

What is 'net zero'?
Net zero (for a company or a business) refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere. For a pension scheme, 'net zero' means that this balance in greenhouse gases applies across the companies and governments the scheme is invested in, having worked out the scheme's share of these emissions based on the proportion of those companies/ economies the scheme 'owns'.
These emissions include:

Scope 1 'direct' emissions: those from sources owned or controlled by the company (e.g. direct combustion of fuel from vehicles);

Scope 2 'indirect' emissions: those caused by the generation of energy (e.g. electricity) purchased by the company; and

Scope 3 'indirect' emissions: all other indirect emissions across a company's value chain (e.g. emissions related to purchased goods and services, business travel, the use and disposal of goods sold to end consumers). We will be reporting Scope 3 emissions for the first time in our 2023 TCFD report.

There are two different routes to achieving net zero, which work in tandem: reducing existing emissions and actively removing greenhouse gases.

Scope 3 emissions are important, as for most businesses and public bodies, the majority of their emissions are outside their own operations. Addressing Scope 3 emissions can therefore help advance an organisation's decarbonisation and sustainability journey. However, we recognise that issues with methodology and data quality (and availability) at the moment makes the use of Scope 3 emissions challenging for investors. We will continue to work with our advisers and engage with our asset managers and service providers to increase the depth of coverage and the reliability of Scope 3 disclosures in future reporting.

We continue to look to reduce our carbon footprint and reduce our exposure to less sustainable companies through the strategies used in Pace's DC Section; we've also taken steps to limit our exposure in Pace DB by appointing asset managers with long-term horizons and engaging with them on climate risk, and through excluding some potential investments (see page 19).

Deforestation

A further (related) area of focus has been deforestation. In order to achieve net zero, deforestation is one of many issues that need to be addressed urgently. Global deforestation is one of the primary contributors to climate change, but the loss of forestry also poses a systemic risk through the loss of biodiversity, as forests are home to a vast array of plant and animal species. When forests are cleared, many species lose their habitats, and this can disrupt ecosystems, impact the food chain and contribute to the extinction of species. Loss of forests also leads to soil erosion and degradation, impacting agriculture and ecosystems, and disruption of water cycles; it can also lead to social impacts as forests provide valuable resources and livelihoods for millions of people worldwide, particularly indigenous communities. Deforestation can lead to the displacement of these communities, loss of traditional knowledge and economic hardships.

Over the year, we have participated in a working group convened by Make My Money Matter to consider best practice in relation to deforestation risk. Having engaged with the Co-op and The Co-operative Bank in March 2023, we updated our Responsible Investment policy to formally support the ambitions of the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity Driven Deforestation by 2025.

Our DC fund manager, LGIM, has signed up to the Race to Zero Deforestation Commitment. We've engaged with them over the year, reviewing their deforestation policies in December 2022, and in early 2023 communicating with them to specifically challenge them to vote and engage in ways that will help achieve the deforestation goals set out in their policy.

We have also undertaken initial work aligned with Phase 1 of Global Canopy's Deforestation Free Pensions guidance, looking at Forest 500 data to identify Pace DC's estimated exposure to deforestation, conversion and associated human-rights-abuse risk within the funds in Pace DC's default option (which makes up 99% of Pace DC's assets at 5 April 2023).

Looking at all underlying holdings where positions are more than 0.01% of the funds used in the default strategy, the mapping shows that out of Forest 500's list of the 350 companies with the highest risk of being linked to tropical deforestation through involvement in or potential exposure to forest risk commodity supply chains, the Pace Growth (Mixed) Fund and Pace Growth (Shares) 2021 Fund invest in approximately 80 of these companies through equities or bonds. These companies are identified to have influence within the political economy of tropical deforestation (via soy, beef, leather, palm, timber, and pulp and paper), totalling

3.4% of these funds. The findings will form the focus of our ongoing engagement with LGIM, alongside the consideration of significant votes and LGIM's own assessment of the risks.

Other systemic and market risks

We recognise that pension schemes face a wide range of investment risks. This year saw particularly volatile markets following the 'mini-budget' on 23 September 2022, which saw gilt yields rise sharply and prompted the Bank of England to intervene to stabilise financial markets, announcing a £65bn emergency bond-buying package. Over the period we worked with our asset managers to ensure our Liability Driven Investment mandates for the Co-op and Co-operative Bank sections of Pace DB had sufficient collateral, rebalancing as required in line with our pre-agreed processes and engaging with our asset managers to review this framework and adapt to new regulatory requirements designed to ensure the effective functioning of the gilt market.

More broadly, in order to identify and respond to market-wide and systemic risks over the year, we've engaged with the wider industry through membership of the UK Sustainable Investment Forum (UKSIF) and through our membership of the Occupational Pensions Stewardship Council (OPSC). The OPSC is a forum established by the Department for Work and Pensions and supported by the FRC to promote and facilitate high standards of stewardship of UK pension scheme assets.

Developments within Pace DB and Pace DC

Assessing our own approach to Responsible Investment

In December 2022, we carried out, with our investment consultants, a review of how well the Trustee is integrating ESG considerations into its decision-making processes. The evaluations considered 75 questions across the Scheme's beliefs, policy, process and portfolio. Both sections of the Scheme achieved an A+ rating, unchanged from 2021 (with the highest possible score being A++).

We continued to monitor our investment managers' approaches to incorporating ESG factors in their investment processes

We recognise that ESG factors can affect the financial performance of the companies and other assets we invest in. Our investment managers take account of ESG factors when they're implementing their mandates. As part of this, they engage directly with the companies they invest in to understand and assess topics like climate change, workers' rights, board constitution, the appropriate use of capital and directors' remuneration.

We meet with each of our investment managers at least annually (at Trustee meetings or via our quarterly MMIC meetings), and ESG considerations and developments are a standing agenda item. Furthermore, our investment advisers assign a rating to each manager according to the extent to which ESG issues and active ownership practices are integrated into their investment processes. The investment adviser's ESG-related ratings are reported to the Trustee and MMIC each quarter, and are used as a factor in manager evaluation and selection (including in relation to the selection of Rothesay Life for the Bank Section's bulk annuity transaction in December 2022).

We implemented a list of excluded investments for Pace DB

We continued to work with MSCI, a leading provider of investment tools and research, to implement an exclusions list to help us avoid investing in assets (as far as possible) that do not fit with our core beliefs. We developed this exclusions list so that it is practical to apply and does not constrain our investment managers in securing the investment returns needed to pay members' benefits. The investment exclusions we agreed in April 2017 were:

- **Extractive industries:** excluding investment in companies involved in the oil, gas or mining industries which are also rated poorly by MSCI with respect to how their specific environmental risks are addressed;
- **Controversial weapons:** excluding investment in companies involved in the manufacture or distribution of land mines, cluster munitions, chemical weapons, blinding lasers or depleted uranium munitions; and
- **Human rights:** excluding investment in debt issued by countries which score poorly on a number of indicators of effective governance and provision of basic rights and services to their populations.

