



# Stewardship Code Report

Barclays Bank UK Retirement Fund

Annual Report for 1 Jan 2022 – 31 Dec 2022

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## Introduction

This document describes how the Trustee of the Barclays Bank UK Retirement Fund ('the UKRF' or 'the Fund') has applied the twelve principles of the UK Stewardship Code.

The Trustee recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of the UKRF investments to the ultimate benefit of its beneficiaries. The adopted approach to stewardship is framed in that context.

The Trustee recognises the responsibilities of investors as owners of capital and that good stewardship practice in general, and voting in particular, contributes to the preservation and enhancement of investor value. The Trustee supports the principles underlying the UK Stewardship Code and believes firmly in the importance of corporate and asset governance driven by strong boards and executive leadership and sound governance policies that protect and enhance long term value.

The Trustee has appointed a primary manager, Oak Pension Asset Management Limited (OPAM), to act in a fiduciary capacity in relation to the UKRF. OPAM is wholly owned by the Trustee and its duties include the management and implementation of the Trustee long-term investment strategy, including the appointment and supervision of a number of investment managers and the implementation oversight of the Trustee policies.

In addition to the underlying asset managers, the Trustee has appointed Hermes Equity Ownership Services Limited ('EOS at Federated Hermes' or 'EOS') who provide dedicated engagement services on behalf of its clients which includes the UKRF. With the help of EOS at Federated Hermes, the Trustee engages (and votes, where applicable) with the investee entities, regulators and markets in a more proactive basis.

## 2022: Activities and Highlights

During 2022, the Trustee continued to integrate responsible investment (RI) considerations within the Fund's strategic and day-to-day management processes and decision making, aiming for improved risk-adjusted returns across both the DB and DC sections. This has incorporated considerations of the systemic risk issues to which the Fund is exposed, and ways in which these may be managed and mitigated. The Trustee will continue to monitor and implement best practice that evolves over time.

<b>Climate Change Net Zero Ambition</b>	Where possible the Trustee implemented changes consistent with the UKRF's ambition to align with the goals of the Paris Agreement and reduce greenhouse gas emissions. The UKRF's Climate Change Risk Management Policy was introduced in September 2021 and was reviewed and updated in 2022. The Trustee sees climate change as a key financial risk affecting its investment asset portfolio. In the interest of members and aligned with the goals of the Paris Agreement, the UKRF aims to halve greenhouse gas emissions by 2030 and to be net zero carbon by 2050 or sooner. Not only will this enable the UKRF to continue meeting the financial commitment to members – it will also contribute to the good of society as a whole in the face of the current climate challenges.
<b>Governance</b>	During the year, the Trustee decided to replace the Investment Advisory Group (IAG) with an Investment Committee effective from 1 January 2023.
<b>DB Investments</b>	During 2022 the Trustee, supported by OPAM, continued to work with the UKRF's High Quality Credit managers to implement reduction of carbon exposures and aligning the portfolios with the goals of the Paris Agreement. During 2022 the UKRF submitted both its property funds to the Global Real Estate Sustainability Benchmark (GRESB) and is working with both managers to help score the assets' carbon footprint by making use of the Carbon Risk Real Estate Monitor (CRREM) tool.
<b>DC Investments</b>	The Diversified Growth Fund (DGF) is the default investment option within the UKRF DC section. In line with the Trustee's ambition to halve the UKRF's greenhouse gas emissions by 2030 and to be net zero by 2050 or sooner, the equity portfolios within the DGF were transitioned to Climate Transition Benchmark (CTB) guidelines in Q2 2022. The CTB methodology introduces a forward-looking commitment to decarbonise the portfolios by 7% year-on-year. The guidelines also mandate that portfolios should have an increased allocation to companies that set science-backed emissions reduction targets and companies with higher green revenues relative to the benchmark.
<b>Collaboration</b>	In 2022, the UKRF participated in The Institutional Investors Group on Climate Change (I GCC) Asset Owner Alignment Working group, which includes actively contributing to the development of a questionnaire to complement the Net Zero Stewardship Toolkit to address the challenges with alignment and transparency between investors.
<b>Manager selection and monitoring</b>	During 2022 the Trustee supported by OPAM continued to improve the assessment of stewardship for the UKRF assets within the manager selection and monitoring process. In selecting investment managers, their policy on and approach to environmental, social and governance (ESG) issues is an important factor in the process. OPAM worked with the UKRF's High Quality Credit managers to include engagement information into the regular reporting and foster discussion at the quarterly monitoring meetings.

## Section 1 - Purpose and Governance

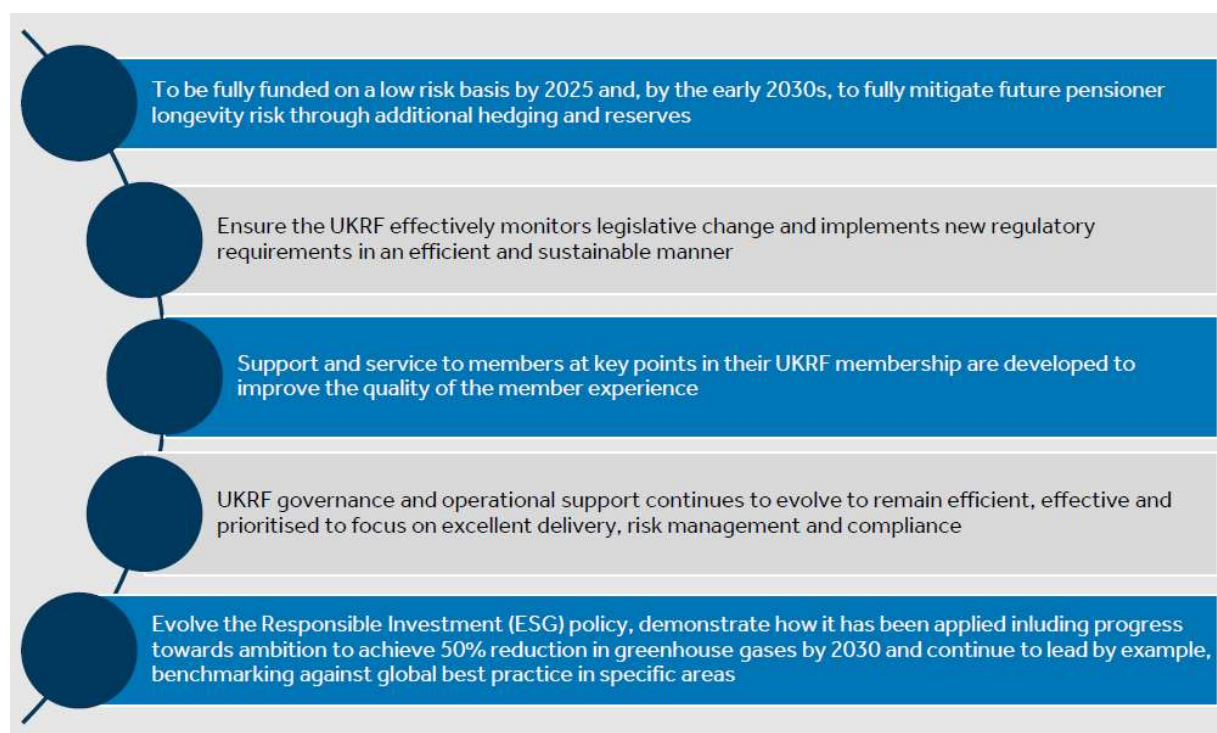
### Principle 1: Purpose, strategy and culture

#### Context

The Trustee's primary objective is to meet the Fund's obligation to pay pensions as they fall due, with a high degree of certainty and at an economical cost. The Trustee maintains its focus on the financial health of the UKRF and the security of the UKRF member benefits, with a clear and agreed strategy that focuses on mitigating all risks affecting the UKRF investments and its members. Over the year, the Trustee has used its strategic objectives to capture areas of focus and the UKRF Trustee Principles to guide itself, the support teams and third-party suppliers, in meeting those responsibilities.

Furthermore, the additional and explicit focus on the management of ESG risks is consistent with the Trustee's fiduciary duty to run the UKRF in the best interests of its members. The Trustee believes that sustainable business practices lead to better returns, lower risks, and improved outcomes in the long-term. The Trustee expects that investments with focus on sustainable long-term practices and improved ESG characteristics will perform better, and face less risks, in the long term, compared to investments with weaker ESG characteristics.

The Trustee's strategic objectives are:



The Trustee considers climate-related financial risks and their potential implications for the UKRF within the Fund's wider RI approach and consideration of ESG factors. Climate change is the subject of specific risk management, measurement, stewardship, and collaborative efforts as part of the UKRF's wider investment and RI activities.

In the interest of members and aligned with the goals of the Paris Agreement, across the portfolio the Trustee aims to halve levels of greenhouse gas emissions by 2030 and to be net zero carbon by 2050 or sooner (<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-ukrf-news-committed-to-net-zero/>).

The Trustee expects its appointed investment managers to be cognisant of climate-related financial risks and opportunities. OPAM’s engagement with managers, together with ongoing investment and operational due diligence and regular monitoring ensure that the Fund’s appointed managers incorporate climate risks and opportunities, including stewardship into the investment process.

The Trustee and OPAM continue integrating RI considerations within the Fund’s strategic and day-to-day management processes and decision-making, aiming for improved risk-adjusted returns across both the DB and DC sections.

### UKRF RI Framework

Policies	<b>Statement of Investment Principles, RI Policy and RI Principles</b>					
Principles	Integration	Ownership	Collaboration	Best Practice	Disclosure	Communication
Standards	Principles for Responsible Investment (PRI), UK Stewardship Code, Task Force for Climate-related Financial Disclosures (TCFD), United Nations Global Compact and other good practice standards.					
Activities	The Trustee will integrate RI and ESG factors throughout its investment processes as doing so should lead to better investment decisions and ultimately improve risk-adjusted returns	Effective stewardship is important to protect and enhance the value of investments and therefore the Trustee will proactively engage (and vote where applicable) with the entities and markets in which it invests	Collaborative initiatives can be powerful in effecting positive change, therefore the UKRF will be a participant in select initiatives	The Trustee will promote recognition of the benefits of RI and its implementation within the investment industry and benchmark itself against global best practice	Through its stewardship, the Trustee will promote appropriate disclosure on RI issues, including climate change	The Trustee will make appropriate disclosures on how it implements this policy to both members and wider stakeholders

The UKRF has a stand-alone RI policy (<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-responsible-investment-policy/>), which describes the Trustee’s approach to RI in the context of managing the UKRF, outlining the guiding principles the Trustee has adopted and the core activities undertaken. These activities chiefly relate to (a) adherence to good practice standards and principles, (b) stewardship and active ownership, and (c) the integration of ESG factors.

The RI policy is rooted in the compelling evidence that sustainable business practices lead to better risk-adjusted returns and outcomes for members. The Trustee and OPAM continuously account for sustainability in the Fund’s strategic and day-to-day management processes, aiming for improved risk-adjusted returns across both the DB and DC sections. Over the last few years, the Fund has re-positioned existing investments and established exposures in several new investments (as an equity or debt provider) that acknowledge sustainability and climate risk, while at the same time being financially sound investments (from a return and risk perspective) and consistent with the Trustee’s long-term investment strategy.

The UKRF RI policy is owned by the Trustee and is reviewed on an annual basis to reflect any changes and improvements to the UKRF’s strategy. OPAM has been delegated by the Trustee to oversee certain aspects of the implementation of the RI policy and reports progress to the Trustee on a regular basis.

The Trustee considers climate-related financial risks and their potential implications for the UKRF within the Fund’s wider RI approach and consideration of ESG factors. The UKRF’s Climate Change Risk Management Policy was introduced in September 2021, and was reviewed and updated in 2022.



## Activities

During 2022, the Trustee continued to integrate its RI beliefs and principles into the Fund's investment practices. The Trustee decision to do this was rooted in substantial evidence that sustainable business practices lead to better long-term outcomes and was backed up by the results of a survey carried out with a sub-section of the UKRF's DC membership which showed that members are interested and engaged in this important topic.

The Trustee has worked hard to integrate RI principles into the UKRF's investment activities, and will continue to monitor and implement best practice as it evolves. The Trustee is also keen to gauge member views on RI, and included RI questions in the 2022 UKRF member newsletter to build on the findings from the survey run in 2019 (see Principle 6).

### **Industry standards and principles**

The Trustee signed up to the PRI in 2015. The Trustee believes that the application of the UKRF RI Policy will enable the delivery of the commitments as a signatory to the PRI. The PRI is globally recognised as the good practice standard for RI. It is an investor-led, voluntary initiative which promotes an economically efficient, sustainable global financial system to deliver long-term value. The PRI provides a high level framework for integrating ESG issues into investment decision-making and ownership practices consistent with investors' fiduciary duties. The UKRF adheres to the six principles of the PRI and reports its activities and developments annually in line with the PRI reporting framework. These reports are available on [www.unpri.org](http://www.unpri.org).

In addition, the Trustee participated in a series of initiatives, such as:

**IIGCC Asset Owner Alignment Working Group.** This group aims to address the challenges associated with the alignment and transparency between investors. The UKRF (through OPAM) has actively contributed to the development of the questionnaire for asset managers, which serves as a guidance to the Net Zero Stewardship Toolkit.

**IIGCC Paris Aligned Initiative.** This group is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon world. IIGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors.

## Outcomes

### **Reporting**

During 2022, the Trustee, supported by OPAM and Redington (UKRF's strategic investment advisor), has prepared a report in line with requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the current recommendations of the TCFD. The first TCFD report details how the Trustee governed the UKRF in a manner consistent with the four elements set out in the regulations and in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). (<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-task-force-climate-disclosures/> )

It describes the approach taken by the Trustee to address climate change risks and opportunities in the context of its regulatory and fiduciary responsibilities. It is expected that the format and content of the TCFD report will evolve over time. The report fits within the Trustee's wider RI approach and consideration of ESG factors. The Trustee recognised climate change as a material long-term financial risk which could impact the Fund's investments, hence the considerable time and resource invested in the Trustee's governance of climate-related risks and opportunities demonstrated within this report. Climate change was the subject of specific risk management, measurement, stewardship, and collaborative efforts as part of the Trustee's overall approach to risk management for the DC and DB sections of the Fund.

During the year, OPAM has continued working with all managers across the UKRF asset portfolio to increase visibility of RI aspects and alignment to RI objectives. This activity has included not only enhanced reporting, aimed at better highlighting the RI implications of each investment/mandate, but also consideration of specific mandate guidelines and restrictions in many instances.

### **ESG integration**

The consideration of ESG factors is incorporated in all elements of the Fund's investment approach, from strategic asset allocation, through manager selection, to portfolio monitoring. In selecting investment managers, their policy on and approach to ESG issues is an important factor in the process.

The Trustee is responsible for running the UKRF in the best interests of its members and realises that the wide-ranging impact of ongoing climate change – on the natural environment, on industry, and society – will affect the Fund's ability to invest assets successfully over the long term. Members have told the Fund that climate change is high on their agenda as well.

In 2021, the Trustee agreed to align the UKRF with the goals of the Paris Agreement and established a strategic target of reducing greenhouse gas emissions, alongside the Trustee's other strategic objectives. The Trustee sees climate change as a key financial risk affecting its investment asset portfolio. In the interest of members and aligned with the goals of the Paris Agreement, across the portfolio, the Fund aims to halve greenhouse gas emissions by 2030 and to be net zero carbon by 2050 or sooner. This goal builds on the work of the Fund's existing RI policy. Not only will this enable the Fund to continue to meet the financial commitment to members – it will also contribute to the good of society as a whole in the face of the current climate challenges. Principle 7 provides more information on how the UKRF is integrating this across the Fund.

### **Exclusion policy**

The Trustee adopts a principles-based approach to ESG matters and supports internationally recognised norms of corporate practice. The UKRF has an exclusion policy and avoids investing in companies directly involved in the production or sale of cluster weapons, anti-personnel landmines or chemical and biological weapons. In addition, the UKRF portfolio is regularly screened to identify those companies creating an immediate risk to the portfolio through involvement in activities and behaviours that violate the relevant English law, guidance from the UK government and the UN Global Compact Principles. Where a company's activities are found to conflict with the above, this is considered and may result in a decision to engage with the company or in a decision to divest from the company.

### **DC section and changes to the default investment fund**

The Trustee continued to make changes to the investments in the UKRF DGF to reflect the UKRF RI policy. In line with Trustee's Net Zero ambition, the Equity allocations within the DGF were transitioned to the European Union's CTB guidelines in Q2 2022. The DGF is the growth fund within the DC section's default investment option. The Trustee believes that this will have a positive impact on the long-term performance, as sustainable business practices are expected to lead to better investment decisions and ultimately improve returns for members.

The Trustee provides an environmentally responsible investment option which members can choose as part of the self-select fund range. This fund has a factsheet describing the strategy of the underlying manager and information on performance versus the relevant benchmark. The manager maintains its stated mandate regarding consideration of ESG criteria in investment analysis and active ownership, and its approach is reviewed regularly, including during 2022.



Context

**UKRF Trustee Board**

The UKRF Trustee Board takes overall responsibility for the UKRF including governance, investment and administration. As of 30<sup>th</sup> September 2022, The Trustee Board operates two Trustee committees which undertake delegated decision-making on behalf of the Board, and also delegates certain responsibilities to the UKRLT and OPAM. Each has its own formal terms of reference and the Trustee Audit Committee has a forward-looking business plan to support the strategic objectives.