Throughout the year, we worked with MSCI to keep the exclusions list up to date, to reflect their latest research updates. As at April 2023, the exclusions list covered:

- Corporate bonds issued by 584 companies in the extractive industries with poor environmental ratings (2022: 525 companies);
- Corporate bonds issued by five companies (2022: five companies) involved in the manufacture or distribution of controversial weapons; and
- Government bonds issued by 77 countries (2022: 78 countries) with poor human rights scores.

These exclusions are applied to Pace DB's assets, covering the corporate bond and Liability Driven Investment mandates which made up 78% of the Co-op Section's assets (excluding insurance policies) as at 31 March 2023, or c. £3.7bn.

We monitor the implementation of these exclusions, and over the year (as instructed), our bond managers have not made any purchases prohibited by the exclusions lists. A small number of residual holdings (less than 0.04% of Pace's total invested assets, excluding the insured assets) are in investments on the exclusions list, a reduction compared to 2022 (0.3%), as our managers have looked to prioritise selling these excluded assets when rebalancing.

As noted on page 6, in December 2022, the Bank Section of Pace entered into a further 'buy-in' transaction to purchase a bulk annuity insurance policy with Rothesay Life, covering all pensioner and non-pensioner liabilities not previously insured with PIC. As we don't have control over how the annuity providers invest, the exclusions list is no longer applicable to the Bank Section's Pace DB assets.

What have our investment managers and service providers been doing?

We expect our asset managers to include ESG factors in the initial selection of the investments they make on behalf of Pace, and as part of their ongoing assessment of these investments. We expect our asset managers to engage with the companies they invest in, to understand their businesses and the risks they are exposed to, and to encourage them to add long-term value and mitigate financial and non-financial risks by ensuring their business practices are sustainable. While Pace DB no longer holds investments in company shares, and therefore our asset managers do not have voting rights to exercise directly on our behalf, we would expect them to engage across their wider asset base on a consistent basis.

Our investment managers put a lot of work into investing responsibly and considering ESG factors in their investment processes, and some go as far as extending this to how they run their own businesses. These are areas we expect them to report back to us, through both face-to-face meetings and their written reporting. The following sections cover in more detail the policies and approach to responsible investment taken by Pace's main investment managers. For Pace DB, these are Legal & General Investment Management (LGIM), Royal London Investment Management (RLAM), Insight Investment, PGIM and BlackRock, where target holdings are at least 5% of total assets, to demonstrate how we monitor and hold them to account. To bring the processes to life, we've tried to highlight specific examples of how these managers engage with the companies they invest in on our behalf, both individually and through collaboration with other investors.

We also engage with our other asset managers routinely on their exercise of stewardship of the companies they invest in; in some instances, for example our less liquid credit holdings, this is less directly applicable as they invest in instruments such as Collateralised Loan Obligations (CLOs) which themselves invest in tranches of underlying debt rather than individual businesses. In these cases, we would expect our asset managers to meet with the underlying managers of the vehicles they invest in, and the companies involved in servicing those investments.

Over the period, our managers' stewardship activities met with our expectations.

PACE DB Co-op Section

Investment Grade Credit Mandates

Mandate managers: Legal & General Investment Management; Royal London Investment Management; and Insight Investment Management.
Allocation: c. 31% of the Co-op Section invested assets as at March 2023.
Objectives of mandates: Pace invests in corporate bonds through 'Buy & Maintain' approaches, which seek to hold bonds to maturity where possible, avoiding defaults through strong stock selection and limited trading, while building diversified portfolios.
Voting rights: No, but managers are expected to provide updates on their engagement with the companies in which they invest on our behalf.

Legal & General Investment Management (LGIM)

LGIM believes that by bringing together the sector expertise from across its active investment and stewardship teams, it can influence and change company and market behaviours to achieve positive societal impacts.

It does this through:

- Company engagement;
- Using its voting rights (noting this isn't directly applicable for Pace DB – however LGIM can and does engage across fixed income and equity, and so can use voting rights on other holdings to engage with companies whose bonds Pace holds);
- Integrating ESG factors into portfolio management;
- Addressing systemic risks and opportunities;
- Influencing governments, regulators and policymakers; and
- Collaborating with other investors and stakeholders.

LGIM is committed to addressing ESG issues by developing and carrying out corporate governance and responsible investment activities, including Active Ownership, Advocacy, ESG Integration and Product Development. LGIM prioritises company engagement over exclusion, believing this can effect change through collaborative efforts with companies in a more positive way. LGIM believes that combining this method with engagement and voting and targeted exclusions can be a very powerful tool to address ESG issues.

LGIM believes that incorporating a qualitative element is essential to capture the ESG risks embedded within each company. This has been done through LGIM's proprietary ESG tools, which cover areas such as:

- Workers' rights and fair remuneration;
- Climate change/the environment; and
- Controversial weapons.

Specifically, for Pace's Buy & Maintain credit portfolios, LGIM uses its bespoke investment framework to help with its investment process, with the following objectives in mind:

- Encouraging companies to improve their behaviour and the quality of their ESG disclosures – this enables LGIM to help raise market standards, and helps generate sustainable, long-term returns;
- Assessing a company's ESG risks – LGIM sees unmanaged ESG factors of companies as posing potential risks and opportunities, which can have a material adverse impact on the performance of investments; and
- Identifying the winners of the future – the companies to which investors will allocate ever-larger amounts of capital.

Sustainability in the investment process

To achieve their objectives, ESG factors are integrated into the investment process using top-down and bottom-up approaches. Once LGIM has identified a long-term driver of returns, its next step is to identify the companies which are best placed to benefit or lose out from it within the value chain. This is supported by LGIM's fundamental bottom-up research, which includes ESG assessment and company engagement. This helps LGIM to understand key drivers impacting that business.

In addition, LGIM's Corporate Governance and Index teams have developed a rules-based and transparent methodology to score companies against ESG metrics. This LGIM ESG score is used universally across their business, including for their Future World funds.