**Investment Advisory Group (IAG)**

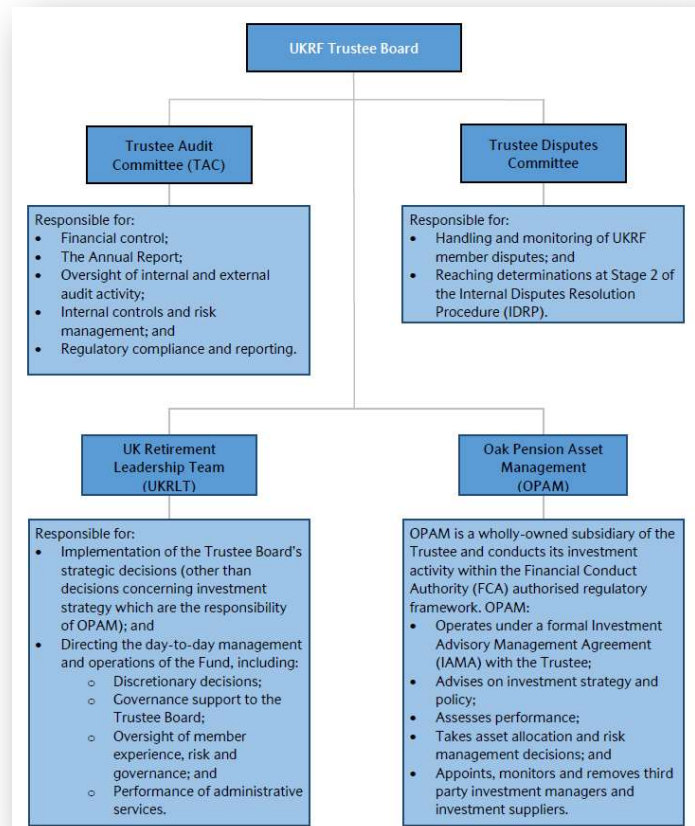
The IAG was established to act as an ongoing forum (that reviews materials and provides input) to allow the Trustee to understand key investment-related activities – including RI guidelines, policies and initiatives – being progressed by OPAM within the UKRF and across both the DB and DC sections. The IAG is supported by OPAM, Barclays Pensions & Benefits team, and external advisors as appropriate. The current membership of the IAG is 4 Trustee Directors, the Managing Director of the Pensions and Benefits team and the UKRF CIO/CEO of OPAM. The Trustee decided to replace the IAG with an Investment Committee from 1 January 2023.

**OPAM**

The Trustee delegates investment management to a wholly owned subsidiary, OPAM, which conducts its investment activity within the Financial Conduct Authority (FCA) authorised regulatory framework. Under a formal Investment Advisory Management Agreement (IAMA) with the Trustee, OPAM advises the Trustee on investment strategy and policy, assesses performance, takes asset allocation and risk management decisions within agreed parameters, and appoints, monitors and removes third party investment managers and investment suppliers to the Trustee. The Trustee retains its decision making role in relation to strategic investment policy and asset allocation and the appointment of the UKRF’s strategic investment consultants. OPAM has been delegated by the Trustee to oversee the implementation of the UKRF RI policy. The consideration of ESG factors is incorporated in all elements of OPAM’s investment approach, from asset allocation, through manager selection, to portfolio monitoring.

**Redington Limited**

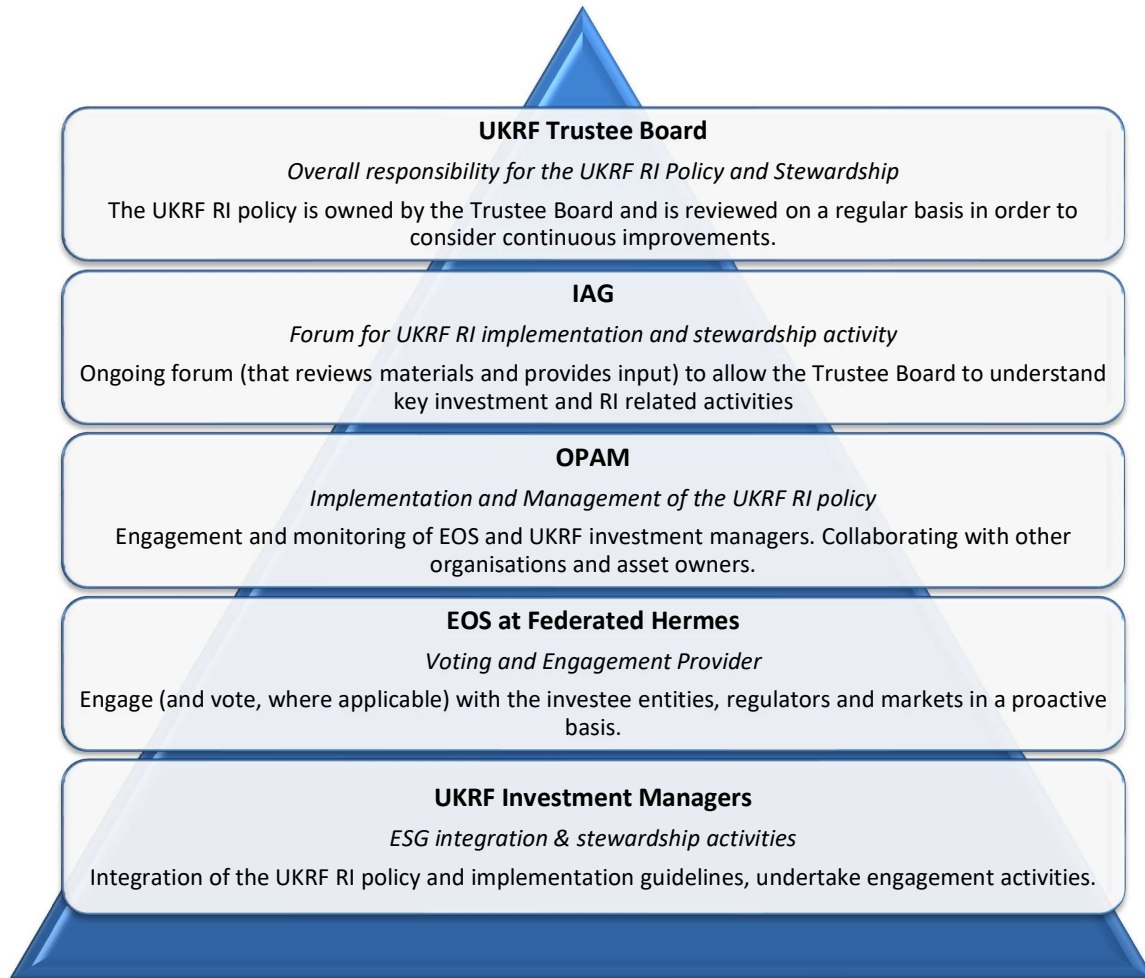
Redington are appointed as the independent strategic investment advisor to the UKRF. Through this role, Redington advises the Trustee on key strategic investment objectives, constraints and risks.



## Willis Towers Watson (WTW)

WTW currently provide RI advice to the UKRF. WTW advise on specific RI matters and undertake an annual peer-review exercise.

### Organisational and workforce structure for Stewardship activities in 2022



### Resourcing Stewardship

The Trustee with the support of OPAM has the capacity to invest across a broad range of asset classes and investment strategies, from Fixed Income to Private Equity and Real Assets. To provide an end-to-end on the investment management service, OPAM leverages in house expertise from professionals across key teams including the Investment, Risk Monitoring, Implementation and Operations teams. The OPAM investment team regularly monitors UKRF investment to assess each investment's performance risk, RI and other factors which prevent, limit, or mitigate investment and other risks for the UKRF.

The experienced professionals within the OPAM team draw upon a diverse range of skills sets to deliver outcomes for members, including but not limited to the following backgrounds, qualifications, and professional association:

Backgrounds of the OPAM team:

- Finance and Banking
- Investment
- Law
- Economics

Qualifications/professionals associations

- Chartered Financial Analyst Programme
- Chartered Alternative Investment Analyst Programme
- Chartered Financial Analyst Institute: Certificate in ESG Investing; Investment Management Certificate
- Chartered Institute for Securities and Management

### **Training and Incentives**

The OPAM team have structured and unstructured training. Training includes the CFA Certificate in ESG Investing (funded) as well as access to comprehensive Barclays Group wide ESG training programme covering a range of ESG topics, including:

- Mandatory training to support Climate Risk
- Sustainability and ESG training on Barclays policies and approach to certain sensitive sub-sectors
- The Barclays digital learning platform (Learning Lab) with an ESG section which provides understanding of climate risk, ESG investing, asset classes, data and ratings, regulation and reporting and sustainable finance
- The Barclays partnership with LinkedIn Learning with ESG Online Training Courses and resources.

Relevant staff at OPAM have previously engaged in collaborative initiatives, such as the IIGCC and PRI.

In addition, OPAM staff communicate with asset managers and regularly engage with consultants, data providers, and academics on ESG related topics – all of which contribute to staff education, development, competency, and capability on ESG. Further, subscriptions to ESG investment aligned newsletters along with academic and practitioners research papers are provided to keep staff up-to date with developments in the ESG area.

The combination of the various skills and experiences held by the OPAM team, alongside the structured training provides the team with an understanding of ESG, stewardship issues and in-depth knowledge of investment practices.

In addition, as part of the Barclays annual performance review process, all members of the OPAM team have general performance objectives and more specific ESG objectives.

### **Activities**

#### **EOS at Federated Hermes (DB assets)**

The Trustee appointed EOS at Federated Hermes who provide dedicated engagement services on behalf of its clients which includes the UKRF. With the help of EOS at Federated Hermes, the Trustee is engaging (and voting, where applicable) with the investee entities, regulators and markets in a more proactive basis. As part of its ongoing process, EOS identifies companies in which its clients are invested in and will conduct a programme of engagement where EOS considers it both desirable and feasible to influence change. Additionally, EOS's connections and cultural understanding greatly enhances the capacity to create and maintain constructive relationships with company boards.

As part of its ongoing process, EOS at Federated Hermes vote at company general meetings in accordance with the voting policy adopted by the Trustee and as set out in EOS's published corporate governance principles. The Trustee believes that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. Rather than prescribing specific actions, EOS at Federated Hermes and the UKRF's external managers are afforded a measure of discretion and flexibility.

EOS at Federated Hermes identify companies in which the UKRF is invested and is conducting a programme of engagement where EOS at Federated Hermes considers it both desirable and feasible to influence change, working with other stakeholders as appropriate. Areas that may prompt EOS at Federated Hermes to identify engagement opportunities on behalf of the Trustee include corporate governance and management of environment, social and

strategy issues, including companies' capital structure, with a view to improving long-term outcomes (page 12 provides further details on EOS's activities). EOS at Federated Hermes is providing the Trustee with the opportunity to endorse or sign on to responses to consultations where practical.

The Trustee monitors the effectiveness of EOS's activities and, where appropriate, consider how engagement could inform investment decisions. The Trustee recognises that stewardship and active ownership principles apply across all the Fund's investments. In selecting investment managers, the managers' policy on and approach to stewardship is an important factor in the process, with expectations tailored according to the different asset classes and the investment style of the manager in question.

EOS's 2022 Annual review provides a summary of EOS's services, activities and outcomes during 2022.

(<https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/eos-2022-annual-review/>)

This includes:

- EOS engaged with companies that together account for 63% of the value of the MSCI ACWI All Cap Index
- 230 company engagements on 1,251 environmental, social, governance, strategy, risk and communication issues and objectives.
- 17,930 voting recommendations at meetings
- 1,238 voting recommendations on resolutions
- 2,804 voting recommendations against or abstaining on resolutions
- 64 consultation responses
- 71 discussions with regulators and stakeholders

## Outcomes

### **UKRF Trustee Board Performance appraisal**

The Chair of the Trustee Board conducts an annual performance appraisal of individual Trustee Directors, assessing their competence and expertise. The Trustee Directors also undertake an assessment of the performance of the Trustee Chair, facilitated by the Deputy Chair, taking into account the way the Chair leads and engages with the Board. In addition, the Trustee Board conducts regular reviews of its activities and performance. In 2021/22, an assessment was undertaken by an independent third party, which reported its findings to the Board. The Trustee Directors reached the conclusion that the Board, its committees and sub-groups and individual Trustee Directors continue to operate effectively based on this review.

As a Fund, the UKRF do a number of things to assess the effectiveness of its governance. Below we set out some examples of these which are relevant to our responsible investment approach, including stewardship and management of investment risks.

- Internal audit: both the Fund and the investment manager OPAM are also subject to an internal audit carried out by the Barclays Internal Audit (BIA) department. Areas for review are considered by BIA on a rotational basis.
- Effectiveness review of key committees: UKRF Board, Trustee Audit Committee (TAC) and OPAM Business and Assurance Committee (BAC) are subject to review on a regular basis to ensure an on-going effectiveness of their operation, either by independent advisors or dedicated in-house teams. The review is done through one or more of the following: a confidential questionnaire of all Committee members, interview, Committee observation and independent testing. The last review of UKRF Board and TAC took place in 2021. The last review of the OPAM BAC was carried out in 2022. The objective of the 2022 review was to assess whether OPAM BAC has implemented previous recommendations and continues to operate effectively.

## Resourcing

<b>Governance Structure</b>	OPAM, the dedicated investment manager of the UKRF, supports the Trustee in the implementation of the RI policy in the day-to-day activities and makes sure considerations of ESG factors is incorporated in all elements of OPAM's investment approach, from asset allocation, through manager selection, to portfolio monitoring. Year-on-year the level of RI and stewardship knowledge across the UKRF continues to grow. Business-wide integration efforts and ESG training schedules in place support OPAM's work. In addition, at strategic level, the Trustee is supported by a number of specialist consultants. Please see section below for more details.
<b>Manager selection and monitoring process</b>	During 2022 OPAM continued to improve the assessment of stewardship for the UKRF assets within the manager selection and monitoring process. In selecting investment managers, their policy on and approach to ESG issues is an important factor in the process.
<b>Third party service providers</b>	Redington (as independent strategic investment advisor to the UKRF) enables the Trustee to identify and develop key climate change and ESG metrics and access more granular data, identify trends and comply with regulatory requirements.  The Trustee with the support of OPAM will continue to work on impact measurement approaches and how this might be more effectively supported by engagement activity.  The Trustee appointed EOS at Federated Hermes as engagement and voting services provider to maximise Trustee influence as an active owner. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes.

The Trustee will continue strengthening ESG integration into our investment processes and governance framework, the OPAM team has formalised individual performance objectives as part of the career development plans, which are assessed as part of the year-end appraisal process. The aim is to increase people's capabilities and skills and empower staff.

## Principle 3: Managing conflicts of interest

### Context

One of the key fiduciary duties of a pension scheme trustee is to act in the best interests of the scheme's beneficiaries. In order to comply with this duty, it is important that the Trustee, and its Trustee Directors, avoid circumstances where they have other interests or duties that conflict with the interests of the beneficiaries. As the Trustee is a company, the Trustee Directors also have similar obligations under the Companies Act 2006, which are reflected in the Trustee's Articles of Association. Conflicts occur when an individual's personal interests or duty to another party is at variance with that person's duty as a trustee of a pension scheme.

The Trustee has agreed a Conflict of Interest Policy, which identifies circumstances that may give rise to perceived or actual conflicts of interest entailing a material risk to the UKRF's interest and establishes appropriate mechanisms and systems to monitor and manage those conflicts. This is reviewed annually and also covers Directors' duties and disclosure obligations, procedures and the relevant guidance and requirements of the Pensions Regulator (tPR), the Pensions Act 1995 and the Companies Act 2006.

The Trustee approach to Conflicts of Interest is summarised as follows:

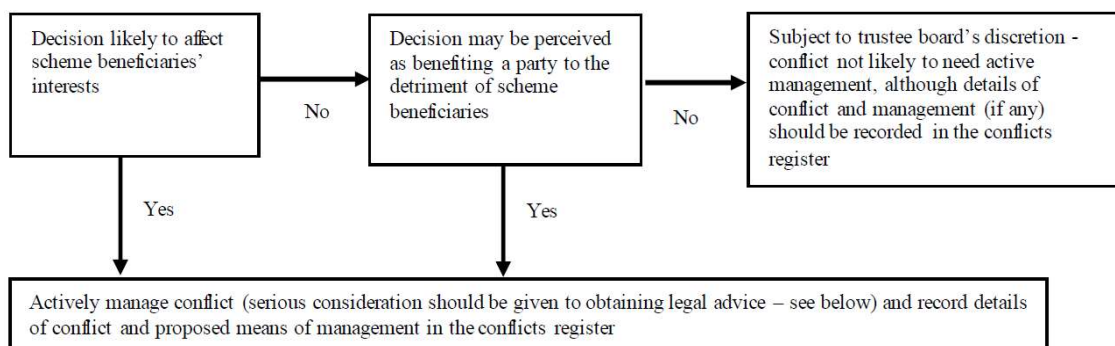
- Identification of actual or potential Conflicts of Interest
- Prevention of Conflicts of Interest wherever possible, or have procedures to manage and mitigate them
- Maintenance of records of identified Conflicts of Interest and steps taken to prevent or manage them
- Monitoring and review of identified Conflicts of Interest

A Trustee Director must disclose any conflict of interest as soon as practicable after it arises. Conflicts are recorded in the UKRF conflicts register. Each Trustee Director must provide the Annual Attestation confirming that they are aware of their fiduciary duties, confidentiality and disclosure obligations, including those relating to Conflicts of Interest.

As a standing item at the start of each Trustee Board Meeting (or, where relevant, meeting of a Trustee Sub-committee), the Chair (or the chair of the relevant Sub-committee) invites those present to disclose any actual or potential conflicts in relation to any item on the agenda. Any such disclosures are minuted.

### **UKRF Conflict of Interest Management**

Once a conflict has been identified, the Trustee Directors must consider how it should be dealt with before conducting any further business to which the conflict might be relevant. The Trustee may use the following decision tree to assist them in determining what course of actions they should take:





The Trustee Directors decide which of the following alternatives is most appropriate in the situation:

- whether they need legal advice to determine how to proceed;
- the conflicted individual may be required to leave the meeting during the discussion on the conflicted matter;
- where a conflict is deemed to be less serious, the conflicted Trustee Director may declare the conflict, which shall be recorded on the Conflicts Register, but take no further action;
- a Trustee Director may be required to withdraw from voting on the conflicted matter (though, depending on the seriousness of the conflict, this need not prevent the Trustee Director from participating in the debate preceding the vote);
- a sub-committee of the Trustee Directors, excluding that Trustee Director, may be set up to deal with the matter;
- where a conflict only relates to a Trustee Director's role on a particular Sub-committee, the Trustee Director may resign from that Sub-committee (but not the Trustee Board as a whole);
- the Chairman may direct that a conflicted Trustee Director should not receive any Trustee information or papers relating to the issue giving rise to the conflict;
- where a conflict is serious and ongoing the Trustee Directors may ask the conflicted Trustee Director to resign;
- whether it is necessary to authorise the conflict in accordance with section 175 of the Companies Act 2006 and the Trustee's Articles of Association (which is not necessary if the Trustee reasonably concludes that the issue is not lead to a conflict of interest), although note that this step does not obviate the need to manage the conflict;
- such other alternative as the Trustee's legal advisers may advise is appropriate in a particular case.