ESG scores are assigned to companies based on the following themes:

- **Environmental** – assessing the exposure of companies to climate change and the shift to a low-carbon economy; comprising carbon emissions, the level of carbon reserves, temperature alignment and green revenues, the strength of biodiversity policies, and water management and deforestation programmes;
- **Social** – comprising diversity (e.g. representation of women in company boards, executive, management and workforce); and human capital (policies to ensure companies have the right culture and treat workers fairly);
- **Governance** – a range of criteria that indicate 'best practice' in terms of investor rights, board diversity and high-quality audits; and
- **Transparency** – assessing the quality of company disclosures. These indicators give LGIM insight into the quality of the ESG disclosure and the level of disclosure in relation to ESG-related data points.

LGIM also considers climate risk factors, mainly through the integration of ESG factors in the credit quality assessment as described above. In addition, LGIM believes that over the medium to long term, physical as well as transitional climate risks (which are risks resulting from policy and regulation, differences in consumer preferences, technology adoption, etc.) will become much more pronounced and therefore LGIM approaches them through a combination of climate risk scenario modelling, using their Destination@Risk model to analyse scenarios for how the energy system may evolve over the next 30 years and their investment implications. This toolkit takes a bottom-up approach to modelling the energy system and allows a robust measurement of the climate risk embedded in investors' portfolios and their climate alignment. Destination@Risk also allows LGIM to measure and manage carbon exposure, as well as identifying underlying climate risks across the capital structure.

In November 2021, LGIM signed the Financial Sector Commitment Letter on Eliminating Commodity Driven Deforestation, and in September 2022 published its first specific deforestation policy. LGIM believes action to eliminate deforestation, especially commodity-driven deforestation, is an essential part of the efforts to mitigate climate change and achieve net zero.

LGIM has also implemented a separate policy for controversial weapons to exclude those companies involved in the manufacture and production of cluster munitions, antipersonnel landmines, and biological and chemical weapons, which broadly aligns with Pace's own policy and the exclusions we already apply to investments.

LGIM's policy and engagement on climate change

LGIM is committed to addressing the issue of climate change and has a specific climate-change policy. It engages with companies that it invests in to ensure its strategies are aligned with global climate goals. It has done so through its Climate Impact Pledge, through which LGIM now assesses over 5,000 of the world's largest companies across 20 climate-critical sectors (including, from 2023, forestry and paper & pulp, aluminium, glass, logistics and multi-utilities) engaging with them to improve their strategies to address the climate emergency.

These companies' performance in relation to climate risk is published in a 'traffic light' system on LGIM's dedicated website. Published annually, companies are 'named and famed' or 'named and shamed', as LGIM encourages firms to take action to move towards net zero carbon emissions by 2050.

Companies are held to account through LGIM's voting activity and, where LGIM deems it appropriate, have been divested from selected funds where permitted (including in the Pace Growth (Mixed) Fund used by Pace DC – see page 37). Sanctioned companies currently include ExxonMobil, Air China, AIG, MetLife and China Construction Bank. Companies can come off this list and be reinstated to funds through tangible improvements and engagement, and this was the case for China Mengniu Dairy in 2023 following their publication of a new deforestation policy, and a progressive carbon-neutrality commitment.

In 2023, 299 companies were sanctioned by LGIM for failing to meet minimum standards, an increase on previous years following the increase in the sectors LGIM considers climate critical, and the growth in the number of companies monitored.

LGIM is a signatory to the UNPRI and the UK Stewardship Code, and is a member of the Net Zero Asset Managers initiative (see page 44). As part of this initiative, LGIM has committed to work in partnership with its clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management. In November 2021, it announced it had set a target for 70% of eligible assets under management to be managed in line with net zero by 2030.

Engagement

LGIM aims to actively engage with companies, and it believes this direct engagement helps its analysts to identify ESG risks and opportunities. Ongoing dialogue with companies is a fundamental aspect of LGIM's approach to responsible investment. The outcomes from these engagements with companies are also fed into LGIM's ESG tools.

LGIM sets clear objectives and timelines when it first engages with companies where issues have been identified, and these are reviewed throughout the engagement process to allow their management to oversee the progress of engagement activities.

To effectively tackle ESG issues that impact the value of their clients' assets, LGIM applies a multi-layered escalation strategy. Where the initial engagement does not lead to an appropriate outcome, LGIM may choose to adopt a stronger stance by using different escalation tools – for example, through voting against individual directors' reappointments (where LGIM has investments elsewhere within their business that do have voting rights), direct engagement with regulators, divesting from the securities of an unresponsive company or through applying pressure by means of public statements and press releases.

LGIM monitors investee companies over the long term and the progress on engagement activity is regularly reviewed by its dedicated team using company disclosures, independent research providers, its investment teams and the media.

Examples of LGIM's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **Walmart – Human Capital example**
   Over the year, LGIM attended a number of calls with Walmart concerning ESG topics, in particular focusing on supply chains and human capital management.

   LGIM expects Walmart to pay all of their employees at least a living wage, and at Walmart's 2022 AGM supported a shareholder proposal calling for a report on the alignment of racial justice goals and starting wages.

   LGIM intends to continue to engage with Walmart and other retailers on income equality, believing that the variety in living wage proposals and the different issues to which the living wage can be linked, or through which income inequality can become manifest, speaks in favour of a case-by-case approach, particularly as regards the living wage in different countries around the world.

2. **Procter & Gamble – Deforestation example**
   LGIM identified deforestation, including within supply chains, as a key engagement topic for Procter & Gamble (P&G). In 2020, P&G shareholders, including LGIM, supported a resolution calling on the company to report on its efforts to eliminate deforestation, filed by Green Century, which was passed with 67% support. LGIM was encouraged by P&G's efforts over the past two years as they had satisfied all of LGIM's requests that were made in 2021–22. For example, they have separated their Chair/CEO role, and submitted to CDP Forests (an organisation that works on a range of global projects that aim to remove commodity-driven deforestation and forest degradation from corporate value chains); and also brought forward their commitment to ensure that 95% of their pulp from Canada is Forest Stewardship Council (FSC) certified.

Further examples of LGIM's exercise of voting rights (for Pace DC) are set out on pages 39–43.

Royal London Asset Management (RLAM)

RLAM is committed to being a responsible investor. It believes that seeking to integrate material ESG information into its decision-making is in the best long-term interests of its clients and can help to deliver better returns.

Sustainability in the investment process

RLAM believes that corporate bond investing demands a bespoke fixed-income and ESG approach, and as a result has developed an approach that is intended to be both credible and realistic, with an emphasis on redressing bondholders' traditionally weak control. It aims to generate sustainable, risk-adjusted returns that reflect a wider understanding of what will drive economic performance in the future. As part of that commitment, RLAM seeks to identify and understand ESG risks and opportunities as part of their investment process. To achieve this, it engages with companies and industry regulators to understand the issues and to promote best practice.

For credit portfolios, RLAM's ESG analysis focuses on factors which might mitigate or exacerbate the potential for downside loss or risk of default. This includes specific consideration of where debt sits in the capital structure, the duration of the position, and any security associated with the bonds. RLAM has a dedicated responsible investment team to identify and evaluate ESG issues that might impact a sector, along with detailed investigations of the ESG profile of specific issuers and bonds, which feed into its credit analysis and the credit team's bond evaluation.

RLAM considers a company's treatment of its staff is a key social factor when assessing a company's wider exposure to ESG risks. At a minimum, RLAM would look for a company to have a publicly available modern slavery statement, and more generally would consider any evidence of workers' rights being violated in their ESG analysis. In addition, as part of its ESG analysis, RLAM reviews the gender pay gap reporting regime of UK-based issuers, as well as issuers' broader workforce diversity.

RLAM's policy and engagement on climate change and the environment

RLAM is committed to addressing the issue of climate change and has a specific Climate Risk Policy, addressing how it approaches climate risks and opportunities when making investment decisions, including how it manages the risk of investee companies' operations and the risk this poses to investors' capital. RLAM is also a signatory of the Net Zero Asset Managers initiative.

RLAM reports in line with the Sustainable Finance Disclosure Regulation (SFDR) requirements and aims to maintain its compliance with regulations and remain transparent with regard to its fund-specific Principal Adverse Impacts (PAIs – see next page) and approach to ESG integration.

RLAM doesn't explicitly exclude companies involved in fossil fuel production above and beyond Pace's exclusions list, but it notes its credit research process and ESG analysis tends to lead to it having low exposure to companies which extract fossil fuels, and that it would not purchase securities where it felt there was a significant and unmitigated financial impact due to climate change. For utilities with exposure to coal-based power production, RLAM regularly engages with companies on their approach to the energy transition, including their timelines and targets for decarbonising their generation portfolios.

In addition, RLAM does not have any exposure to companies with involvement in palm oil production or rubber production.

What are ‘Principal Adverse Impacts’?

RLAM monitors the Principal Adverse Impacts (PAIs) of its investment decision-making on the environment and society, where it feels serious issues need to be addressed, and, where it is in the best long-term interests of its customers, will seek to engage with a company and encourage the management to make improvements. RLAM’s PAI indicators cover climate and environmental matters, as well as a variety of adverse social effects, including employment matters, respect for human rights, anti-corruption and anti-bribery.

Engagement

RLAM focuses on engaging with investee companies in two ways: engagement for information and engagement for change. This allows RLAM to understand how ESG risks affect its investments and, in turn, any adverse effects of its investment decisions on the environment and society.

RLAM takes an active approach to stewardship by engaging with issuers in their fixed-income portfolios. RLAM regularly monitors its investee companies using its own research and also through regular engagement meetings with management and non-executive directors to discuss issues relating to strategy and governance. Through dialogue with investees’ management teams, RLAM aims to satisfy itself with the effectiveness and efficiency of the boards of investee companies, and to ensure that they are aware of, and are appropriately managing, all material risk factors, including environmental and social risks.

In terms of voting rights, although as a bondholder RLAM does not have voting rights at a company’s annual general meeting, its focus on lending where it has security or protective covenants does give it a significant degree of pre-emptive control, which means it is engaged in a much higher level of bondholder voting (and direct agenda) than is typical for most corporate bond investments.

Examples of RLAM's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **Severn Trent – engagement on environment**
   RLAM met with Severn Trent four times during 2022 to discuss various topics including flooding, pollution, climate change, governance and diversity.

   Severn Trent outlined its 'Severn Trent Environmental Protection Scheme' (STEPS) programme, which offers grants to farmers across its region, promoting the protection of the local environment, water courses and improving overall river health. Severn Trent is working directly with farmers and provides financial incentives, including supporting regenerative farming practices. RLAM stated that 50% of Severn Trent's energy is self-generated from several sources including anaerobic digestion, food waste, solar and hydro power. RLAM believes this is 25% higher than the other water companies they are assessing as part of this project.

   Severn Trent's Mansfield project was the first sustainable urban drainage system of its scale in Europe. Through planting trees, creating green spaces and using permeable paving in the city, it aims to help with wastewater and reduce flash flooding to protect customers for the next 40 years. After the project's success, Severn Trent is hoping to replicate this in other towns in the future.

   The meetings with Severn Trent reassured RLAM that the company is a leader in this space and sets the benchmark for many of these initiatives.

2. **Engagement in relation to social housing**
   RLAM has been investing in housing associations for over 30 years, including through the Buy & Maintain credit mandates they manage for Pace, as they believe the social and economic credentials of the sector allow it to deliver long-term, sustainable cashflows.

   Following the tragic death of Awaab Ishak in 2020, there has been an acceleration in negative headlines regarding the condition of social housing, with a particular emphasis on damp and mould in properties. While the sector has a clear social purpose, RLAM believes it remains incumbent on investors, as key stakeholders, to ensure that this purpose is being delivered effectively.

   In 2022, RLAM contacted all the housing associations it invests in to better understand how they manage and mitigate the risk of damp and mould for residents, to help them assess what best practice looks like and to ensure the borrowers understood the importance of the issue to RLAM and its investors.

   RLAM received 26 responses and was encouraged to see that some of the housing associations' borrowers have systematic monitoring and remediation processes, although noted that in areas there is additional work to be done. RLAM is positive that the insights they have gathered from their review have enabled them to develop an engagement strategy to deploy in their interactions with housing association borrowers on an ongoing basis.

Insight Investment Management

Insight is committed to addressing stewardship and engagement and believes doing so can drive change and support effective investment. Insight participates in a range of associations and collaborative initiatives including the UK Sustainable Investment and Finance Association, the Institutional Investors Group on Climate Change, Climate Action 100+ and the International Capital Market Association (ICMA) – Green and Social Bond Principles.

<u>Sustainability in the investment process</u>

Insight works to support a stable and resilient social, environmental and economic system and efficient, well-managed financial markets. It believes in integrating ESG issues into its investment processes, together with active engagement with issuers and other stakeholders to support better investment decisions. It believes that this in turn will help to achieve its clients' targeted investment outcomes.

Insight's Responsible Investment Policy focuses on six beliefs, broadly aligned with Pace's own policies:

- Putting responsibility at the heart of how they do business;
- Integrating material ESG factors into their investment process;
- Acting as effective stewards of companies and other entities;
- Supporting efforts that seek to improve the operation, resilience and stability of financial markets;
- Collaborating with others on ESG issues; and
- Engaging with clients to understand their needs, acting in response and providing transparency on its activities.

Insight uses a number of external ESG research sources to support its ESG analysis, using a proprietary model that aligns with its approach to corporate fixed income.