### Activities

#### **Identifying, disclosing and recording UKRF Conflicts of Interest**

Trustee has identified a list of situations that may materialise in Conflicts of Interest, however, it is not possible to provide an exhaustive list of all of the circumstances. As a result, the Trustee Directors should always be aware of the possibility of Conflicts of Interest and are reminded of this on a regular basis. In the following table, we identify some of the potential conflicts in relation to stewardship activities that we may come across and how we manage them:

Conflict example	How we manage them
UKRF's suppliers (asset managers and stewardship provider) potentially taking different voting actions in relation to the same company	This is mitigated by the use of a dedicated voting provider. The Trustee believes that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. Having satisfied ourselves that our agents are suitably qualified to undertake stewardship and voting, EOS at Federated Hermes and the UKRF's external managers are afforded a measure of discretion and flexibility based on the objectives and guidelines the UKRF has set, rather than prescribing specific actions. OPAM regularly monitors material stewardship activity.
Management of both fixed income funds and equity funds. In certain circumstances the interests of equity holders could conflict with that of the bond holders	This is mitigated by the use of a dedicated stewardship provider.

## OPAM

- OPAM employees are subject to Barclays Conduct training including the identification and escalation of any Conflict of Interests (COI).
- OPAM has adopted the Barclays Conflict Standard and maintains a separate conflicts of interest register to assist all relevant persons in identifying, managing, and monitoring any conflicts of interest, including personal conduct, which may arise. This exercise is conducted with the support and input of Barclays Execution Services (BX) Compliance.
- Examples of OPAM COI are:
  - Investment decisions' alignment with the UKRF's stewardship approach and objectives
  - personal investment activity (including Private Investments) may give rise to conflicts and/or the misuse of Material Non-Public Information (MNPI), which could cause harm to the Trustee and the financial markets.
- Throughout the year, COI risks were a standing item at all of OPAM's governance meetings. OPAM's employees must undertake COI training on a regular basis.
- OPAM's team is physically segregated from other Barclays Markets teams in order to manage actual or potential conflicts of interest which may arise and prevent unauthorized and/or inappropriate disclosure of confidential information and/or MNPI.
- As part of the supplier review process, OPAM reviews each investment manager's Conflicts of Interest policy and considers whether the policy includes: an explanation of how they act in the best interests of clients; how Conflicts of Interest are identified; and the process followed when a conflict of interest is seen to exist.

## Advisers

Conflicts of interest are also relevant in relation to advisers. If an adviser to the Trustee is also acting for the employer or for another party that the Trustee is dealing with, the Trustee needs to consider whether that adviser has a conflict of interest and if any are identified whether they can be suitably mitigated. Each of the Trustee's advisers is required to notify the Trustee if any circumstances arise in which they feel they are conflicted.

## Investment Managers

The effective management of potential Conflicts of Interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. Conflict of interest clauses are included in all investment management and service agreements. The Trustee expects its investment managers to adhere to the principles within the UK Stewardship Code to both UK and overseas holdings where possible. The primary mechanisms for the application of effective stewardship for these holdings are engagement with investee companies and the exercise of voting rights. The Trustee expects its external equity investment managers to pursue both these mechanisms while being mindful of context. Shares in listed companies are not held directly but through fund managers.

## Example COI (Property):

In 2022 within the UKRF property portfolio, the UKRF had exposure to two assets which have potential conflicts, of which detail for one is set out below. Occasional conflicts of interest do arise and are required to be properly managed. The UKRF's Property Investment Manager's Conflicts of Interest policy requires that potential and actual conflicts of interests within the organisation are identified, tracked, and managed appropriately. It is recognised that effective handling of potential conflicts of interest is a key priority for the UKRF and is essential for building long-term customer trust and confidence. The handling of conflicts of interest is overseen by the manager's Compliance departments and conflicts may be escalated to the Conduct & Conflicts Committee, which may take decisions in respect of specific issues arising. OPAM also retains Albourne Partners to undertake annual operational due diligence to ensure these risk management processes are properly managed by the managers.

One Property asset is let to a subsidiary of the Investment Manager responsible for managing the property. The Investment Management team closely monitors to ensure that all payments due under the lease are made promptly and any negotiations ensure that the UKRF's interests are put first. For example, there was a rent review outstanding from July 2021 which was agreed and documented in October 2022. The Manager negotiated increase in the rent. Although the uplift seems modest given the magnitude of the rent payable the Manager took

specialist advice that this was the best outcome likely to be achievable at an Arbitration. Subsequently, the lease has been assigned to another manager, this completed in November 2022 at which point this conflict fell away.

#### **Stewardship Provider**

The Trustee believes that proxy voting is an important way for active investors to influence corporate behaviour on ESG issues and proactively engage (and vote where applicable) with the entities and markets in which it invests and is willing to act collectively where appropriate. The Trustee has appointed EOS at Federated Hermes as a dedicated specialist engagement provider.

EOS at Federated Hermes has a stewardship conflicts of interest policy. As part of the supplier review process, OPAM reviews the policy and considers whether it includes: an explanation of how they act in the best interests of clients; how conflicts of interest are identified; and the process followed when a conflict of interest is seen to exist.

EOS's conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

The Trustee monitors the effectiveness of EOS's voting activities and, where appropriate, considers how engagement could inform investment decisions. The Trustee monitors material stewardship activity, including where agents take different voting actions at the same company. EOS is also requested to highlight key voting decisions regularly. OPAM is provided with EOS's voting statistics on a regular basis.

#### **Outcomes**

During 2022, whilst OPAM identified 37 potential conflict of interests, there were no reported conduct, MNPI or material personal conflict of interests for OPAM or Trustees and these are confirmed at all formal OPAM or UKRF Trustee Board and minuted.

#### **Stewardship Provider**

Where our voting provider perceives a potential conflict when executing votes on our behalf, they alert us to provide an opportunity to further review the recommendations before they are instructed.

It is also factored into deciding engagement strategies. Where an opportunity presents itself, EOS consults with clients to gather their thoughts, this helps guide their actions and, in some instances, they may opt to pursue some engagements privately rather than in the public domain. As a result of these measures there were no conflicts of interest that arose with EOS during 2022.

### Context

#### **Risk Management**

In setting investment strategy, the Trustee recognises that the Fund is exposed to a number of different risks which vary in their nature and magnitude. These risks include (but are not limited to) interest rate risk, inflation risk, currency risk, longevity risk, counterparty risk, credit risk, market risk, liquidity risk, covenant risk, cyber risk and manager risk. In general, the Trustee aims to manage these risks through the following action:

- Diversification of investments across a broad range of asset classes and investment managers;
- Hedging of certain types of risks (e.g. interest rate risk, inflation risk and longevity risk) through holding hedging assets and the use of derivatives;
- Appropriate monitoring of the Fund's assets relative to the liabilities that need to be met;
- Appropriate internal investment controls and processes used by OPAM and the investment managers; and
- Regular monitoring of the strength of the sponsor covenant provided by Barclays Bank PLC.

The Trustee has overall responsibility for internal controls and risk management and is satisfied that it operates within TPR's Code of Practice on internal controls and the internal control regulations relating to the security of assets and safeguarding these against losses. In accordance with the recommendations of TPR, the Trustee maintains a risk register and adopts a risk-based and proportionate approach to internal controls and compliance monitoring within the UKRF. The Trustee is committed to identifying, evaluating and managing risk, and to ensuring that appropriate controls are implemented and maintained.

OPAM uses a variety of resources such as input from external investment managers and other service providers, industry-wide seminars and private meetings. This equips the team to be aware of new and emerging risks. Such risks are then discussed and further assessed during the OPAM Dynamic Asset Allocation Committee and IAG, and at a strategic level as part of OPAM BAC, TAC and Trustee Board meetings.

#### **Climate-related risks**

The Trustee considers climate-related financial risks and their potential implications for the UKRF within the Fund's wider RI approach and consideration of ESG factors. Climate change is the subject of specific risk management, measurement, stewardship and collaborative efforts as part of the UKRF's wider investment and RI activities. Throughout the year the UKRF's ESG analytics have been significantly developed and a deeper understanding of ESG and climate metrics has been gained.

#### **Business continuity and resilience planning**

A business continuity plan, including a separate plan in relation to a cyber incident, is in place which is reviewed annually. All major UKRF suppliers of services also have business continuity plans which are subject to regular checks and appropriate data privacy clauses in the contractual agreements. These are reviewed as part of annual supplier assessments to ensure that they remain fit for purpose.

### Activities

Over the year, the Trustee, supported by OPAM and its relevant advisors, implemented activities that are consistent with its RI policy. These activities included:

#### **ESG Analytics**

Continued to monitor and review ESG analytics on the Fund's public equity and fixed income portfolios on a monthly basis. While high level outputs are monitored, monthly analysis also considers the underlying drivers of

key metrics and assesses trends over time. This continuous monitoring and analysis helps OPAM to better engage with the Fund's investment managers on ESG factors on the Trustee's behalf. For example, the securities which contribute most highly to the Fund's carbon intensity are monitored monthly to better understand this metric but also to facilitate effective challenge and discussions with the managers holding these securities.

### **UKRF Net Zero Ambition**

The UKRF Trustee agreed to adopt strategic ambition of reaching Net Zero carbon emissions by 2050 and halved by 2030 or sooner which will sit alongside the Trustee's other strategic objectives. OPAM is now working on the implementation plan and specific actions with the underlying UKRF managers.

### **UKRF Diversified Growth Fund**

In line with the Trustee's net zero ambition, the equity allocations within the UKRF DGF were transitioned to meet the minimum standards of the European Union CTB guidelines in Q2 2022. The CTB methodology introduced a forward-looking commitment to decarbonise the portfolio by 7% year-on-year. The guidelines also mandate that CTB portfolios should foster an overweight allocation to companies that set science-based emissions targets and that portfolios should have an increased allocation to companies with green revenues relative to the benchmark.

### **Institutional Investors Group on Climate Change Paris Aligned Initiative**

The UKRF (through OPAM) is participating in the IIGCC's Paris Aligned Investment Initiative. The initiative has the following objectives:

- Develop working definitions of concepts, terms and pathways relevant to Paris alignment.
- Assess methods and approaches relevant to measuring alignment and transitioning different asset classes.
- Test the implication of aligning to support delivery of the Paris alignment goals using real-world portfolios.

### **EOS at Federated Hermes**

On behalf of the UKRF, EOS at Federated Hermes regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. The UKRF provides their input for consideration, alongside other factors, on the development of the forward-looking Engagement Plan.

EOS was at the UN's Biodiversity Conference (COP15), as part of the Finance for Biodiversity Foundation Delegation in Montreal December 2022. They actively participated in COP15 as co-chair of the Public Policy Advocacy working group within the Foundation. For a year and a half leading up to COP15, the Public Policy working group within the Foundation advocated for the framework to require public and private financial flows with biodiversity goals and targets. Similar to article 2.1c of the Paris Agreement, which called for financial flows to be consistent, the language signals the need for financial flows that can support protection and restoration, particularly through stewardship and capital allocation.

Following EOS's engagement through the Finance for Biodiversity Foundation, COP15 ended with the adoption of the Kunming-Montreal Global Diversity Framework. Goal D and Target 14 of the Framework require the alignment of financial flows with both the 2030 targets and the 2050 vision, which secures a focus on implementation in the short, medium and long term.

### **Outcomes**

Through active management by OPAM and appointed managers, the UKRF maintains a diversification of risk exposures, consistent with the UKRF long-term strategy. Over the last 5 years the UKRF has significantly de-risked the asset portfolio via a portfolio rotation out of high return assets into those assets which exhibit lower risk and return with a more stable cashflow-matching profile. This portfolio rotation is ongoing, albeit at a slower pace

over the past 12 months, which reflects the maturity of the UKRF (i.e. the increasing proportion of pensioners within the UKRF membership).

### **Industry Collaboration**

During 2022, OPAM continued its participation in the IIGCC Net Zero Investment Framework. The IIGCC developed a new component for the Net Zero Investment Framework, providing guidance on aligning private equity portfolios with net zero that is the first to be relevant to both General Partners (GPs) and Limited Partners (LPs) and covers scope and implementation in addition to metrics and targets. Importantly, the new private equity component is designed to be integrated with the broader recommendations of the Net Zero Investment Framework. This will allow the asset class to be incorporated in net zero strategies for multi-asset class portfolios for the first time.

### **The IIGCC – Asset Owner Alignment Working Group**

Throughout 2022, the UKRF (through OPAM) participated in the ongoing IIGCC Asset Owner Alignment Working Group and Bondholder Stewardship Working Group. The working groups have the following objectives:

- Develop supplementary guidance to the Net Zero Stewardship Toolkit to address the challenges with alignment and transparency between investors
- Use the developed questionnaire to support asset owners, as well as investment consultant and asset managers with the incorporation of climate stewardship

The UKRF contributed to the development of the questionnaire for asset managers, including providing feedback to the IIGCC alongside other asset owners at various stages. For example, the UKRF provided feedback on the content, structure, and format of the questions, considered ways the questionnaire could be used in the UKRF's manager selection, appointment and monitoring process.

### **Effectiveness in Identifying and Responding to Climate Change**

#### **Renewable Infrastructure**

In 2022, the UKRF approved a further £200m commitment to invest in renewable infrastructure debt. The commitment focused on UK and core European renewable energy generation (e.g., solar, wind, hydro) and social debt exposure (e.g., social housing). This commitment was a significant step towards increasing the UKRF portfolio to climate solutions and will add to the existing c£230m of renewables assets already in the portfolio. These assets provide regular cash flows in support of the Trustee's investment strategy whilst also improving the portfolio's resilience to climate change risks



## Principle 5: Review and assurance

### Context

As mentioned earlier, the UKRF has defined an RI policy that is reviewed on an annual basis to reflect any changes and improvements to the UKRF's strategy.

### **IAG reviews**

Specifically, on RI the IAG acts as an additional ongoing forum that allows the Trustee to consider RI reporting and monitoring requirements of the Board, as well as new initiatives in relation to RI, including representation and membership of external bodies, as follows:

- Providing strategic direction and oversight of the UKRF's RI policies and activities;
- Reviewing specific guidelines and policies on integrating ESG issues into investment analysis and processes;
- Providing input, reviewing materials and presenting proposals to the Trustee to understand RI related activities being progressed by OPAM, including the DC arrangements;
- Considering RI reporting and monitoring requirements of the Board;
- Considering new initiatives in relation to RI, including representation and membership of external bodies, and, initiatives on gathering member input, feedback and requirements on RI;
- Engaging with the Strategic Investment Consultants in relation to RI;
- Acting as a point of reference for other members of the Trustee Board, enabling the Trustee to be involved and informed of specific issues ahead of Trustee Board meetings;
- The new Investment Committee will continue to foster RI under its Terms of Reference.

### **UKRF Implementation Statement**

From 1 October 2020, and on annual basis, the Trustee is required to make publicly available online a statement covering both the DC and DB sections of the Fund.

(<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-implementation-statement/>)

This Implementation Statement covers the Fund year from 1 October 2021 to 30 September 2022, and sets out the following activity for the year:

- Any review of the Statement of Investment Principles (SIP) including an explanation of any changes to the SIP;
- How, and the extent to which, in the opinion of the Trustee, the SIP has been followed; and
- The voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and the use of the services of a proxy voter.

The Trustee maintains a SIP which is reviewed at least annually and following any significant changes in investment policy.

(<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-statement-of-investment-principles/>)

The review was conducted in consultation with the principal employer, Barclays Bank PLC, and with the support of the Trustee's investment advisers. During the Fund year to 30 September 2022, the Trustee did not make any changes to the SIP. The current SIP took effect from 1 October 2021, which took account of the Trustee's RI policy.

### **RI review and assurance process**

The UKRF RI policy is owned by the Trustee Board and is reviewed on a regular basis in order to consider continuous improvements. This Stewardship Code report, and the annual PRI reporting are reviewed by UKRF's external RI advisor and approved by UKRF's Chief Investment Officer.

The UKRF and OPAM assess the effectiveness of their governance on a regular basis.

- UKRF: the latest review was performed in 2021/22.
- OPAM: OPAM is subject to regular reviews conducted by BIA, for which a risk-based approach is followed. The most recent 2022 internal audit review focused on OPAM's Responsible Investment Integration of ESG and Climate Risk and the Accuracy of the 2021 Stewardship Code Report. The auditors concluded that effective controls were in place to monitor investment managers' ESG policies, prioritise and implement Climate Risk Management activities, as well as prepare the UKRF's Stewardship Code Report.

OPAM assesses the effectiveness of its mandated committee (namely BAC) on an annual basis in line with Barclays Group Operational Committee Policy. This is done through a combination of confidential questionnaires from all committee members and testing of evidence by an independent review.

### Assurance Activities

#### **Barclays Internal Audit**

During 2022, the 2021 UK Stewardship Code Report was subjected to BIA. BIA reviewed the data disclose'd in the 2021 report and concluded that it was accurate compared to its source data such as the UKRF Annual Report, UKRF policies and voting data.

#### **External advisor reviews**

The UKRF engages WTW to provide an annual benchmarking of the UKRF's RI approach and activities. This exercise captures the progress of the UKRF activities during the year, a comparison to UK peers, an insight into what global best practice looks like (against the UKRF's own RI guiding principles), and advice on next steps for the UKRF.

The exercise enables a third-party assessment of the UKRF against its own RI principles, a comparison between the UKRF and select UK peers. The Trustee also uses WTW and OPAM to educate it on RI best practices, including those practices adopted by leading asset owners globally and to help identify considerations for the UKRF looking ahead.

#### **EOS at Federated Hermes**

On an annual basis, EOS's voting process is independently assured (AAF 01/06). EOS provide a range of qualitative and quantitative reporting on the engagement and voting activities they have undertaken on the UKRF's behalf.