This proprietary model covers 95% of investment grade corporate bond indices. The framework considers 35 key ESG issues, including carbon emissions, environmental controversy, water management, raw materials and controversial sourcing, human capital and corruption.

Developments in 2022/23 include the addition of specific oversight of issuers with worst-in-class Prime ESG ratings, and issuers without a rating, to the remit of Insight's Ratings and Exclusions Group (REG), the internal group responsible for proposing firm-wide exclusion policies and confirming changes to Insight's exclusions lists and Prime ESG ratings for Insight and its affiliates. The REG will review on a quarterly basis where issuers with a Prime ESG rating of 5, or issuers without a rating, are held across the business. This can be used to determine whether any additional engagement or escalation is required.

These focuses are applied in the credit evaluation of all assets at Insight and are components of its checklist to better quantify long-term risks. As well as applying Pace's exclusions list, Insight's own ESG framework overlaps with Pace's Responsible Investment Policy in a number of areas:

- Insight has a policy to not have any exposure to companies involved in the manufacture or distribution of incendiary/illegal arms or weapons.
- When building long-term Buy & Maintain portfolios (like Pace's mandate), Insight focuses on secure, sustainable investments and would not therefore typically invest significant amounts in companies in the extractive sectors.

- Insight closely monitors risks from the extractive, utilities and energy sectors as it believes they are most vulnerable to a transition to a low-carbon economy and have a big impact on climate change.
- Insight expects companies to uphold minimum standards on labour and health and safety. It will engage with companies that fail to meet these minimum standards on a case-by-case basis. New issues such as equal pay are becoming more relevant for how they evaluate corporate culture and over time it expects to use this data as part of its issuer due diligence.
- Insight believes corporate governance is a critical component of issuer risk. Insight evaluates corporate governance for every company that it invests in and will engage on governance risk wherever it considers this to be material.

In addition, Insight considers deforestation as a key driver of biodiversity loss and believes that the decline in biodiversity and other natural capital stocks represents a risk to businesses as it contributes to the deterioration of ecosystem services that many are so dependent on and poses a reputational and regulatory risk to those companies causing biodiversity decline. Biodiversity metrics are therefore incorporated within their ESG framework. Over the year, Insight also conducted top-down thematic research on biodiversity and natural capital assets risks, opportunities and impacts in corporate fixed income. This research demonstrated data gaps which need to be resolved before these factors can be fully and effectively incorporated into processes. Insight's focus for 2023 and 2024 will therefore be to expand their research in this field, identifying where the data gaps can be closed and how they can incorporate biodiversity considerations across all of their portfolios and/or their engagements.

Insight's policy and engagement on climate change

Insight believes climate change presents a systemic investment risk. Its engagement policy for climate change is to advocate for action at a policy level. Insight believes that all issuers within its investment universe are susceptible to the consequences of climate change through potential impacts on supply chains, regulatory uncertainty and resource scarcity.

Insight considers a global legislative framework endorsed by policymakers to be the most effective mechanism to mitigate climate change and create investment certainty. To achieve this, Insight has joined a number of collaborative initiatives to push for a global climate agreement, including the Institutional Investors Group on Climate Change (IIGCC) and the Net Zero Asset Managers initiative.

Similarly, Insight is an investor signatory to Climate Action 100+ (CA100+), and in 2022 engaged with several companies that are included in the CA100+ focus list, both independently and as part of collaborative engagement working groups.

Insight has also developed a proprietary 'prime climate risk rating' for corporate debt which aims to analyse and quantify the risks due to 15 key climate change-related issues for approximately 1,700 issuers, drawing from over 200 individual data inputs. In 2020, this quantitative assessment of climate risks was formally integrated into Insight's credit analysis process, aiming to help its analysts and portfolio managers consider material climate risks in their investment decisions and to identify potential issues for engagement. The prime climate risk ratings expand on the principles of the TCFD, and Insight believes this rating can more accurately indicate how fixed-income corporate credit issuers manage their climate-change-related risks and opportunities and shows how they are positioning themselves for the transition to a low-carbon economy.

Insight uses this as part of its credit analysis process, and its aim is for it to provide full coverage across the holdings in its Buy & Maintain credit strategies (including Pace). At present, the majority of Pace's bonds managed by Insight are covered by the index.

Engagement

Insight takes an active approach to voting and stewardship. For its fixed-income portfolios where it does not have voting rights, Insight aims to engage with all companies prior to investing to review performance, strategy, risk management and ESG issues.

Insight focuses on the areas where companies have received low scores in its sustainability checklist. The issues Insight engages on include the oversight and effectiveness of boards of directors, environmental performance, health and safety events, accounting deficiencies, climate risk and strategic changes. If Insight identifies issues and is unhappy with management's responses to its engagement on these issues, it would reduce or completely sell these holdings.

Examples of Insight's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **Volkswagen (VW)**

   Insight's research team had three engagements with VW in Q4 2022, initially on VW's initiatives implemented following the 'Diesel-gate' scandal, and to discuss its decarbonisation targets and electric vehicle strategy.

   VW updated Insight on the Diesel-gate issues, noting that legal processes are ongoing. It also provided an update on its plan to embed cultural changes at the business, including putting in place formal surveys to gauge opinions on culture in the VW group.

   On the company's carbon footprint, VW stated that they have a 100% renewable energy target by 2025, excluding China (but that it has contractual arrangements with suppliers in China to oblige them to use green energy). VW also confirmed they plan to cease production in Europe of Internal Combustion Engine (ICE) vehicles for mass market brands by 2033.

   Insight also followed up with VW following allegations that it employed forced labour in in its Urumqi plant in Xinjiang, which is a 50/50 joint venture with SAIC, including attending an investor call with VW's Human Rights Officer. VW denies these allegations.

   Insight believes there are several areas of improvement that are necessary, including appointing a new Chairman following the Diesel-gate scandal, and would recommend to VW that audits of ethical standards should occur annually. Insight will continue to monitor the situations closely and engage with VW when necessary.

2. **Heathrow**

   Insight met with Heathrow in Q3 2022, discussing a range of topics including the company's net zero strategy, encouraging its participation in the Climate Disclosure Programme, and obtaining Science Based Targets initiative (SBTi) accreditation.

   Heathrow confirmed that they have targeted achieving net zero by 2050, including scope 3 emissions; its 2030 targets include:

   - A 15% reduction in CO_2 emissions from flying, mainly from use of sustainable aviation fuel; and
   - A 45% cut in CO_2 from surface access, supply chains, vehicles and buildings.

   However, Insight accepts that Heathrow faces challenges in its effort to decarbonise because of the limited degree to which it can influence airlines to decarbonise fleets, and as its net zero plans ultimately rely on technology which is costly and/or unproven.

   In March 2023 Heathrow secured accreditation from the Science Based Targets initiative (SBTi) that its 'Heathrow 2.0' carbon reduction targets are in line with a 1.5 degree pathway. Insight was satisfied with Heathrow's developments, especially on achieving SBTi validation but will continue to monitor their developments.

Alternative Inflation Linked Mandate

Mandate managers: PGIM Real Estate (PGIM).
Allocation: c. 6.4% of Co-op Section assets as of March 2023.
Objectives of mandates: PGIM's alternative property strategy aims to provide an alternative to Long Dated Index Gilts to outperform the FTSE 5–25 Year Index-Linked Gilts index by 2.0% p.a. (net of fees).
Voting rights: Not relevant.

Our holdings with PGIM are invested in long-lease property (predominantly commercial ground leases and income strips on property such as hotels, student accommodation and affordable housing).

PGIM sees tenant engagement across its Real Estate portfolio as integral to improving the environmental performance of buildings and ensuring the overall health, safety and wellbeing of tenants. PGIM works with its tenants on an ongoing basis in the following ways:

- **Education** – PGIM uses green lease tools and resources to help its tenants track and measure their building performance and reduce environmental footprints. PGIM's green lease efforts earned the 2016 Green Lease Leaders Award from the US Department of Energy and the Institute for Market Transformation.
- **Tenant survey** – In PGIM's annual tenant surveys, it reviews green certifications, green cleaning and pest management, indoor environmental quality, occupant comfort (heating, ventilation and air-conditioning), and workspace ergonomics and lighting to further understand tenants' needs. To meet or exceed the expectations of its tenants, PGIM has engaged a professional consultant to evaluate important tenant topics such as property management, leasing, maintenance, property features and sustainability.
- **Environmental engagement** – PGIM has hosted and provided education programmes and social engagement on topics of sustainability including e-waste drives (to reduce the amount of electronic equipment entering landfills), Earth Hour, Earth Day, World Water Day, Bike to Work Day, and energy and water conservation workshops. PGIM has also hosted community citizenship and volunteering activities such as holiday giving, food drives, opportunity youth development, health and fitness screenings, and community education.

Liability Driven Investment Mandate

Mandate managers: BlackRock Investment Management (BlackRock).
Allocation: c. 46% of Co-op Section assets as of March 2023.
Objectives of mandates: BlackRock's objective is to match its overall benchmark which is based on Pace's liabilities using a gilt-based measure.
Voting rights: Not relevant.

Our holdings with BlackRock are in a UK government bond-based liability hedging portfolio, so responsible investment considerations do not impact as obviously on investment decisions for its mandate, and as such it does not form part of its investment process. Pace does, however, apply its exclusions list to the portfolio, as there is limited flexibility for BlackRock to also invest in some corporate or overseas bonds. In particular, we also note that we apply an exclusions list preventing investment in government bonds issued by countries that score poorly on human-rights issues.

We recognise that investing in government bonds, and therefore having exposure to a country's wider economic growth and stability, does not come without a carbon footprint, and over the year we've worked with BlackRock and our investment consultant to quantify this (covered in more detail in our TCFD report).

We do, however, hold cash within the LDI mandate as collateral for derivative positions, and since March 2022 this cash is invested in the BlackRock Liquid Environmentally Aware Fund (LEAF). This is an 'ESG aware' cash fund that prohibits investment in issuers that fall within the exclusionary screens defined for the LEAF strategy.

For example, the exclusionary list screens out issuers that:

- have exposure to the production of controversial weapons;
- derive 5% or more of their revenues from fossil-fuel mining exploration and/or refinement;
- derive 5% or more of their revenues from the production or distribution of tar sands or oil sands.

In addition to the LEAF series' environmentally focused investment strategy, 5% of the net revenue from BlackRock's management fee from the funds is used to purchase and retire carbon offsets either directly or through a third-party organisation.

Pace DC

Mandate manager: Legal & General Investment Management (HSBC for the Pace Growth (Shariah) Fund).

Fund	Proportion of assets (5 April 2023)		Fund objective	
	Co-op Section	Bank Section		
Growth (Mixed)	66.9%	68.7%	Long-term investment growth, using a diversified set of asset classes. The fund also takes into account the environmental and social behaviours of businesses, as well as how well they are governed and run, when deciding how much to invest in different companies.	These funds form part of Pace DC's default option
Growth (Shares) 2021	23.2%	23.6%	Invest in the equity of a diversified range of businesses in the UK and overseas, with strong and improving ESG attributes.	
Cash	9.0%	6.1%	Provide capital protection, with growth at short-term interest rates.	
Growth (Ethical Shares)	0.8%	1.4%	Track the total return of the FTSE4Good Global Equity Index.	
Growth (Shares)	0.1%	0.0%	Capture UK (30%) and overseas (70%) equity market returns.	
Pre-retirement	0.0%	0.0%	Reflect diversified investment underlying a typical traditional annuity product.	
Pre-retirement (inflation-linked)	0.0%	0.1%	Reflect diversified investment underlying a typical inflation-linked annuity product.	
Pace Growth (Shariah) fund	0.0%	0.1%	Reflect Shariah-compliant investment option consistent with the principles of Islamic finance.	

Pace DC is administered by Legal & General Assurance Society Ltd, and members have the option to invest in a range of funds, which are shown on the previous page, together with the proportion of members' assets invested in each fund as at 5 April 2023.

The most significant holding in Pace DC is the Pace Growth (Mixed) Fund, which forms the largest component of the default investment option. Since 2019, this fund has been invested in Legal & General's Future World Multi-Asset Fund. This fund invests in a range of assets which may include equities, bonds, cash, listed infrastructure, private equity and global real estate companies, aiming to provide long-term investment growth while also reflecting significant ESG issues into the fund's investment strategy through 'tilts' towards more sustainable companies.

LGIM publishes a number of metrics to quantify the impact of the ESG tilts within the Pace Growth (Mixed) Fund. This has had a quantifiable impact on the profile of the companies in which the fund invests, in particular on climate-change-related factors:

- The 'carbon emissions intensity' (which measures the relationship between carbon emissions of a company and its sales) is 48% lower for the Future World Multi-Asset Fund than the market as a whole (i.e. a similar fund without the 'tilts'); and
- The carbon reserves of the companies LGIM invests in are 86% lower than for a fund without these 'tilts'.

Exercise of voting rights

Pace DC offers options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors.

LGIM

Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by LGIM, and strategic decisions are made by LGIM's Corporate Governance Team in accordance with their governance policies for each region.