All EOS case studies are reviewed by the named companies in advance of publication to enable them to correct any aspects of EOS's reporting.

There are multiple touchpoints for the UKRF to review EOS's activities, by way of regular reporting (client portal, quarterly and annual reporting) and opportunities to provide feedback, including quarterly meetings, annual presentations to the Trustee Board, and EOS's biannual client conference.

#### **Asset manager oversight**

UKRF believe that ESG factors must be integrated throughout the investment process. The implementation of the UKRF's strategic investment decisions is outsourced to OPAM, which is also responsible for selecting, managing and monitoring externally-appointed asset managers. Asset managers are selected to align with UKRF's beliefs, policies, and objectives. This is a fundamental part of the appointment process of a new manager and the ongoing oversight of managers' activities. As such, as part of the selection process, OPAM considers how ESG is integrated into their investment strategy and approach and their ESG approach is consistent with their overall investment strategy. Once appointed, we expect our asset managers to consider both the risks and opportunities that arise from ESG factors in the selection, retention, and realisation of investments. As part of the ongoing monitoring process, OPAM regularly challenges on underlying holdings and portfolio level attributes and performs a full

Investment Due Diligence (IDD) on all mandates twice a year. This may result in retaining or exiting the relationship with the manager or agreeing on an action plan for better alignment to Trustee goals.

### Outcomes

Following WTW external assessment of the UKRF against its RI principles, it was concluded that the UKRF continues to aim towards advanced industry practice in terms of RI. WTW noted the UKRF's progress in RI and reflecting the RI principles within the portfolios, including further investments into: a waste to energy infrastructure, a core home focusing on specialist healthcare, and solar panels for two large industrial units. Key lessons the UKRF have taken away from this external validation are set out below:

- WTW recognised room for the UKRF to more actively participate in collaborative initiatives, encouraging rapid learning and continuous development, advancing the collective goals of the industry, as well as individual investor objectives.
- The UKRF recognises the importance of collaborative initiatives in effecting positive change. As such throughout the year, the UKRF participated in series of collaborative initiatives such as the IIGCC Asset Owner Alignment Working Group and the Bondholder Stewardship Working Group referenced under principle 4.
- In 2022, the UKRF agreed climate investment guidelines for a section of the Fund's fixed income managers (as at 30 September 2022 c.19% of the UKRF assets), representing a significant step for the UKRF regarding its net zero ambition.

### **Stewardship Code report validation and approval**

The Trustee through the IAG have validated the approach to drafting the UKRF stewardship report and provided delegation to OPAM to finalise and submit the report. Under its delegation by the Trustees and before formal governance approval, the Code is reviewed by external consultants before going through the OPAM governance approval process and final sign-off by the UKRF CIO and the UKRF's Leadership Team to ensure the report is fair, balanced and understandable.

## SECTION 2 - INVESTMENT APPROACH

### Principle 6: Client and beneficiary needs

#### Context

The UKRF is a Registered Pension Scheme and is operated under trust law. It is managed and administered in accordance with the terms of the Trust Deed and all relevant legislation, with assets held in Trust.

In 2022 the UKRF membership was c203,000 (unique) members. This was split c111,100 members in a DB scheme and a further c92,000 members of DC schemes. As at 30 September 2022, net asset values stood at £27.2bn of which DB assets amounted to £25.4bn and DC assets totalled £1.8bn.

#### **DB Scheme**

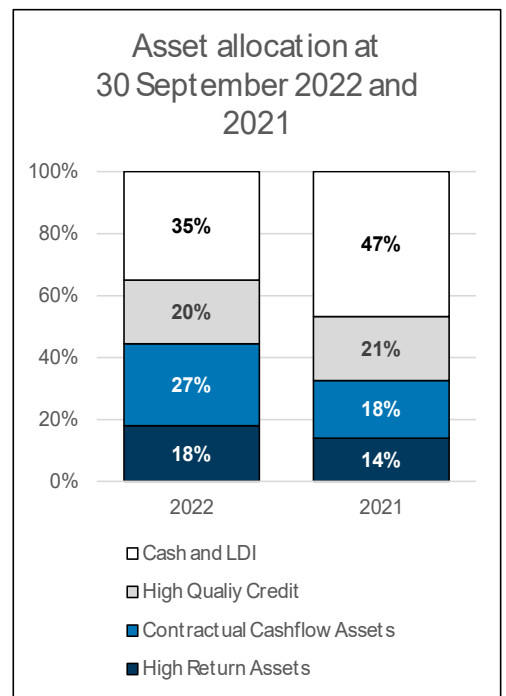
The DB assets of the UKRF are managed as one fund for the benefit of all members. The Trustee's primary long-term investment objective is to meet the obligation to pay pensions as they fall due, with a high degree of certainty and at an economical cost. The Trustee maintains its focus on the financial health of the UKRF and the security of the UKRF member benefits, with a clear and agreed strategy that focuses on mitigating all risks affecting the UKRF investments and its members. Furthermore, the additional and explicit focus on the management of ESG risks is consistent with the Trustee's fiduciary duty. The Trustee believes that sustainable business practices lead to better returns, lower risks, and improved outcomes in the long-term. The Trustee expects that investments with focus on sustainable long-term practices and improved ESG characteristics will perform better, and face less risks, in the long term, compared to investments with weaker ESG characteristics.

The UKRF takes a long-term approach in the investment decision making process and the length of the investment time horizon for the Fund's assets are considered appropriate to meet the beneficiaries' needs, given the long-term nature of the pension liabilities. Through active management by OPAM and appointed managers, the UKRF maintains a diversification of risk exposures, consistent with the UKRF long-term strategy. Over the last five years the UKRF has significantly de-risked the asset portfolio via a portfolio rotation out of high return assets into those assets which exhibit lower risk and return with a more stable cashflow-matching profile. This move to lower risk cashflow-matching assets is ongoing, albeit at a slower pace over the past 12 months due to the macroeconomic and geopolitical environments changing materially impacting both asset pricing and market supply, and reflects the maturity of the fund (i.e. an increasing proportion of pensioners within the UKRF membership).

The Trustee will vary the Fund's allocation to different assets over time, with a view to reducing risk and volatility of assets relative to liabilities where possible, and with the aim of ensuring the Fund meet its primary objective of being able to pay pensions obligations. To achieve this, the Fund will target more contractual sources of return from credit assets, and the Trustee will monitor the funding level of the Fund compared to its long-term funding targets and take appropriate action if this varies by more than a margin set over or under expectations.

As the UKRF continues to mature, its investment objective has evolved towards the delivery of stable predictable cashflows, which are better able to provide the security of income required to pay pensions over the long term. In order to realise this transition, the categorisation of assets has also evolved to better distinguish excess return over liabilities ('High Return Assets'), those which are directly hedging liabilities ('Cash & Liability Driven Investments' (LDI)) and those which are intended to generate a cashflow-matching income primarily through exposure to high quality credit and/or illiquidity ('High Quality Credit' and 'Contractual Cashflow Assets').

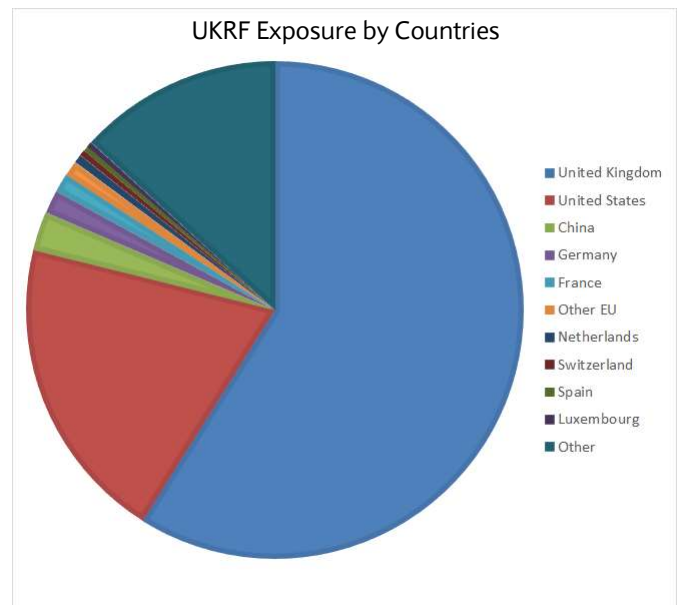
<b>Cash and LDI</b>	Assets that are aligned to index-linked bonds, interest and rate swaps. These assets have reduced in value, as the liabilities have reduced in value and therefore represent a lower proportion of total assets.
<b>High Quality Credit</b>	Lower risk assets with improved income and more predictable cashflow characteristics, such as long-dated fixed interest bonds. No changes in asset allocation.
<b>Contractual Cashflow Assets</b>	High quality credit exposures and property that produce fixed cashflow at certain times have increased in value.
<b>High Return Assets</b>	Including equities, private equities and certain pooled (hedge) funds. No new investments in the year; however, represent a higher proportion of total assets due to reduced value of other categories.



The UKRF maintains diversified exposure to several assets classes within the four broad asset categories described above, with the appropriate mix of assets being determined after consideration of prevailing and forward looking economic conditions, the expected return and risk for various asset classes, and the UKRF’s long-term required return, investment risk appetite and risk targets.

OPAM appoints investment managers to manage the assets, which are invested in a wider range of investment classes, in order to maintain diversification in the portfolio. Consistent with the Trustee’s RI Policy, the selection of managers is based primarily upon an assessment of their future performance potential, control of risk, liquidity and the cost to the UKRF.

Through active management by OPAM and appointed managers, the UKRF maintained diversification of its risk exposures, consistent with the UKRF long-term strategy.



**2022 UKRF Performance**

Absolute investment returns have turned negative given the significant volatility in UK yields. The investment strategy has chosen to invest in assets that aim to move in the same way as the value of the UKRF liabilities. Although the asset values have fallen, this has been matched by a consistent drop in liability values i.e. the expected cost of paying benefits now and in the future has also reduced. The UKRF’s funding position remains strong as the present value of liabilities fell by more than the market value of assets over the year.

The UKRF DB assets are managed as a single portfolio, in line with the risk and return objectives as agreed at the most recent actuarial valuation. To achieve these objectives, the UKRF invests in a wide range of assets which can

be broadly split between cashflow matching (liability hedging) assets and high return assets. The table below shows the performance of UKRF assets during the year.

Performance	1 year (%)
Cashflow Matching Assets	-29.8%
<i>Cash</i>	+0.6
<i>LDI</i>	-45.0
<i>High Quality Credit</i>	-27.7
<i>Contractual Cashflow Assets</i>	+1.9
High Return Assets	+9.3
<b>Total Portfolio</b>	<b>-24.8</b>

High return assets are those assets that target returns over and above liabilities. They are considered the primary growth driver of the UKRF and include public and private equity, pooled hedge funds and credit with less stable and predictable cashflows. As at 30 September 2022, high return assets accounted for 18% of the UKRF (2021: 14%). Over the last 12 months, high return assets returned 9.3%. The strong returns were driven primarily from the private equity and pooled hedge fund allocations.

Cashflow matching assets are defined as assets with stable and predictable cash flows (income). In this way, these assets can reliably be used to match (hedge) against the liability cashflows (future pensions). In addition, cashflow matching assets hedge changes in the value of liabilities arising from changes in interest rates and inflation. For the UKRF, cashflow matching assets include Cash and LDI, High Quality Credit and Contractual Cashflow Assets. As at 30 September 2022, cashflow matching assets accounted for 82% of the UKRF's portfolio (2021: 86%).

Over the last 12 months, cashflow matching assets returned -29.8%. Performance, although negative, is in line with expectations, providing an effective match to the change in value of the liabilities. Over the course of the year, the interest rate and inflation hedge ratios have been increased to approximately 100% and 102% respectively (2021: approximately 97% and 91% respectively). With hedge ratios at or close to 100%, changes in the value of liabilities arising from changes in interest rates and inflation are offset by changes in the value of cashflow matching assets.

Further information on the Fund's performance can be found in the UKRF Annual Report: (<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-ukrf-report-accounts/>)

### DC Scheme

The Trustee's primary objective is to make available at a reasonable cost a number of investment options that provide members with access to a range of different asset classes that differ in their level of investment risk and liquidity.

To meet members' needs, the Trustee has decided to make available to members two Lifestyle Fund ranges which are the default investment strategies for the Fund:

- The UKRF Lifestyle Fund range; and
- The UKRF Lifestyle (Closed) Fund range.

The investment objective of both Lifestyle Fund ranges is to generate capital growth over the long term and provide increasing levels of capital and retirement income protection as a member approaches their target retirement date. Investments in the Lifestyle Fund ranges are made through index-tracking funds or derivatives.



The UKRF Lifestyle Fund is made up of a range of funds including the DGF. The DGF is used in the growth phase of the default strategies and is then progressively switched into assets with a lower expected return in the 10 years prior to retirement. The self-select options include return-seeking and liability-matching funds, allowing members to target an appropriate expected return for their requirements.

The Trustee regularly reviews the performance, structure and operation of all funds provided through the DC section. Overall, the Trustee is comfortable that the available funds remain appropriate for members to invest in, and also that the policies in place to mitigate the material risks members face were followed and remain adequate. Ongoing monitoring and review of DC funds, including the charges and transaction costs, remains a priority for the Trustee, not only from a shorter-term perspective but also regarding the strategic, longer-term appropriateness and consistency of such funds for members' DC pension savings. The majority of the DC section assets are invested in the default investment option, a key component of which is the DGF. The DGF target is to outperform short-term cash (i.e. deposit) rates by 4.5% pa over the long term. The self-select options include return-seeking and liability-matching funds, allowing members to target an appropriate expected return and risk profile for their requirements.

### Activities

#### **UKRF Member Communication**

The Trustee considers non-financial matters, including views and issues that are proactively raised by members, as part of its overall decision making and setting of investment strategy. Feedback is obtained from members, on matters including RI, in a variety of ways throughout the year, including surveys on specific topics, surveys that accompany benefit statements and member newsletters, member focus groups and review of member complaints. The feedback is analysed and key messages are used to inform how the Trustee develops the overall UKRF strategy and improves member experience.

The UKRF has a separate communications strategy for RI, which includes the following objectives:

- **Awareness** – raise member awareness and education on UKRF RI activity so that they can understand what this means for them, and that this is not a prejudice to the security of member benefits or investment choices.
- **Clarity** – stakeholders can easily identify clear UKRF strategy for RI activity to generate member and stakeholder confidence that the UKRF is undertaking effective stewardship of the assets in pursuing a RI strategy.
- **Best practice** – demonstrate actual practice either in a particular RI area or in aggregate, being objectively seen to be best practice with open demonstration of commitments and achievements within the disclosure requirements.

#### **UKRF member surveys**

The UKRF performs periodic member surveys. The results of the last RI specific survey (2019) demonstrated that climate change was the most popular topic identified by members for the Trustee to consider when developing its RI strategy.

The Trustee sees climate change as a key financial risk affecting its investment asset portfolio and in 2021 decided to align the Fund with the goals of the Paris Agreement and establish a strategic target of reducing greenhouse gas emissions. Not only will this enable the Fund to continue meeting the financial commitment to members – it is also consistent with member views and priorities.

The UKRF includes questions on RI and, since 2022, the UKRF's Net Zero ambition, in its annual member newsletter survey. This survey covers the entire membership of the UKRF.

### **UKRF voting and engagement communication**

On an annual basis, the Trustee is required to make publicly available online an Implementation Statement covering both the DC and DB sections of the UKRF. This sets out, amongst other things, how the UKRF's SIP has been followed over the year and includes information on the voting and engagement behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and the use of the services of a proxy voter.

Additionally, the 2022 UKRF Annual Report was published in February 2023 on the public website, which include a section on Responsible Investment and Implementation Statement:

(<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-responsible-investment-hub/>)

### **Outcomes**

#### **UKRF 2022 Member Newsletter**

In February 2022, the UKRF member newsletter included an article on the RI activity undertaken in 2021, with a focus on the UKRF's Net Zero ambition and the UK Stewardship Code 2020, and education on social and governance areas. Members were also given the opportunity to complete a survey and provide their views on a number of key areas. The questionnaire comprised a mixture of eight multiple choice and open-ended questions. In total, over 12,300 members responded to the questionnaire in the UKRF member newsletter. The results showed that nearly half of respondents wanted to see news relating to RI.

Key highlights from the RI section of the survey were:

- Majority of the respondents (85%, up from 74% in 2021) agreed that sustainable business practices lead to positive UKRF asset outcomes and lower risks.
- Where RI leads to lower asset growth, 62% of respondents do not want the UKRF to undertake RI and 23% are indifferent (2021: 59% and 28%).
- 81% (2021: 71%) will view the UKRF positively as a result of its involvement in RI and 65% (2021: 44%) said they would be willing to engage more with the UKRF as a result.

#### **UKRF website**

The UKRF website is the main platform the Trustee uses to communicate to members and interested third parties. The website content has a dedicated section on investment resources and includes disclosure information such as the UKRF SIP, Implementation Statement, RI Policy, RI Statement, and TCFD report.

There have also been a number of RI stories in the "Newsroom" section of the website, discussing topics such as the Net Zero ambition.

In 2023, a dedicated RI section was launched on the UKRF member website.

The UKRF website is used as the Trustee's main communication platform following its 'digital first' communication principle. The use of the website enables the Trustee to provide timely and topical information to members and interested third parties. It also provides the opportunity for communication to be 'layered' so that members can choose the level of communication (high level, medium level or detailed) that best suits their knowledge and interest.

#### **Manager's alignment with UKRF's stewardship approach**

As part of ongoing manager monitoring, the UKRF (through OPAM) actively engages with the underlying asset managers through quarterly or monthly meetings. These meetings include an ongoing evaluation of the ESG integration approach, ESG and stewardship approach. Should the monitoring process reveal deficiencies or concerns, OPAM will challenge the UKRF managers, seeking for ways to remedy and address such deficiencies

## Principle 7: Stewardship, investment and ESG integration

### Context

The consideration of ESG factors is incorporated in all elements of the Fund's investment approach, from strategic asset allocation, through manager selection, to portfolio monitoring. The long-term sustainability of the Fund's investment strategy is of primary importance, and scenario analysis is used to stress test the portfolio under different conditions, including those driven by ESG issues.