LGIM sees voting as a key way to make its voice heard and hold companies accountable. LGIM regularly reviews its voting policies and processes and believes that transparency over its voting activity is critical for its clients and other interested parties. LGIM has a vote disclosure webpage which aims to:

- Provide daily updates of their vote instructions and disclosures of all votes within a day following a shareholder meeting; and
- Disclose vote rationales for all votes against management and include historic data from 1 January 2017.

LGIM continues to develop and follow its own policies rather than adopt those of third parties, as it believes that by using its own policies it can better align with its own engagement activity and apply a truly global approach (as it believes some third-party policies may focus on a particular country or region and so not apply more broadly). While LGIM's stock lending policies differ according to each market, LGIM retains the right of immediate recall of its shares, should it deem this necessary. For example, if there is a potential takeover of a company that LGIM owns shares in at a price which it does not believe is in the best interests of shareholders, it would then recall the stock that is out on loan in order to vote with 100% of their holding.

HSBC

The legal right to the underlying votes for the Pace (Growth) Shariah Fund lies with the directors of the HSBC Islamic Global Equity Fund, which is the underlying fund behind the Pace Growth (Shariah) Fund. They have delegated this execution of this voting to HSBC Global Asset Management (UK) Limited.

HSBC uses the ISS to assist with the global application of our voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene our guidelines. HSBC reviews voting policy recommendations according to the scale of their overall holdings. The bulk of holdings are voted in line with the recommendation based on their guidelines.

The table overleaf sets out further details relating to LGIM and HSBC's voting record for stocks held within each fund held within Pace DC which has exposure to equities for the year to 31 March 2023.

	Pace DC Fund				
	Pace Growth (Shares) 2021 Fund	Pace Growth (Mixed) Fund	Pace Growth (Ethical Shares) Fund	Pace Growth (Shares) Fund	Pace Growth (Shariah) Fund
Size of Pace DC's holdings as at 5 April 2023	c. £176m	c. £508m	c. £6.5m	c. £0.6m	c. £0.1m
Asset manager	LGIM	LGIM	LGIM	LGIM	HSBC
Number of equity holdings in the fund (at 31 March 2023)	2,271	6,417	1,041	4,995	105
Number of meetings at which asset manager was eligible to vote over the year	3,286	8,913	1,155	7,319	95
Number of resolutions asset manager was eligible to vote on over the year	38,231	93,332	16,602	76,499	1,423
% of resolutions asset manager was eligible to vote on where it exercised that vote	99.8%	99.8%	99.8%	99.9%	97.0%
% of resolutions where asset manager voted for management / voted against management / abstained from voting*	Voted with 77.9% Voted against 20.7% Abstained 1.4%	Voted with 77.6% Voted against 21.7% Abstained 0.7%	Voted with 82.0% Voted against 17.8% Abstained 0.2%	Voted with 80.7% Voted against 18.2% Abstained 1.1%	Voted with 80.5% Voted against 19.8% Abstained 0.0%
% of meetings at which asset manager voted at least once against management	71.6%	73.4%	76.0%	61.2%	78.9%
% of meetings at which asset manager voted against the recommendation of the proxy adviser	13.0%	12.9%	13.0%	9.7%	12.1%

*May not sum due to rounding.

Significant votes

LGIM

LGIM's quarterly ESG impact reports provide information on LGIM's voting activity and details of 'significant votes'. The Pace DC Committee reviews the report quarterly, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining which votes are 'significant', LGIM considers the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny);
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- A sanction vote as a result of a direct, or collaborative, engagement (e.g. publicly voting against the appointment of directors to highlight failures to engage on important issues);
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out on page 5. Note that shares in individual companies will likely be held across multiple funds within the DC Sections, and the holdings overleaf aggregate the value of holdings across all funds within the Bank and Co-op Sections of Pace DC.

HSBC

HSBC regards votes against management recommendation as the most significant. With regards to climate, in its engagement HSBC encourages companies to disclose their carbon emissions and climate-related risks in line with the recommendations of the TCFD. Where companies in energy-intensive sectors have persistently failed to disclose their carbon emissions and climate-risk governance, HSBC will generally vote against the re-election of the Chairman. HSBC also generally supports shareholder resolutions calling for increased disclosure on climate-related issues.

Given the size of the holding in the Shariah Fund, none of the underlying votes were considered significant in the context of Pace DC as a whole.

Company	Rio Tinto Plc	BP Plc	Sumitomo Mitsui Financial Group, Inc.	Air Products and Chemicals, Inc.	Amazon.com, Inc	Twitter
Relevant Stewardship priority	Climate change and the protection of the environment	Climate change and the protection of the environment	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Date of the vote	8 April 2022	12 May 2022	29 June 2022	26 January 2023	25 May 2022	13 September 2022
Approximate size of Pace DC's holding (based on holding at year end)	c. £1.96m	c. £865k	c. £510k	c. £160k	c. £1.11m	c. £155k
Summary of the resolution	To approve Rio Tinto Group's Climate Action Plan	To approve 'Net Zero – from Ambition to Action' report	Shareholder proposal to amend Articles to disclose plan outlining the company's business strategy to align investments with the goals of the Paris Agreement; and, Amend Articles to disclose measures to be taken to make sure that the company's lending and underwriting are not used for expansion of fossil fuel supply or associated infrastructure	To elect Director Edward L. Monser	To elect Director Daniel P. Huttenlocher	To approve advisory vote on Golden Parachutes
Why the Trustee considers this vote 'significant'	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities	Aligned with the Trustee's engagement priorities; high profile.
How the asset manager voted	Against	In favour	In favour	Against	Against	Against
Was the voting intention communicated to the company ahead of the vote?	No	Voted in line with management	No	No	No	No

Company	Rio Tinto Plc	BP Plc	Sumitomo Mitsui Financial Group, Inc.	Air Products and Chemicals, Inc.	Amazon.com, Inc	Twitter
Relevant Stewardship priority	Climate change and the protection of the environment	Climate change and the protection of the environment	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance
Rationale	LGIM recognise the considerable progress Rio Tinto Plc has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while LGIM acknowledge the challenges around the accountability of scope 3 emissions and respective target-setting process for this sector, they remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.	Following long-standing and intensive engagements, through the Climate Action 100+, LGIM believe that BP has made substantial changes to its strategy and approach. This is evident in its most recent strategic update where key outstanding elements were strengthened, including raising its ambition for net zero emissions by 2050 and halving operational emissions by 2030, as well as expanding its scope 3 targets and increasing its capex to low-carbon growth segments. Nevertheless, LGIM remains committed to continuing their constructive engagements with BP on its net zero strategy and implementation, with particular focus on its downstream ambitions and approach to exploration.	LGIM expects company boards to devise a strategy and 1.5°C-aligned pathway in line with the company's commitments and recent global energy scenarios. LGIM's climate expectations includes, but is not limited to, stopping investments towards the exploration of new greenfield sites for new oil and gas supply.	LGIM identified the company has a lack of gender diversity on the executive committee. A vote against was therefore applied as the company has an all-male executive committee.	A vote against was applied as the director is a long-standing member of the Leadership Development & Compensation Committee which LGIM believes is accountable for human capital management failings at Amazon.	LGIM does not support the use of golden parachutes. As a long-term and engaged investor, LGIM entrusts the board to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business.

Company	Rio Tinto Plc	BP Plc	Sumitomo Mitsui Financial Group, Inc.	Air Products and Chemicals, Inc.	Amazon.com, Inc	Twitter
Relevant Stewardship priority	Climate change and the protection of the environment	Climate change and the protection of the environment	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance
Outcome	Pass – 84.3% of voters supported the resolution.	Pass – 88.5% of voters supported the resolution.	Not passed – 10% of voters supported the resolution.	Pass – 90% of voters supported the resolution.	Pass – 93.3% of voters supported the resolution.	Pass – 95% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM believes it has had positive engagement with the company. Despite this, they felt support of the shareholder proposal was appropriate to provide further directional push. LGIM will continue to engage with the company to provide its opinion and assistance in formulating the company's approach.	LGIM will continue to engage with their investee companies on gender diversity.	LGIM continues to engage with Amazon.com Inc on all of these issues and to push the company to disclose extra information and to be more transparent in its disclosures in order that shareholders can effectively evaluate its policies, actions and accountability.	It is worth noting that in Twitter's 2022 AGM, LGIM voted against their 'say on pay' proposal, as did 42% of shareholders. LGIM will continue to engage with investee companies, publicly advocate our position on this issue and monitor company and market-level progress.

Appendix 1

Pace DB asset managers' participation in external initiatives

The following table summarises each of Pace DB's investment managers' compliance with the UK Stewardship Code for the period 6 April 2022 to 5 April 2023, and whether they are a signatory to the UNPRI and the Net Zero Asset Managers initiative:

Investment manager	Mandate	Approach	Signatory to the UNPRI	UK Stewardship Code Signatory	Net Zero Asset Managers Initiative Signatory	DB Co-op Section Assets (excluding insurance policies) (31 March 2023)
LGIM	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	9.6%
RLAM	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	10.1%
Insight	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	11.4%
PGIM	Alternative Inflation-Linked Property	Active	Yes	Yes	No[1]	6.4%
BlackRock	Liability Driven Investment	Active	Yes	Yes	Yes	46.4%
Insight	Illiquid Credit	Active	Yes	Yes	Yes	5.5%
ICG	Illiquid Credit	Active	Yes	Yes	Yes	4.2%
M&G	Illiquid Credit	Active	Yes	Yes	Yes	5.3%
Mercer	Alternative Growth	Active	Yes	Yes	No[2]	1.1% (in the process of being disinvested)

1 PGIM has aligned with Urban Land Institute's Greenprint Center for Building Performance goal to reduce landlord-controlled operational carbon emissions of their global portfolio of managed properties to net zero carbon by 2050.

2 Mercer has stated its commitment to a target of net zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi-asset funds domiciled in Ireland.

The **Net Zero Asset Managers initiative** is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.

It is an initiative designed to mobilise action by the asset management industry that demonstrates leading practice in driving the transition to net zero and delivers the ambitious action and investment strategies that will be necessary to achieve the goal of net zero emissions. It also provides a forum to share best practice and overcome barriers to aligning investments to that net zero goal.

The initiative will be managed globally by six Founding Partner investor networks, namely: Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). In turn, the initiative is endorsed by The Investor Agenda, of which the investor networks are all founding partners.

Appendix 2

Our managers' reporting in line with the UK Stewardship Code 2020

Legal & General Investment Management:
Active Ownership report 2022 (lgim.com)

Royal London Asset Management:
stewardship-and-responsible-investment-report-2023.pdf (rlam.com)

Insight Investment:
eu---insight-uk-stewardship-code-2022.pdf (insightinvestment.com)

BlackRock Investment Management:
BIS 2022 Annual Report Summary (blackrock.com)

M&G Investments:
mg-investments-annual-stewardship-report-2022.pdf (mandg.com)

Mercer Ltd:
Mercer IS Stewardship Report.pdf

PGIM:
https://media.frc.org.uk/documents/PGIM_Real_Estate.pdf

ICG:
ICG-UK-Stewardship-Code-Report-2022.pdf (icgam.com)

Appendix 3

Signposting the requirements of the UK Stewardship Code 2020 within this report

The UK Stewardship Code sets out the FRC's expectations for best practice reporting on asset owners' exercise of stewardship. The code contains a set of 12 key principles, and asset owners are expected to report on activity undertaken in line with these principles as well as outcomes (and in some cases, providing context to allow readers to understand and assess the approach taken).

To help readers, we've signposted below where these 12 principles are covered in this report.

Principles	Document reference
Purpose and Governance	
1. Purpose, strategy and culture	'How do we invest?' (page 5)
2. Governance, resources and incentives	'How do we exercise 'stewardship'?' (page 8)
3. Conflicts of interest	'Managing conflicts of interest' (page 13)
4. Promoting well-functioning markets	'Responding to systemic risks' (page 15)
5. Review and assurance	'Review and assurance' (page 11)
Investment approach	
6. Clients and beneficiary needs	'About us' (page 6), 'How do we invest?' (page 5), and 'How we communicate with members' (page 14)
7. Stewardship, investment and ESG integration	'How do we exercise 'stewardship'?' (page 8) 'What has the Trustee been doing this year?' (page 15) 'What have our investment managers and service providers been doing?' (pages 21–43)
8. Monitoring managers and service providers	'What have our investment managers and service providers been doing?' (pages 21–43) Appendices 1 and 2

Principles	Document reference
Engagement	
9. Engagement	'How do we exercise 'stewardship'?' (page 8) 'What have our investment managers and service providers been doing?' (pages 21–43)
10. Collaboration	'Responding to systemic risks' (pages 15–18)
11. Escalation	'How do we exercise 'stewardship'?' (page 8) 'What have our investment managers and service providers been doing?' (pages 21–43)
Exercising rights and responsibilities	
12. Exercising rights and responsibilities	'What have our investment managers and service providers been doing?' (pages 21–43); in particular 'LGIM's exercise of voting rights' (pages 38–39)