In selecting new investment managers, including in initial tendering, the managers' policy on and approach to ESG issues, including stewardship, is an important factor in the process. Additionally, greater emphasis in the selection process is applied to investment managers who are PRI signatories and who can demonstrate Paris aligned principles, through membership of a Net Zero Initiative (with OPAM working with existing investment managers to support them in making such a commitment, where possible). The UKRF's RI policy applies to all of its investments although the expectations are tailored according to the different asset classes and the investment style of the manager in question. Where the UKRF is investing directly, then OPAM will seek to ensure that the UKRF exclusion policy is applied (and additional exclusions specific to the investment manager). Where the asset class permits, OPAM will seek to add to the role of the investment manager by utilising the services of EOS at Federated Hermes for Voting and Engagement activity.

### Activities

Where appropriate, OPAM has reviewed and accepted the appointed managers' policies and monitors these policies on a regular basis. OPAM provides regular reporting to the Trustee to confirm this activity has been carried out appropriately, flagging any issues on an exceptions basis. The managers' approach to ESG factors and stewardship is discussed at the manager update meetings. The Trustee delegates the oversight of individual assets (including investee companies) to its investment managers.

The Trustee expects its managers to be cognisant of climate risks and, as part of the investment monitoring process, managers are requested to raise material concerns at manager monitor meetings with OPAM periodically. This ensures that the Trustee (through OPAM) reviews that the Fund's appointed managers incorporate climate risks and opportunities into the investment process.

Where possible the focus of investment monitoring by OPAM is on the UKRF investments and UKRF assets on the ground. Each investment mandate is different in several aspects, including size, complexity, liquidity, data availability and reporting (typically a function of liquidity and structure), pace of change in market conditions, investment horizon, active/ passive nature, investment risk. OPAM expects the UKRF investment managers to progress Stewardship and ESG integration through direct investment action, enhancement of their processes and integrating ESG into their systems and processes. In order to monitor progress for each UKRF investment mandate, OPAM defines a minimum monitoring frequency, reporting expectations (agreed with the manager or other related parties over time) and organises (or participates in) regular meetings/ calls/ reviews with the investment manager or adviser for each UKRF investment. OPAM uses these interactions as an opportunity to update the UKRF managers on the RI ambitions and progress of the UKRF, as well as an opportunity to hold the manager accountable on progress on RI, as well as the managers' wider ESG policies and involvement in wider industry activity (initiatives such as the Net Zero Asset Managers initiative).

To the extent information is available (due to the asset class or the structure of the investment) OPAM continues to work on improving both ESG reporting and data, and the quality of reporting. There remains challenges and sensitivities to the reporting of Stewardship activities by asset managers on behalf of investors in pooled funds, however where the UKRF is a direct investor, OPAM will continue to work with the third-party managers to drive

enhancements in ESG and understand how (in addition to the services enabled by EOS at Federated Hermes) the managers themselves engage on behalf of the UKRF.

- Following review and discussion of manager reporting (day-to-day investment team interaction, investment team meetings/ catch-ups, Asset meetings), key issues (by exception, if any) are escalated to the DAA on a regular basis (standing item on every non-extraordinary DAA, or more often if required).
- Every 3 months, OPAM presents an update of key RI activities to the DAA. This includes updates on Strategy & Governance, Integration, Risk Management, Stewardship & Collaboration, and Communication. Additionally, the DAA reviews an RI update on each UKRF manager, focusing on ESG integration (including Net-Zero Asset Manager Initiative status), Stewardship, and key updates on OPAM and Manager Engagement on Climate-related and sustainability items.
- Additionally, every 6 months, a review across all UKRF investments takes place by the DAA. This review is accommodated by a 1-page executive summary per UKRF investment). The executive summary contains key investment characteristics, performance, risk, RI and Stewardship considerations, KPIs (where applicable), updates over the last 6 months. The executive summaries are discussed and reviewed by the DAA, and the current status per investment is noted and agreed by the Committee.
- OPAM provides regular reporting to the Trustee to confirm this activity has been carried out appropriately, flagging any issues on an exceptions basis. The Trustee delegates the oversight of individual assets (including investee companies) to its investment managers.

### Outcomes

Recognising that the UKRF is an asset owner with the majority of assets managed externally; The UKRF believes that outcomes are result of the ongoing direct interaction with the UKRF investment managers as part of ongoing monitoring. This leads to an increase in asset level activity related to ESG and Stewardship, influences the managers to enhance their processes and drives further integration of ESG into the development of their technology platforms.

During 2022 OPAM has worked with the UKRF's High Return Assets managers to further develop ESG reporting and increase transparency and disclosure from the underlying managers. OPAM worked with the discretionary manager of UKRF's Public Equity allocation to consider aligning the portfolio with the UKRF net-zero ambition as well as monitor exposures to sustainable impact assets. OPAM also worked with the discretionary manager of UKRF's Private Equity allocation to calculate CO<sub>2</sub> emissions within the portfolio as well as exposures to sustainable impact assets. This work will continue as corporate transparency improves and more data becomes available.

- Public Equities
  - The Trustee expects its investment managers to adhere to the principles within the UK Stewardship Code. The Trustee encourages its investment managers to apply the principles of the Code to both UK and overseas holdings where possible. The primary mechanisms for the application of effective stewardship for these holdings are engagement with investee companies and the exercise of voting rights. The Trustee expects its external equity investment managers to pursue both these mechanisms while being mindful of context. Shares in listed companies are not held directly but through fund managers.
  - The Fund maintains carbon dioxide (CO<sub>2</sub>) guidelines within the public equity mandates. The introduction of CO<sub>2</sub> guidelines during 2020 meaningfully improved the ESG profile of the UKRF equity portfolios without any impact on the investment strategy's effectiveness. Whilst no changes were made during 2022, OPAM continues to monitor and regularly discuss with the investment managers to establish if further improvements can be made.
- Private Equities
  - In line with the UK Stewardship Code, Cambridge Associates (CA), as a discretionary manager of UKRF's Private Equity portfolio, actively seeks to improve alignment of interests within the industry, working with industry trade bodies, clients and managers themselves to do so.

- CA recognises that material ESG factors can impact the performance of investments. Therefore, all investment research integrates ESG as an early and formal part of the process. CA utilises a detailed web-based ecosystem for capturing ESG data. This covers approach to issues such as ESG metrics and climate risks. The web-based ecosystem specifically focuses on how risks are considered by the manager, for example consideration of third party ESG data, Sustainable Development Goals (SDG) alignment, industry codes and standards such as the Financial Services Council (FSC), GRESB, TCFD. The web-based ecosystem specifically focuses on how risks are considered by the manager, for example consideration of third party ESG data, Sustainable Development Goals (SDG) alignment, industry codes and standards such as the Financial Services Council (FSC), GRESB, TCFD. For climate risk, it captures use of carbon emissions assessment, exposure to fossil fuels, climate scenario analysis and water and waste intensity risks. It also focuses on stewardship activities which may mitigate risks.
- CA uses both internal and third party ESG analysis tools (MSCI ESG, carbon emissions, controversies, and impact analysis) When appropriate, CA uses climate scenario analysis on portfolios. They constantly evolve their climate scenario analysis. For example, they recently added the ability to assess Climate Value at Risk.
- In line with fully integrating ESG factors into the early and formal step in the research process, CA assess managers' ESG credentials. For example, all new due diligence reports incorporate ESG credentials. CA improved their data collection platform thorough the launch of their internal user interface tool for viewing ESG and Diversity.
- Through its relationships with the manager community, CA continues to encourage best practices, both within reporting and investment processes. As a part of its due diligence process, CA requests that managers complete a detailed ESG questionnaire, including specific metrics around employee profile and governance policies. CA's ESG Due Diligence Questionnaire for all private managers specifically collects data on which metrics managers use for climate related financial disclosures. For public investments, CA uses tools to analyse climate metrics (carbon emissions, intensity, exposure to fossil fuel production etc.).

During 2022, OPAM continued the work with the UKRF's High Quality Credit managers to model and conduct scenario analysis of the portfolio level impact of reducing carbon exposure by applying exclusion screens (Coal, Oil Sands and Arctic exposure) and effecting differing levels of portfolio carbon intensity reduction. The overall aim is, to the extent possible, keep the portfolio investment characteristics stable (e.g. credit spread, return, risk, quality and currency) whilst reducing carbon exposure over time. Additionally, beyond simple exclusions, both OPAM and the UKRF managers have been working to try to ascertain longer term considerations such as a change in carbon metrics (including Scope 3 emissions for example) and trying to identify and engage with underlying issuers who currently have, or are considering a future carbon reduction plan, through Paris alignment/Net-zero commitments. The UKRF used inputs from a third-party investment consultant to help broaden the scope of the guidelines, assisted in the production of actionable and relevant guidance and provided a clear 'best practice' framework from their broader industry experience.

The UKRF continues to work with EOS at Federated Hermes in order to build on the credit managers' own engagement plans and strengthen the role of credit investors in the engagement process. As a long-term investor in credit investments, the Trustee recognises the opportunity to impact the credit engagement process by building an influencing position.

- Buy and Maintain Credit

- GSAM corporate research analysts have for many years sought to evaluate material risks for the investments they make on behalf of clients. When evaluating an issuer's credit worthiness, GSAM's analysts may assess potential ESG factors, ranging from corruption risks, governance structure and the potential for negative externalities stemming from poor environmental policies or social practices.
- GSAM's ESG assessment has further evolved to better incorporate material ESG factors for consideration within the investment process with the establishment of proprietary ESG ratings. To develop these ratings, GSAM identified a holistic set of ESG themes and issues aligned to

widely accepted reporting standards, methodologies of various data providers and input from their sector analysts.

- GSAM's broader ESG integration process has evolved in the past year due to their acquisition of NN Investment Partners (NN IP), which completed in April 2022. GSAM is leveraging NN IP's expertise in sustainability and ESG integration across its Fixed Income business. Using the NN IP framework would allow GSAM to highlight progress in several areas:
  - GSAM intends on adopting NN IP's approach for evaluating and defining Green, Social, and Sustainability (GSS) bonds.
  - Utilise the methodology to determine and report to what extent issuers are aligned with Net Zero. GSAM continues to further develop their work to integrate this capability into their investment process.
  - Engagement and credit research efforts are now synchronised in objective and focus.
  - Integration of NN IP's green bond framework, which involves an additional layer of certification to verify green labelled bonds as genuinely green. It includes a three-step approach of assessing issuers, verifying alignment with NN IP's Green Bond Principles, and evaluating project and sector exclusions.

- Buy and Maintain Credit

- Insight's philosophy and approach towards RI places an emphasis on the integration of RI and stewardship principles within investment decision-making.
- Integrating ESG factors into fundamental investment analysis and engaging with stakeholders to improve Insight's ESG standards is essential to effectively managing portfolio risk. Understanding all underlying material risks is essential in helping us to decide whether an investment is over or under-priced or fair value. Insight expects managers who continuously develop their ESG investment approach to stay ahead in this area to deliver better risk-adjusted returns in the long term.
- Insight follows a responsible investment approach for all mandates, across all geographies, regardless of whether they include specific ESG exclusions, constraints or targets. Insight believe that delivering superior investment solutions depends on the effective management of the risks and opportunities presented by both financial and non-financial factors, as well as other long-term value drivers.

## Cash & LDI

As a mature pension fund, the UKRF recognises that it holds significant assets focused on LDI. Whilst by its nature, this asset class is more challenging to both quantify and improve ESG considerations, OPAM worked with its investment managers to improve the integration of derivative counterparty ESG ratings and additionally following a detailed review of the UK Government Green Financing Framework, invested in the Green Gilts launched by the UK.

- Insight's secured finance team apply RI principles to the UKRF's asset-backed security (ABS) portfolios, by also considering ESG factors as part of the rigorous fundamental analysis undertaken on originators, which is vitally important to the decision-making process. This includes detailed due diligence on the originators both prior to making an investment, as well as on an ongoing basis. Understanding material underlying risks, both financial and non-financial, is essential in helping Insight to decide how to price opportunities and to determine whether they will be adequately compensated. However, this asset class still lags more "mainstream" asset classes in terms of availability of ESG data. Therefore, Insight have devised their own ESG questionnaires for originators which not only support their own research, but also aim to improve data quality in this asset class across the industry going forwards.
- When managing liability risks, Insight use derivatives to obtain investment exposure without a substantial commitment of initial capital. This introduces bank counterparty default risk. To manage these risks, not only are positions collateralised daily, counterparties themselves are subject to a rigorous selection and monitoring process. As part of this process, Insight's credit analysts assess all underlying material risks, which include an analysis of ESG factors, in order to



determine the creditworthiness of counterparties we deal with. Alongside this, Insight also have an active engagement strategy not only with the counterparty banks, but also regulators and industry bodies, recognising the impact that they can have on these markets.

- Recent examples include:
  - Publishing prime ESG-risk ratings of their clients' derivative counterparties in their investment reports.
  - Sharing engagement statistics and case studies for pension schemes' implementation statements.
  - Continuing to develop and document processes for responsible investment integration within liability risk management strategies.
  - Engagement with the UK DMO and Treasury, and other government issuers where possible, on green bond issuance.
  - Engagement with clients and their advisors about appropriate allocation of green gilts in mandates.
  - Working with clients and their advisors on the potential use of total return swaps on ESG-screened equity indices within tailored solutions.
  - Analysis on suitable climate metrics for gilts.

### **Contractual Cashflow Assets**

The Trustee believes that Real Assets offer a key tangible opportunity to deliver ESG improvements. Through engagement with the UKRF managers, and embedding objectives into the managers' strategic investment plans, OPAM believes that improvements in resource use, adoption of renewable energy (procurement and where possible, on-site generation), energy certification, awareness of the physical risks of climate change, social impact and green infrastructure, can deliver meaningful results.

During 2022 the UKRF submitted both its property funds to theGRESB and is working with both managers to help score assets carbon footprint by making use of the CRREM tool and third-party carbon advisors. As part of the ongoing investment monitoring, OPAM regularly challenges the UKRF property managers to work on improving the annual scoring, and this is included within each manager's annual objectives. Beyond looking at further investment opportunities that have positive RI characteristics, the Trustee remains committed to providing capital to enhance existing assets to deliver ESG improvements.

- **Real Assets – Property**
  - abrdn applies its stewardship and ESG principles into the:
    - Investment process:
      - Through the integration and appraisal of environmental, social and governance factors in their investment process with the aim to generate the best long-term outcomes for their clients.
      - abrdn have introduced their own ESG scoring tool, the ESG Impact Dial – a proprietary research framework – in support of investment strategies, underwriting decisions and asset management approach.
      - ESG risk factors are considered at every stage of the Fund strategy an investment process. For direct real estate, 21 ESG indicators are used to support their investment strategy, underwriting decisions and asset management approach.
      - ESG criteria is required as part of any new acquisition through a dedicated ESG section in the acquisition checklist and investment committee paper.
    - Revised Investment Process: Over the last 12-months, abrdn have launched several updates to their investment process, including (but not limited to):
      - Acquisitions: revision of standardised global acquisition due diligence scope and approach, which includes a new two-step approach to assessing ESG risks and opportunities (including transition and physical climate risks) at both the pre-bid and post-bid stage.



- Developments: launched new house-level ESG development guidelines, which sets the minimum ESG standards that new developments should achieve.
    - Refurbishment: launched standard green lease clauses to be included in new lease agreements.
  - Investment activity: Actively takes steps as stewards to deliver long-term, sustainable value consistent with their clients' objectives. Safeguarding and enhancing clients' risk-adjusted returns by proactively identifying and addressing material ESG risk factors when acquiring, managing and disposing of assets.
  - Client journey: clearly define how they act in their clients' interests in delivering their stewardship and ESG principles, and transparently report on their actions to meet those interests.
  - Corporate influence: actively advance policy, regulations and industry standards to deliver a better future for their clients, the environment and society. Considering ESG as a dimension of role descriptions, performance management and continued professional development for all relevant investment staff. Helping lead the real estate sector in tackling global societal challenges, through collaboration with clients and industry partners, and through the demonstration of best practice.
  - Approach to climate: The manager works alongside external experts to report and understand both the transition and physical risks climate change may have on the portfolio.
- Real Assets - Property
    - Invesco Real Estate (IRE) manages a portfolio of directly held Real Estate assets for the UKRF.
    - IRE is committed to being good stewards of the environment in a manner that is consistent with their fiduciary responsibilities to clients. As their clients increasingly place value on ESG+ Resilience (R) issues, they have a responsibility to make ESG+R integration a priority in the way they conduct their business and sustain our investments.
      - The Sustainability Focus Group (SFG) is represented by several stakeholders across the business and highly engaged in driving the firm's sustainability objectives forward, aiming to create, sustain, enhance value of our investments, and supports IRE Europe's long-term ESG objective to be a leader in sustainable investment.
      - Any investment undergoes various ESG related reviews during Due Diligence which score the efficiency of the building and any potential climate related risk. ESG related aspects are rated in the following areas:
        - Carbon Emission/ Energy Efficiency
        - Green Building Certification
        - Digital connectivity
        - Health & Wellbeing
        - Third Party ESG Risk
        - Physical Risk/ TCFD
        - Contamination
        - Exclusion of certain business activities
        - Transparency
        - Resilience
      - Climate Change related risks are rated based on the following framework:
        - Cyclones
        - Earthquakes
        - Floods
        - Heat Stress
        - Sea Level Rise
        - Water Stress
        - Wildfire
      - At acquisition level, the investment manager assesses the funds' exposure to climate risk, which is monitored throughout the holding period. IRE's team employs the use

of a Portfolio Climate Risk Dashboard as an online governance system capturing the journey towards resilience.

- In addition, they conduct a Net Zero audit for any new acquisition in order to assess where the asset stands on its pathway to Net Zero and which measures need to be taken in the future to reach targets in line with the CRREM model.

- Real Assets - Infrastructure

- Octopus Energy Generation (OEGEN) manage a portfolio of operational solar assets owned entirely by the UKRF, based in the UK.
  - The OEGEN investment team is required to complete an ESG risk matrix as part of the paper submitted to the OEGEN Investment Committee. The ESG risk matrix is a tool used to drive interaction and warrant additional investigation or due diligence into ESG risks where necessary. This ensures ESG risks are identified and mitigated during the investment process. The matrix is comprised of around 30 questions aligned to the fund's ESG policy and requires completion of due diligence questionnaires by key counterparties to enable the matrix to be completed. Materiality of risks included in the ESG matrix is determined using guidance from the Sustainability Accounting Standards Board (SASB) framework, that identifies financially material ESG risks by asset class. Questions included in the matrix include those relating to potential environmental damage (environmental impact assessment, habitat management plans, resource minimisation strategies), carbon reduction and measuring, policies (anti-bribery, corruption, modern slavery, equality, diversity and inclusion), unfair advantage and community relations (engagement and community benefit initiatives). An assessment of each deal is conducted three times throughout the investment process: at Approval in Principle, Final Investment Committee and at the Pre-Completion Stage. The matrix has a total possible score of 15, with a score of 9 required to indicated compliance with the fund's ESG Policy.
  - After making an investment the OEGEN Asset Board is responsible for ensuring that each investment adheres to the relevant fund's ESG policy. Should any material risks (including long-term risks) in the portfolio be identified by the OEGEN Asset Board, a mitigation strategy would be agreed amongst the Board and our Asset Management team would be responsible to oversee the implementation of the strategy by their third-party asset managers. Their asset management plans are created to meet/exceed ESG requirements and they commit to regularly reviewing and monitoring our external service providers.
  - Stewardship is ingrained into the way OEGEN operate and manage their assets. They actively manage all of the investments they make through some of the following stewardship and engagement measures.
  - Active collaboration - OEGEN seek to work with likeminded contractors who will support them in maximising and measuring impact, for example through using local labour, setting science-based targets in construction, putting in place and monitoring habitat management plans, and through community benefit programmes and local engagement.
  - Climate change engagement - OEGEN undertakes climate risk assessments across its investments. This includes working with Baringa to develop climate scenario data for energy prices in different climate scenarios and working with Climate Scale and Real Estate Industry Partners (REIP) asset managers to understand temperature impact to solar panel performance under a 4°C scenario.

- Real Assets - Infrastructure
  - The UKRF invests as a Limited Partner within the InfraRed Capital Partners Infrastructure Yield Fund.
    - The InfraRed sustainability policy, has evolved their long-standing commitment to sustainability into a systematic approach embedded in their wider business strategy.
    - The Policy applies to InfraRed and outlines to its stakeholders how sustainability considerations are incorporated into InfraRed's investment and on-going management processes as well as the management of its own internal corporate operations.
    - Their sustainability policy consists of five key commitments:
      1. Continue to incorporate sustainability into our investment processes.
      2. Make a positive contribution to our prioritised UN SDGs.
      3. Track sustainability improvements across our portfolio and own operations.
      4. Embed sustainability into all staff's performance assessment and remuneration.
      5. Minimise our corporate carbon footprint.
    - ESG factors are considered as part of the due diligence process of every deal and are a fundamental part of the decision-making process. The materiality of individual ESG factors varies significantly between sectors and geographies. It is the responsibility of the Origination & Execution team, guided by InfraRed's Head of Sustainability and Sustainability Analyst, to identify the aspects which require extended due diligence and those are required to be reflected in the valuation models or risk management processes. Whilst InfraRed's preference is to proactively engage with the relevant parties to identify solutions to address ESG issues, the company will elect to not proceed with a transaction if they do not believe that there is a feasible solution. Overall, however, the types of projects and sectors that InfraRed invests in are not typically high-risk from an ESG perspective
    - Typical ESG factors which would be considered in relation to each infrastructure project include the following:
      - Environmental Factors: pollution risk, BREEAM performance or local equivalent, climate change impact assessment, effective sustainable material usage in construction, energy, water and waste consumption, land use and biodiversity impacts;
      - Social Factors: effective and acceptable employment standards in all areas of the project, supply chain due diligence, good levels of Health and Safety performance, community relationships and interaction; and
      - Governance Factors: effectiveness of the project board, cyber security, anti-bribery performance, adequacy of company policies and risk management.

## DC Section

- The DGF is a multi-asset portfolio invested across a well-diversified range of liquid underlying asset classes. Exposure to these assets is established through a wide range of underlying pooled funds (including ETFs), derivative (futures, total return swaps, FX forwards) and single name equity and bond holdings.
- The UKRF's DGF was initially transitioned towards improved RI characteristics in 2020. During 2022 OPAM has continued to work with the investment manager of the DGF, BlackRock, to explore further RI enhancements, such as analysing the benefits and considerations of introducing a Paris-aligned equity benchmark, as well as seeking to further enhance RI reporting.
- During 2022 and in line with Trustee's Net Zero ambition, the Equity allocations within the DGF were transitioned to the European Union's CTB guidelines in Q2 2022. The CTB methodology introduced a forward-looking commitment to decarbonise the portfolio by 7% year-on-year. The guidelines also mandate that CTB portfolios should foster an overweight allocation to companies that set science-backed emissions targets. It also mandates that portfolios should have an increased allocation to companies with green revenues relative to the benchmark.

## Principle 8: Monitoring managers and service providers

### Context

#### **UKRF Asset Manager Policy**

OPAM's investment mandates are set out in a separate Investment Advisory and Management Agreement (IAMA). This documents the Trustee's expectations of OPAM, alongside the Investment Guidelines OPAM are required to operate under.

The Investment Guidelines are based on a combination of the policies set out in the SIP, the Trustee's Pension Risk Management Framework (the PRMF) and RI policy. The Investment Guidelines are updated following any changes to one of these documents, ensuring OPAM always invests in line with the Trustee's policies.

When relevant, the Trustee requires OPAM to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes.

The Trustee requires OPAM to appoint its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

The Trustee's policy towards monitoring non-financial performance is set out in the RI policy. For some asset classes, the Trustee does not expect OPAM to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

OPAM maintains oversight of third-party investment managers on behalf of the Trustee through the use of a proprietary monitoring and rating framework. At OPAM's discretion, if a third-party investment manager can no longer be expected to invest in line with the policies of the Trustee, OPAM will find a suitable replacement. Investment performance is assessed over a medium- to longer-term timeframe, subject to a minimum of three years.

The Trustee monitors the performance of OPAM by using relevant comparators and meeting on a regular basis to discuss and review the investment activity carried out on their behalf. It is the responsibility of the Trustee to satisfy itself that OPAM continues to carry out its work competently, provide value to the Trustee, and that it has appropriate knowledge and experience to manage the investments of the Fund.

The Trustee reviews the costs incurred in managing the Fund's assets annually. In addition, OPAM reviews the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, OPAM will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

## Activities

### **OPAM Investment Due Diligence (IDD)**

The IDD process is led by the OPAM investment team. At initial stages of any investment idea, the investment team leads the research and performs most of the analysis and due diligence.

Responsible Investment and stewardship considerations are key to each component of evaluation:

- **IDD summary:** Investment case (thesis, rationale) and market context; strengths (positives) and considerations (weaknesses); KPIs (key performance indicators)
- **Investment strategy and/ or manager specific information and analysis:** business and people, product, process, and performance
- **UKRF context:** Sizing; liquidity and funding considerations; effect on UKRF risk, return and other IAMA requirements, restrictions, and guidelines; where appropriate, how the investment will fit into the UKRF Exclusion policy and wider Stewardship goals; any other considerations (e.g. size of UKRF assets managed by the manager)
- **Supporting information:** Q&A and challenge by OPAM team, manager Request for Proposal ('RFP').

When it appears more likely that the investment idea may progress towards proposal to the OPAM Investment Committee, additional OPAM resources and teams will also get more involved in the due diligence process, with questions, suggestions, input and challenge (OPAM Risk, Analytics and Reporting team; OPAM Implementation Team; OPAM Legal & Compliance). Communication of such ideas across the team and initial stages of work and research take place through the investment team meetings/ catch-ups, the OPAM Team meeting and Asset Class meetings.

### **Investment Monitoring Process**

The OPAM investment team, under the oversight of the OPAM DAA Committee, regularly monitors the UKRF direct investments (i.e. mandates managed by asset managers or consultants that are directly appointed and overseen by OPAM) in order to assess each investment's performance, risk and other characteristics against expectations and prevent, limit or mitigate investment and other risks for the UKRF.

Each investment mandate is different in several aspects, including size, complexity, liquidity, data availability and reporting (typically a function of liquidity), pace of change in market conditions, investment horizon, active/passive nature, investment risk. In order to reflect these aspects for each UKRF investment mandate, OPAM defines a minimum monitoring frequency, reporting expectations (agreed with the manager or other related parties over time) and organises (or participates in) regular meetings/ calls/ reviews with the investment manager or adviser for each UKRF investment.

The investment monitoring process is primarily performed by the OPAM investment team and includes regular and ad-hoc reporting on the investments (typically sourced directly from the manager or UKRF custodian), regular and ad-hoc meetings (face-to-face or calls) and brief meeting notes (only reviewed by exception at the Asset meetings). Reporting from all investments is also included in the Asset Class meetings for review and highlighting of any issues. Each UKRF direct investment has an assigned Lead and Alternate coverage, along with minimum monitoring frequency. The monitoring frequency for each investment is at least annual and it depends on several factors and considerations, including the investment's size, risk, complexity and liquidity.

Following review and discussion of manager reporting (day-to-day investment team interaction, investment team meetings, Asset Class meetings), key issues (by exception, if any) are escalated to the OPAM Investment Committee on a regular basis.

On a quarterly basis, a review of OPAM’s RI priorities and actions for the year are reviewed by the OPAM Investment Committee. Along with monitoring progress against development areas and UKRF RI Principles, the OPAM Investment Committee reviews an update of how each UKRF investment manager integrates ESG, if appropriate, how the UKRF Stewardship policy is applied, and a summary of each managers latest RI engagement with OPAM.

Additionally, every 6 months, a review across all UKRF investments takes place by the OPAM DAA Committee. This review is accommodated by a 1-page executive summary per UKRF investment. The executive summary contains key investment characteristics, performance, risk, KPIs (where applicable), ESG issues, updates over the last 6 months (across business/people, process, product), areas of current work only, and an “increase/ retain/ reduce/ redeem” or other recommendation. The executive summaries are discussed and reviewed by the Investment Committee and the current status per investment is agreed by the Committee.

## **DC**

OPAM completes an Annual Investment Review of each of the Funds (and their Investment Managers) available to members. Key areas of focus include the strategy (including the inclusion of RI considerations), manager/process, performance, Operational Due Diligence, and fees. In addition, WTW provide their own independent review of the funds, along with a wider fee benchmarking exercise.

The OPAM DC DAA Committee is presented with a recommendation as to whether the funds available remain appropriate and suitable for the UKRF members.

## **Operational Due Diligence Process**

Operational due diligence of direct investments is conducted by the OPAM Implementation team. OPAM has the ability to contract with third party specialist operational due diligence consultants where necessary. An operational due diligence review is completed pre-investment and then annually on an ongoing basis. The full scope of the operational due diligence review is across an agreed list of core areas which incorporates the key operational processes and controls across the investment management organisation to assess for any key risks. The third party specialist assessment methodology is based on the evaluation of the key risks associated with the investment provider’s governance, systems and processes, controls, risk management and people in the context of the present and future regulatory landscape and market best practices. Customised due diligence reviews on investment managers are also undertaken which provide a deep dive into specific operational processes. Any areas of concern highlighted from the operational due diligence review process are discussed with the investment managers to determine mitigation of risk and/or determine remediation actions to address such risks. Any operational due diligence concerns or agreed actions for the investment manager concerned are communicated to OPAM Investment team and are monitored by the Implementation team for resolution and closure.

## **Stewardship Monitoring**

In the process of monitoring stewardship responsibilities delegated to EOS at Federated Hermes and external investment managers, OPAM regularly undertakes:

- a review of the voting and engagement activities of EOS at Federated Hermes and external investment managers;
- engagement with EOS and investment managers on their approach;
- engagement with investment managers in order to question investments, and challenge the managers’ due diligence and own engagement.
- maintaining awareness of key industry developments;
- overseeing member communication, including responding to queries;
- involvement in collaborative investor initiatives (During 2020 the UKRF joined the IIGCC and during 2022 OPAM actively participated in the net-zero investment framework and Paris-alignment workgroups.)

## Outcomes

### **Monitoring Managers**

During 2022 OPAM continued its engagement with one of its investment managers which had received public criticism on the grounds of culture and diversity, in order to understand how the firm viewed the criticism and the steps it was taking to take action and enact change. As an outcome of this, the manager commissioned an independent audit into its diversity and inclusion practices.

### **Monitoring Service Providers**

During 2022 OPAM engaged with the ESG analytics provider in order to improve coverage and data quality where possible. OPAM continued to use this resource to view both portfolio and asset level ESG data and integrated the output into the challenge/rigour it presents to the UKRF managers and data providers.

During 2022 OPAM utilised the ESG analytics provider to enhance the ESG reporting framework for the UKRF. OPAM continues to use this resource to view both portfolio and asset level ESG data and integrate the output into the challenge/rigour it presents to the UKRF managers. OPAM have also engaged with the ESG analytics provider directly on several occasions to flag ESG metric data quality issues which have subsequently been resolved by the service provider.

In 2022, the Trustee conducted an annual review of the Fund's RI practices and activities with input from OPAM and the UKRF Strategic RI advisor, WTW.



## SECTION 3 - ENGAGEMENT

### Principle 9: Engagement

#### Context

The Trustee recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries and understands that effective stewardship can help protect and enhance the long-term value of its investment to the ultimate benefit of its beneficiaries. The Trustee believes that engagement activities should achieve a specific purpose with the entities and markets in which it invests and is willing to act collectively where appropriate. With the help of EOS at Federated Hermes, the Trustee will engage (and vote, where applicable) with the investee entities, regulators and markets in a more proactive basis.

The Trustee delegates the oversight of individual investee companies to EOS at Federated Hermes and its investment managers. In selecting investment managers, the manager's policy on social, environmental and governance issues will be a factor in the selection process. The Trustee encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code. Where appropriate, the Trustee has reviewed and accepted all the appointed managers' policies on this issue and will monitor these policies on a regular basis.

The Trustee receives, and reviews annually, reporting provided by OPAM which summarises the RI practices, including stewardship (voting and engagement) activities, of EOS at Federated Hermes and its external investment managers and highlights areas of potential concern. This analysis includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered; and
- exposures to ESG risks within the portfolio.

The below section comprises case studies demonstrating the engagement conducted by the UKRF's underlying asset managers during the reporting period.

#### Activities

##### CASE STUDY: Property

IRE manage a portfolio of commercial and industrial real estate assets in the UK and Europe. As outlined in response to Principle 7, the UKRF seeks to integrate ESG objectives and performance improvements as part of the manager's annual investment case. Where appropriate, the Trustee is committed to investing further capital into assets to deliver ESG improvements.

With the start of the war in the Ukraine during Q1 2022, IRE was actively involved in organising support actions for refugees fleeing from Ukraine to Poland. This included collection of food and medical products for refugees in shopping centres in Poland, and engagement with tenants in buildings managed by IRE across Europe to support with refugee accommodation - in partnership with Human DOC and the Ukrainian Embassy.

IRE regularly engaged with the UKRF about the situation. The UKRF was supportive and remained engaged, offering to discuss ideas.

- A hotel located at an airport located in Frankfurt was also identified as a potential solution for shelter and IRE reached out to respective contacts to have discussions with the authorities from the district organising a property tour with a representative of the city.
- While the Frankfurt hotel was not required, the management of a hotel owned in Krakow had already reacted very fast to the crisis and communicated to the local authorities their availability and readiness to support with food and accommodation. The brand owner and manager, also committed to provide 5% of their stock for accommodating refugees – which in the hotel translated to 10-12 rooms.
- The hotel worked with an NGO in the hotel, and welcomed Ukrainians, mainly women and children. In collaboration with the NGO, they prepared food and water served in different spots in the city. They also sent warm meals and food cooked in the hotel to the borders. The team also prepared one of the conference halls to support those waiting for transfers, with food, offered blankets, movies for the kids on the big screen etc.
- Overall, the hotel was very proactive and took on any chance to provide help. Performance was even in the short term higher than expected as the hotel saw a large influx of corporates pulling their employees from Ukraine and accommodating them in a hotel in Krakow.
- The IRE asset management team were in contact with the hotel's General Manager on a daily basis and offered support, working out where they needed help. One area emphasised was in terms of safety: for all guests but especially those vulnerable as refugees. The hotel continued to carry out their standard procedures: all guests (even when the rooms are provided for free) need to go through the registration and check in process (so passports are checked).

In addition to this the ongoing ESG policies were continued:

- IRE continued working with the tenants' ongoing ESG policies related to energy saving and carbon reduction targets through the year; including adding new energy monitoring and measurement systems, and planning new investment, such as the use of excess kinetic energy from the lifts for use, and utilising excess heat from the kitchen and fridges to heat the pool.
- IRE are implementing a Waste Scale in order to improve the accuracy of the waste data.
- The hotel was also certified in operations with Green Key in 2022, as owner transferred the BREEAM In Use certificate from V5 to V6 (which is the latest version of the certification, more challenging and transparent). This also helps to identify new areas to work on, incorporated into the business plan.

#### CASE STUDY: Property

abrdn manage a portfolio of UK commercial and industrial real estate owned by the UKRF. As outlined in this Principle 9, in line with the UKRF's guidance, abrdn's Strategic Plan contains specific Fund ESG objectives and performance which are set following dialogue between the UKRF and the manager. As part of these objectives, the UKRF is keen to financially support improvements which enhance the ESG characteristics of its assets.

- **Solar Panels:** Detailed feasibility surveys and submitted a successful application to Distribution Network Operator to deliver photovoltaic panels on the roofs at the Cambridgeshire shopping Centre. The system is designed to deliver a CO<sub>2</sub> saving of 5.9 tonnes per year offsetting c.75% of the annual electricity demand from the common areas in the centre and make an important contribution to the Net Zero Carbon strategy for the asset. The planning drawings have been submitted so we can complete the final design and start on site in 2023.
- **Data Collection:** Smart Meters have been installed at c65% of all units at Cambridge (from 0% in 2021) in order to enhance the level of tenant data collection. This will allow abrdn to work with occupiers to reduce energy usage across the asset and ultimately the Fund, in turn reducing total carbon emissions and increasing the GRESB score.
- **EV Charging:** Feasibility studies have been carried out at Peterborough and Reading to assess the viability of EV charging facilities at the sites. At the retail park located in Peterborough, the projected usage of the

4 x Twin 300kW DC Chargers over the next 20 years is expected to save 3,324 tonnes of CO<sub>2</sub>, which is the equivalent of 49,603,151 carbon free miles. At Reading Gateway the projected usage of the 4 x Twin 150kW DC Chargers & the 7 x Twin 22kW AC Charge Points over the next 20 years is expected to save 1,835 tonnes of CO<sub>2</sub>, which is the equivalent of 27,376,823 carbon free miles.

#### CASE STUDY: Infrastructure Debt

Macquarie Asset Management (MAM) manage a portfolio of UK Infrastructure Debt investments on behalf of the UKRF.

##### **Project Walkie**

Project Walkie is a social housing investment in the UK. The Manager engaged with the borrower to discuss their outlook and future plan to improve their governance rating. Additionally, MAM received regular updates on their interaction with the Regulator of the Social Housing Sector, who have also acknowledged the borrowers action to improve its governance.

##### **Project Canard**

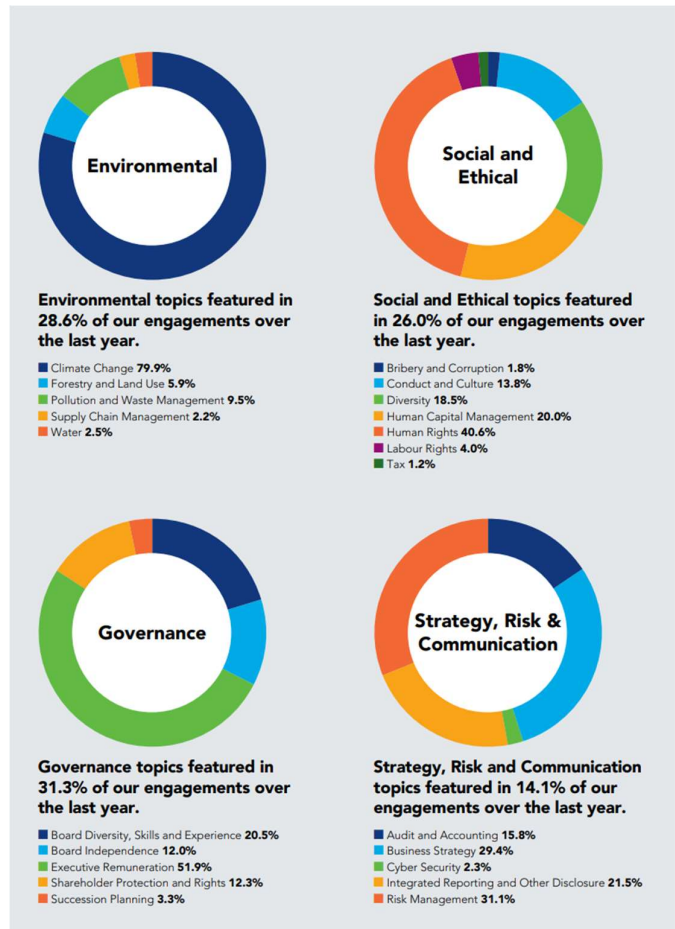
Project Canard relates to a rail network in the UK. To ensure there was heightened visibility over business performance during a period of uncertainty, MAM engaged with the borrower to negotiate new undertakings during the waiver process. As part of the waiver process, the Borrower agreed to continue to provide lenders with a monthly information pack with the intention of enabling greater oversight of performance and the latest forecasts,

##### **Project Rook**

Project Rook relates to a fixed rate loan to finance a portfolio of Solar PV plants. The portfolio will contribute to avoiding 144kt CO<sub>2</sub>e in carbon dioxide equivalent emissions per year, which is the equivalent of powering more than 90,000 homes each year. The portfolio is aligned to the EU taxonomy for Sustainable Activities.

Through its role for the UKRF, EOS at Federated Hermes engages with companies across the globe to address their key risks, challenges and opportunities, covering environmental, social, governance, strategy, risk and communication matters. Alongside this, EOS has continued to engage with policymakers, regulators and standard-setters to help improve market best practice.

In 2022, on behalf of the UKRF's holdings, EOS engaged with 230 companies on 1,251 environmental, social, governance, strategy, risk and communication issues and objectives. EOS's holistic approach to engagement means that they typically engage with companies on more than one topic simultaneously.



## Outcomes

### EOS engagement methodology and progress in 2022

EOS's proprietary milestone system allows them to track progress in engagements relative to the objectives set at the beginning of the interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

- Milestone 1: Concern raised with the company at the appropriate level
- Milestone 2: The company acknowledges the issue as a serious investor concern
- Milestone 3: Development of a credible strategy/Stretching targets set to address the concern
- Milestone 4: Implementation of a strategy or measures to address the concern

### Milestone status of engagement

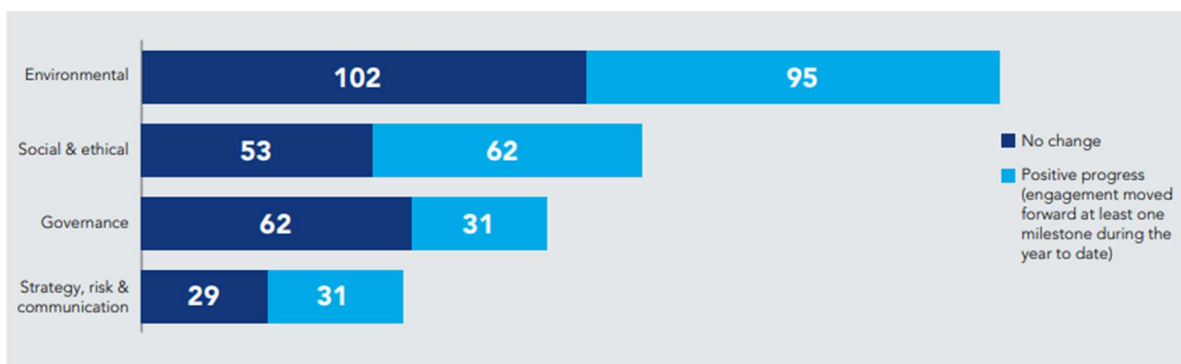
The chart below shows the milestone status of EOS's engagement objectives by theme relating to the UKRF's holdings.

Theme	Total Engagement Objectives*	Engagement objective stage (last milestone completed)			Closed engagement objectives	
		Milestone 1	Milestone 2	Milestone 3	Completed	Discontinued
Environmental	197	44	68	54	24	7
Social and ethical	115	26	41	24	16	8
Governance	93	21	21	18	15	18
Strategy, risk and communication	60	10	21	10	14	5
<b>Total engagements</b>	<b>465</b>	<b>101</b>	<b>151</b>	<b>106</b>	<b>69</b>	<b>38</b>

\*Includes objectives which were live in the period. Objectives are live when Milestone 1 has been completed.

### Engagement progress in 2022

EOS made solid progress in delivering engagement objectives across regions and themes. Around 47% of their objectives progressed to a new milestone during the year. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



EOS at Federated Hermes publishes a range of public case studies, the full-length engagement case studies produced in 2022 have been fact-checked by companies and can be found on EOS's website (<https://www.hermes-investment.com/ukw/stewardship/eos-insights>)

#### **Engagement with JD – published December 2022.**

[JD.com case study | UK Institutional \(hermes-investment.com\)](#)

As part of ongoing dialogue with JD.com, in 2018, EOS communicated their expectation for the separation of the roles of CEO and chair of the board, questioning the succession plan in place for these two positions held by the

In early 2020, the company announced that the founder, combined chair and CEO, Mr Liu had stepped down from his key management roles from his subsidiary companies. Additionally, in 2021, the company confirmed that Mr Liu will be stepping away from the operational role and Mr Xu will be his replacement as CEO. In 2022, the company announced Mr Liu's departure from his CEO positions however he remained as chair of the board in Q2 2022. EOS continues to engage with the company to consider board refreshment, given the long tenure of the independent directors, as well as consideration of a lead independent director.

Separately, on climate-related disclosure, EOS engaged with the company in early 2021 on their expectations for the disclosure of a TCFD report. This is important given the increased market pressure and expectations following the Chinese government's publication of the 14<sup>th</sup> five-year plan in 2020 and commitment to carbon neutrality by 2060. EOS shared with the company examples of TCFD reporting in China. Subsequently, the company published its first ESG report in 2021. Within this report, JD.com incorporated Scope 1, 2 and 3 emissions figures alongside reporting in line with TCFD report that included scenario analysis. The company has also set science-based targets for its subsidiary, JD Logistics, committing to reduce its absolute Scope 1, 2, 3 greenhouse gas emission by 50% by 2030, however it is yet to set science-based targets for JD.com itself. EOS will continue to encourage JD.com to obtain science-based targets for its emission reduction.

#### **Engagement with Seven & i Holdings – published December 2022**

[Seven & i Holdings case study | UK Institutional \(hermes-investment.com\)](#)

EOS has engaged with Seven & i since 2008. Engagement topics includes board independence, diversity, and low profitability of its superstore business. The issue of lack of board gender diversity was first raised in 2018, which the company acknowledged, appointing its first female director in 2019. However, ahead of the 2020 AGM, the board independence of the company decreased. EOS reiterated their expectation for further female director appointments, aiming to be in line with the 30% Club Japan's expectations of having 30% female representation on the board. Ahead of the 2021 AGM, EOS expressed similar concern and provided their enhanced voting policy on gender diversity. As part of the board refreshment in 2022, three new female directors were appointed, of which two were non-Japanese, increasing the gender ratio to 30%. The appointment of additional non-Japanese independent directors with relevant business background increased its board diversity and it is now a majority independent board.

#### **Engagement with a Company in the Energy Sector (Confidential)**

During the first quarter of 2022, EOS engaged with the head of investor relations and his team in an energy company to discuss near term challenges in the energy market, and climate risks and opportunities for the company's different asset types. EOS asked about the impact of recent market shocks such as the Russian/Ukraine conflict. The company said it was positioned well for a volatile energy market with the majority of its business conducted through fixed price contracts. The company viewed the inflation of gas prices as a positive for its renewable energy business due to its increasing competitiveness.

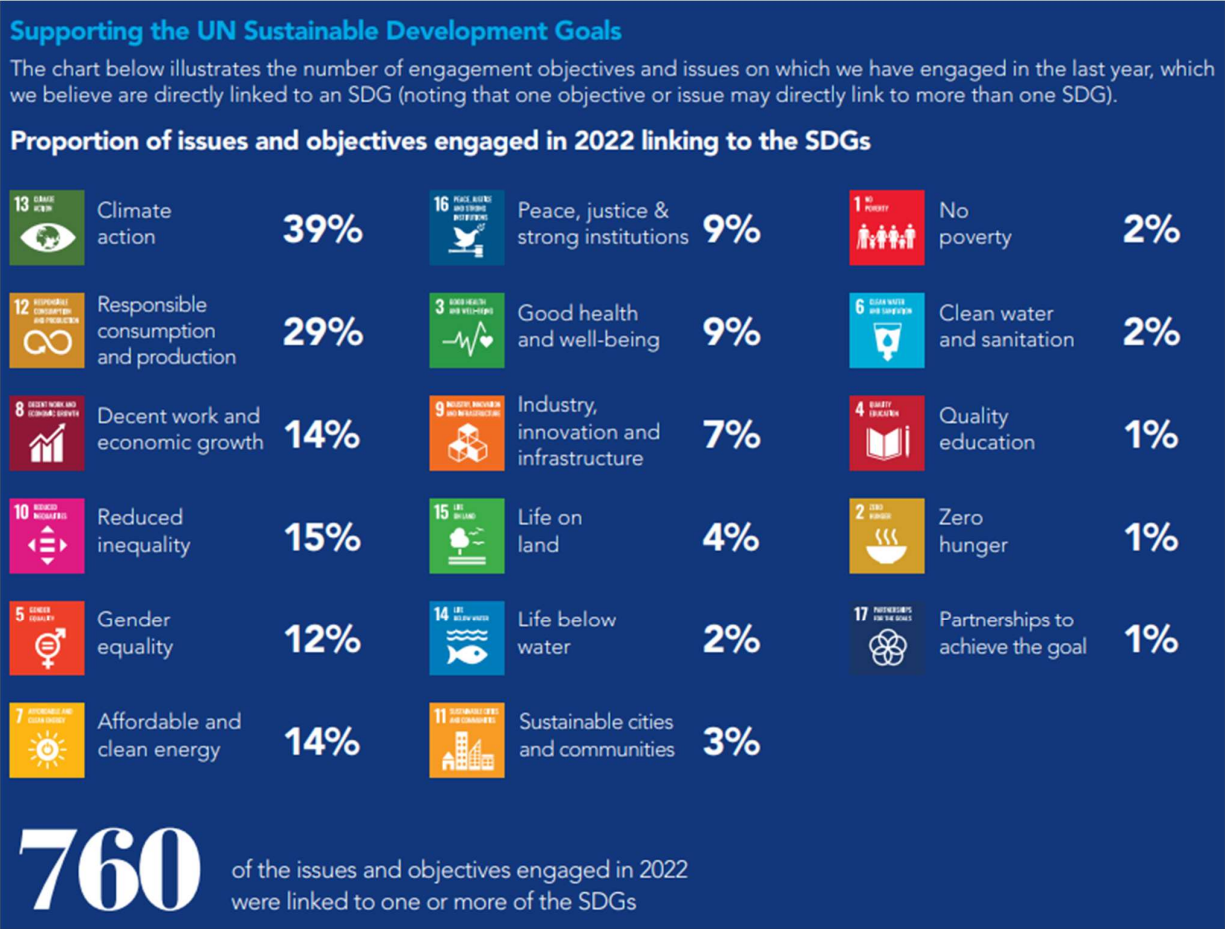


EOS addressed the company’s coal exit policy; they clarified that it did not include their Brazil coal plant. However, the asset’s purpose is to provide energy during times of scarcity and it provided no revenue over the past year. EOS suggested that the company clearly disclose the output figures of high carbon assets that rarely operate, for investors who are questioning their environmental impact.

EOS gave feedback on the company’s climate risk disclosures and asked for an update on its progress in reporting against the TCFD recommendations. EOS suggested disclosing reporting on the risks and opportunities of individual energy sources as a useful addition, which the company acknowledged and appreciated. EOS continues to engage with the company about their TCFD disclosure.

**Supporting the UN Sustainable Development Goals (SDG)**

The chart below highlights the number of engagements over 2022, on behalf of the UKRF’s holdings, which EOS believes are directly linked to one or more SDGs.





## DC Engagement

The below tables show the engagements made by the DC managers relating to each of the separate DC funds over the calendar year 2022.

UKRF DGF Fund - Engagement Summary Report - Jan 01, 2022 to Dec 31, 2022	Number	%
<b>Total companies in portfolio (as of 12-31-2022)</b>	<b>3,748</b>	
<b>Total company engagements</b>	1,791	
<b>Number of individual companies engaged</b>	1,190	32%
<b>Number of companies with multiple engagements</b>	398	33%
<b>Engagements by region*</b>		
Americas	913	51%
EMEA	430	24%
APAC	448	25%
<b>Engagement themes*</b>		
Governance	1,624	91%
Social	741	41%
Environmental	955	53%
<b>Engagement topics*</b>		
E-Biodiversity	37	2%
E-Climate Risk Management	812	45%
E-Land Use/Deforestation	12	1%
E-Environmental Impact Management	213	12%
E-Operational Sustainability	301	17%
E-Other company impacts on the environment	88	5%
E-Water and Waste	59	3%
G-Board Composition and Effectiveness	836	47%
G-Board Gender Diversity	121	7%
G-Business Oversight/Risk Management	471	26%
G-Corporate Strategy	721	40%
G-Executive Management	283	16%
G-Governance Structure	463	26%
G-Other	46	3%
G-Remuneration	775	43%
G-Sustainability Reporting	206	12%
S-Business Ethics and Integrity	26	1%
S-Community relations	36	2%
S-Diversity and Inclusion	123	7%
S-Health and Safety	29	2%
S-Human Capital Management	526	29%
S-Indigenous Peoples Rights	14	1%
S-Other Human Capital Management issues	18	1%
S-Other company impacts on people/human rights	35	2%
S-Privacy and Data Security	39	2%
S-Social Risks and Opportunities	301	17%
S-Supply Chain Labour Management	50	3%

World (Ex UK) Equity Index Fund - Engagement Summary Report - Jan 01, 2022 to Dec 31, 2022		
Total companies in portfolio (as of 12-31-2022)	2,010	
	Number	%
Total company engagements	1,578	
Number of individual companies engaged	968	48%
Number of companies with multiple engagements	384	40%
<b>Engagements by region*</b>		
Americas	657	42%
EMEA	407	26%
APAC	514	33%
<b>Engagement themes*</b>		
Governance	1421	90%
Social	703	45%
Environmental	902	57%
<b>Engagement topics*</b>		
E-Biodiversity	41	3%
E-Climate Risk Management	786	50%
E-Land Use/Deforestation	10	1%
E-Environmental Impact Management	171	11%
E-Operational Sustainability	220	14%
E-Other company impacts on the environment	93	6%
E-Water and Waste	50	3%
G-Board Composition and Effectiveness	712	45%
G-Board Gender Diversity	132	8%
G-Business Oversight/Risk Management	387	25%
G-Corporate Strategy	667	42%
G-Executive Management	248	16%
G-Governance Structure	450	29%
G-Other	37	2%
G-Remuneration	647	41%
G-Sustainability Reporting	192	12%
S-Business Ethics and Integrity	22	1%
S-Community relations	47	3%
S-Diversity and Inclusion	130	8%
S-Health and Safety	35	2%
S-Human Capital Management	527	33%
S-Indigenous Peoples Rights	18	1%
S-Other Human Capital Management issues	25	2%
S-Other company impacts on people/human rights	28	2%
S-Privacy and Data Security	40	3%
S-Social Risks and Opportunities	280	18%
S-Supply Chain Labour Management	63	4%

Emerging Markets Index Fund - Engagement Summary Report - Jan 01, 2022 to Dec 31, 2022		
Total companies in portfolio (as of 12-31-2022)	1,260	
	Number	%
Total company engagements	436	
Number of individual companies engaged	295	23%
Number of companies with multiple engagements	87	29%
<b>Engagements by region*</b>		
Americas	151	35%
EMEA	40	9%
APAC	245	56%
<b>Engagement themes*</b>		
Governance	400	92%
Social	186	43%
Environmental	304	70%
<b>Engagement topics*</b>		
E-Biodiversity	7	2%
E-Climate Risk Management	271	62%
E-Land Use/Deforestation	1	0%
E-Environmental Impact Management	101	23%
E-Operational Sustainability	126	29%
E-Other company impacts on the environment	17	4%
E-Water and Waste	10	2%
G-Board Composition and Effectiveness	227	52%
G-Board Gender Diversity	23	5%
G-Business Oversight/Risk Management	218	50%
G-Corporate Strategy	256	59%
G-Executive Management	124	28%
G-Governance Structure	185	42%
G-Other	10	2%
G-Remuneration	136	31%
G-Sustainability Reporting	61	14%
S-Business Ethics and Integrity	7	2%
S-Community relations	9	2%
S-Diversity and Inclusion	13	3%
S-Health and Safety	15	3%
S-Human Capital Management	110	25%
S-Indigenous Peoples Rights	6	1%
S-Other Human Capital Management issues	6	1%
S-Other company impacts on people/human rights	10	2%
S-Privacy and Data Security	2	0%
S-Social Risks and Opportunities	95	22%
S-Supply Chain Labour Management	16	4%

UK Equity Index Fund - Engagement Summary Report - Jan 01, 2022 to Dec 31, 2022		
Total companies in portfolio (as of 12-31-2022)	6,709	
	Number	%
Total company engagements	2,921	
Number of individual companies engaged	1,910	28%
Number of companies with multiple engagements	644	34%
<b>Engagements by region*</b>		
Americas	1292	44%
EMEA	833	29%
APAC	796	27%
<b>Engagement themes*</b>		
Governance	2641	90%
Social	1151	39%
Environmental	1619	55%
<b>Engagement topics*</b>		
E-Biodiversity	64	2%
E-Climate Risk Management	1397	48%
E-Land Use/Deforestation	15	1%
E-Environmental Impact Management	355	12%
E-Operational Sustainability	466	16%
E-Other company impacts on the environment	141	5%
E-Water and Waste	90	3%
G-Board Composition and Effectiveness	1360	47%
G-Board Gender Diversity	199	7%
G-Business Oversight/Risk Management	763	26%
G-Corporate Strategy	1196	41%
G-Executive Management	476	16%
G-Governance Structure	803	27%
G-Other	68	2%
G-Remuneration	1186	41%
G-Sustainability Reporting	319	11%
S-Business Ethics and Integrity	36	1%
S-Community relations	66	2%
S-Diversity and Inclusion	191	7%
S-Health and Safety	59	2%
S-Human Capital Management	829	28%
S-Indigenous Peoples Rights	28	1%
S-Other Human Capital Management issues	30	1%
S-Other company impacts on people/human rights	50	2%
S-Privacy and Data Security	57	2%
S-Social Risks and Opportunities	474	16%
S-Supply Chain Labour Management	90	3%

\*Engagements include multiple company meetings during the year with the same company. Most engagement conversations cover multiple topics and are based on the Blackrock vote guidelines and engagement priorities.

<b>Jupiter Ecology</b>		
<b>Total companies in portfolio (as of 31-12-2022): 46</b>		
	<b>Number</b>	<b>%</b>
<b>Total company engagements</b>	34	100%
<b>Number of individual companies engaged</b>	24	71%
<b>Number of companies with multiple engagements</b>	10	29%
<b>Engagements by region</b>		
Americas	11	32%
EMEA	16	47%
APAC	7	21%
<b>Engagement themes</b>		
Governance	14	41%
Social	6	18%
Environmental	14	41%
<b>Engagement topics</b>		
E- Climate Risk Management	7	21%
E- Environmental Impact Management	4	12%
E- Operational Sustainability	2	6%
S- Human Capital Management	5	15%
S- Social Risks and Opportunities	1	3%
G- Board Composition & Effectiveness	2	6%
G- Business Oversight/Risk Management	0	0%
G- Corporate Strategy	11	32%
G- Executive Management	2	6%
G- Governance Structure	0	0%
G- Remuneration	0	0%

## Principle 10: Collaboration

### Context

The Trustee believes that collaborative initiatives can be powerful in effecting positive change and will be a direct participant in select initiatives.

The Trustee is willing to act collectively where appropriate, but in the first instance delegates voting and engagement to EOS at Federated Hermes and the underlying investment managers, although it reserves the right in exceptional circumstances to determine the exercise of voting rights directly.

As mentioned under principle 7, during the selection process of investment managers, OPAM has an expectation for investment managers to be signatories to normative codes including the UN PRI, and for managers to demonstrate Paris aligned principles, through membership of a Net Zero Initiative.

EOS at Federated Hermes and the Fund's investment managers are encouraged to get involved in collective engagement where this is an efficient means to protect and enhance long-term investor value. Therefore, through EOS at Federated Hermes, the Trustee's collective engagement is always collaborative with other EOS clients.

### Activities

The Trustee receives, and reviews annually, reporting provided by OPAM which summarises the RI practices, including stewardship (voting and engagement) activities, of EOS at Federated Hermes and its external investment managers and highlights areas of potential concern. This analysis includes consideration of:

- whether the investment manager's policy specifies their stance on collaborative engagement activities; and
- the extent to which the investment manager contributes to these efforts.

EOS at Federated Hermes represents the UKRF and its clients in different collaborative engagement initiatives, such as:

- Climate Action 100+
- UN PRI (lead investor for Vale dam failure group and actively involved in other groups including: cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax);
- Investors for Opioid & Pharmaceutical Accountability;
- Investor Alliance for Human Rights;
- Investor Initiative on Mining & Tailings Safety;
- International Corporate Governance Network (ICGN);
- Plastics Solutions Investor Alliance;
- 30% Club.

As we develop our collaborative engagement activities at the UKRF, as an asset owner we are current signatories to the UN PRI, and a supporter of the TCFD. The UKRF 2022 TCFD report is available on the public website, a member friendly version is also available.

(<https://epa.towerswatson.com/accounts/barclays/public/barclays-bank-task-force-climate-disclosures/>)

## Outcomes

### **EOS at Federated Hermes**

Since December 2017 the collaborative engagement initiative Climate Action 100+ (CA100+) has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5°C world. EOS is a significant supporter of CA100+, leading or co-leading engagement at over 25 of the 167 focus companies across Europe, North America, and Asia. According to analysis by research company Bloomberg New Energy Finance (BNEF), 111 of the CA100+ focus companies have set a net-zero or equivalent target, compared with five prior to January 2018 when the initiative was launched. BNEF estimates that in 2030, the net zero targets set by these 111 focus companies will reduce greenhouse gas emissions by 3.7bn metric tons of CO<sub>2</sub> equivalent annually. EOS at Federated Hermes measure the progress of these engagements in the same way they would measure progress of company engagements – using their milestone measurement system.

### **Engagement with an energy company**

In 2022, EOS led the CA100+ collaborative engagement group in a meeting with the CEO, CFO and the executive president of sustainability and strategy of an energy company. EOS asked whether it was possible to increase the ambition of the company's Scope 1 and 2 emissions reduction targets. EOS were pleased to hear that new budget has been allocated to this, with a focus on energy efficiency. However, making significant improvements to the ambition of its Scope 1 and 2 targets was challenging because this often requires fundamental changes to the asset portfolio, which can have a big impact on local stakeholders.

Additionally, EOS discussed how the current period of high profits was impacting the company's climate strategy. The CEO said the increased cashflow was creating optimal conditions to drive the company's transition, and the board had determined that the priority for extra cashflow was the energy transition strategy.

### **Engagement with a company in the banking sector**

In 2022, EOS attended a meeting with the company and investors, organised by the IIGCC as part of the organisation's collaborative engagement with banks on climate change. Overall, the company has made good progress with significant steps forward as evidenced by its latest TCFD publication and its first Climate Analytics and Alignment Report. The company engaged constructively with EOS. EOS will continue to engage the company including addressing the main unanswered question regarding what criteria it used to ensure that its clients climate data was validated, and how it was engaging with the Science-Based Targets initiative (SBTi).

### **IIGCC**

During 2022 OPAM has represented the Trustee and continued its participation in the IIGCC's Paris Aligned Investment Initiative (PAII) and Net Zero Investment Framework (please refer to principle 4). The aim of this framework is to translate the goals of the Paris Agreement into practical guidance for asset owners and asset managers; establish a common understanding of effective approaches and methodologies to guide the action required; support the decarbonisation of the real economy, help minimise the negative impacts of climate change, and seize investment opportunities.

OPAM team members regularly participated in IIGCC Net Zero working groups on Derivatives and Hedge Funds, Infrastructure, and Private Equity assets classes; Investment in Climate Solutions, Adaptation and Resilience, Implementation; Net Zero Stewardship toolkit. OPAM actively contributed to calls, reviewed draft reports and gave feedback where it felt it could add value.

As reported under principle 4, throughout 2022, the UKRF (through OPAM) participated in the ongoing IIGCC Asset Owner Alignment Working. The UKRF contributed to the development of the questionnaire for asset managers, including feedback on the content, structure and format of the questions alongside other asset owners.



## Principle 11: Escalation

### Context

The Trustee delegates escalation of stewardship activities to EOS at Federated Hermes and its investment managers, but where possible it retains the right, in exceptional circumstances, to act directly. For example, equities held on a segregated basis could be voted by the Trustee, but not those in pooled funds where the Fund's investment manager alone determines the voting. The Trustee reviews EOS at Federated Hermes and its investment managers' engagement activity through its annual review of the Fund's RI policy. Typically, the Trustee expects EOS at Federated Hermes and its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

### Activities

The Trustee receives, and reviews annually, reporting provided by OPAM which summarises the Responsible Investment practices, including stewardship (voting and engagement) activities, of EOS at Federated Hermes and its external investment managers and highlights areas of potential concern. This analysis includes consideration of:

- whether voting activity (where applicable) has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- examples of most intensive engagement activity.

Given the range of underlying investment managers and investments, the Trustee carries out its monitoring at the manager level to identify trends to ensure progress is being made in stewardship activities.

EOS regularly escalate engagements where the company is not receptive to engagement, no progress is being made or progress is too slow. Escalations include attempting engagement at a more senior level, letters to the board of directors, collaborating with investors or other stakeholders, questions or statements at annual meetings, recommending votes against annual meeting items, shareholder resolutions or open letters. In regular reporting to the UKRF, EOS provides examples of escalated reporting.

Escalation of engagement will be increasingly important to ensure that companies make the necessary changes at the pace required. Ambitions and announcements must be translated into detailed plans and action.

### **ConocoPhillips annual shareholder meeting**

In May 2022, EOS recommended ConocoPhillips shareholders vote against the chair of the Public Policy and Sustainability Committee due to the company inaction in response to the majority-supported 2021 shareholder proposal to address climate change risk by "setting emission reduction targets covering the greenhouse gas (GHG) emissions of the company's operations as well as their energy products (Scope 1, 2, and 3)."

EOS welcomed the company's proactive approach to shareholder engagement on climate strategy. However, the company's lack of action to develop a Scope 3 emissions strategy and lack of progress on other emissions reduction targets, stands in opposition to the plain language meaning of this 2021 majority-supported shareholder proposal.

EOS believed that the company's board response to the 2021 majority vote result was inappropriate, and that the chair of the Public Policy and Sustainability Committee of the board should be held accountable for this inaction and lack of intentionality.

On balance after much deliberation, EOS recommended supporting public policy committee chair Jody despite the absence of scope 3 target in recognition of meaningful progress. This included increasing the prior greenhouse gas intensity reduction target to 40 percent from a 2016 baseline, expanding the target to include both gross

operated and net equity emissions, joining the Gas Methane Partnership(OGMP) 2.0, and setting a new target to achieve methane intensity by 2030 of 1.5kg CO<sub>2</sub>e/BOE or approximately 15 percent of gas produced that is below the OGMP 2.0 good practice of 20 percent during a year where Russia's Ukraine invasion sparked the cost of a living crisis that resulted in a need for short term supply.

### **Volkswagen rejects shareholder proposal regarding climate disclosure transparency**

EOS has been actively engaging with Volkswagen on the issue of climate policy since early 2019, asking the company to align to investor expectations set out in the IIGCC investor expectations on climate lobbying (2018) and the new Global Standard on Corporate Climate Lobbying (2022). Many automotive companies have set emissions reductions targets focused on a shift to electromobility – but to implement this effectively, a supportive policy environment is essential. For EOS, it is therefore essential to gain proper assurance from companies that all parts of their business, and the industry associations in which they participate, are lobbying policy makers for regulation that is aligned with the 1.5°C emissions reduction trajectory and, indeed, the company's own strategy.

Due to the company's reluctance to provide transparency of its climate-related lobbying activities, EOS escalated their engagement in 2022 and made a supporting statement to a shareholder resolution filed by seven European investors urging the company to explain how its lobbying activities help to address climate risks. We stated that since the start of our engagement with Volkswagen, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually. However, the company declined a formal request for a shareholder resolution to put forward at its annual shareholder meeting.

### **Outcomes**

In previous years EOS's engagement has mainly focused on the biggest emitting sectors such as oil and gas, utilities and steel. In 2022 EOS widening this to include vital sectors such as food and agriculture, the apparel industry and its supply chain, and banks, which need to align their lending portfolios to 1.5°C, in step with investors.

EOS recognises the importance of companies developing strategies to reduce their emissions footprint, however they also believe that companies should acknowledge their reliance on significant public policy and technology development. Companies should assess and disclose financial consequences of the risks and opportunities arising from their own climate-related actions, as well as the systematic economic impacts of the energy transition and climate change. Therefore, EOS continues to engage with companies to ensure that corporate lobbying of policymakers helps rather than hinder the development of responsible climate policy.

Although EOS continues to progress with the climate engagements through CA100+, over the last five years of climate engagement, many of the world's biggest emitters are still far from achieving full alignment with the Paris Agreement. EOS on behalf of the UKRF continues to play an active role in CA100+ and other collaborative climate engagements, leveraging the power of collaborative engagement as an escalation tool, and a method of signalling investor consensus on the need for rapid climate action from the world's largest emitters.

## SECTION 4 - EXERCISING RIGHTS AND RESPONSIBILITIES

### Principle 12: Exercising rights and responsibilities

#### Context

The Trustee makes appropriate disclosures in the UKRF Implementation Statement and Annual Report and Accounts. The Trustee also expects and encourages investment managers to disclose their voting records publicly in an appropriate format.

As part of its ongoing process, EOS at Federated Hermes will vote at company general meetings in accordance with the voting policy adopted by the Trustee and as set out in EOS's published corporate governance principles. The Trustee believes that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. Rather than prescribing specific actions, EOS at Federated Hermes and the UKRF's external managers are afforded a measure of discretion and flexibility.

The Trustee is aware of all its investment managers' policies on RI (including voting) and delegates the exercise of voting rights to EOS at Federated Hermes and its investment managers. The Trustee receives regular reporting on voting activity from EOS at Federated Hermes and its managers.

In reaching voting recommendation, EOS takes account of its own regional voting guidelines which can be found at: [EOS Voting Guidelines](#)

The Trustee receives, and reviews annually, reporting provided by OPAM which summarises the Responsible Investment practices, including stewardship (voting and engagement) activities, of EOS and its external investment managers and highlights areas of potential concern. This analysis includes consideration of:

- the level of transparency offered by EOS and the individual investment managers;
- the level and frequency of standard regular reporting offered by the individual investment managers; and
- whether the manager has any independent process assurance and whether this is available to clients.

For equity investment managers this analysis includes consideration of:

- whether the manager has a voting policy and, if so, what areas are covered;
- whether client-directed voting policies can be applied;
- the level of voting activity which is disclosed to clients and the level of voting activity which is disclosed publicly;
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

The Fund does not currently undertake stock lending on its segregated accounts.

## Activities

### 2022 voting season - EOS at Federated Hermes

The 2022 voting season saw social issues rise up on the agenda, with resolutions on soaring inflation and the purchasing power of take-home pay, investors pressed for living wages for struggling workers. The 2022 voting season was also the second year for formal shareholder votes on companies' responses to climate change, with an increase in management say-on climate proposals, and new votes at BP, Anglo American and Rio Tinto.

Climate voting gained momentum in 2022 following its introduction in 2021. EOS provided recommendations on 58 say-on climate proposals from management teams, asking investors to approve transition plans or providing an annual update on already-approved plans. EOS assessed the integration of climate-related considerations into some companies' financial accounts and audit practices. 2022, saw the expansion of EOS's voting policy, which has been in place for four years and targets laggard companies that are materially misaligned with the goals of the Paris Agreement. In 2022, EOS recommended voting against directors or relevant proposals at 292 companies in 2022, an increase from 144 companies in 2021, due to concerns about insufficient management of climate-related risks.

EOS applied a robust approach in their assessment of companies' transitions plans, recommending voting in favour of those they believed were substantially aligned with the Paris Agreement. This included cases where the company clearly indicated that alignment was the goal, with a developed plan to be put to a further vote, such as NatWest and Amundi.

## Outcomes

<b>Voting Activity</b>		<b>EOS at Federated Hermes</b>	
		Stewardship Provider	
<b>Structure</b>		Segregated	
<b>Relevant Period</b>		1 January 2022 – 31 Dec 2022	
<b>Ability to influence voting behavior of manager</b>		The segregated mandates allows the Trustee to engage with the manager and influence their voting behaviour.	
<b>Number of company meetings the manager was eligible to vote at over the year</b>			1,239
<b>Number of resolutions the manager was eligible to vote on over the year</b>			18,006

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**Voting Activity****EOS at Federated Hermes**

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Percentage of resolutions the manager voted on	95.4% <sup>1</sup>
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Percentage of resolutions the manager abstained from	0.1%
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Percentage of resolutions voted with management, as a percentage of the total number of resolutions voted on	84.7%
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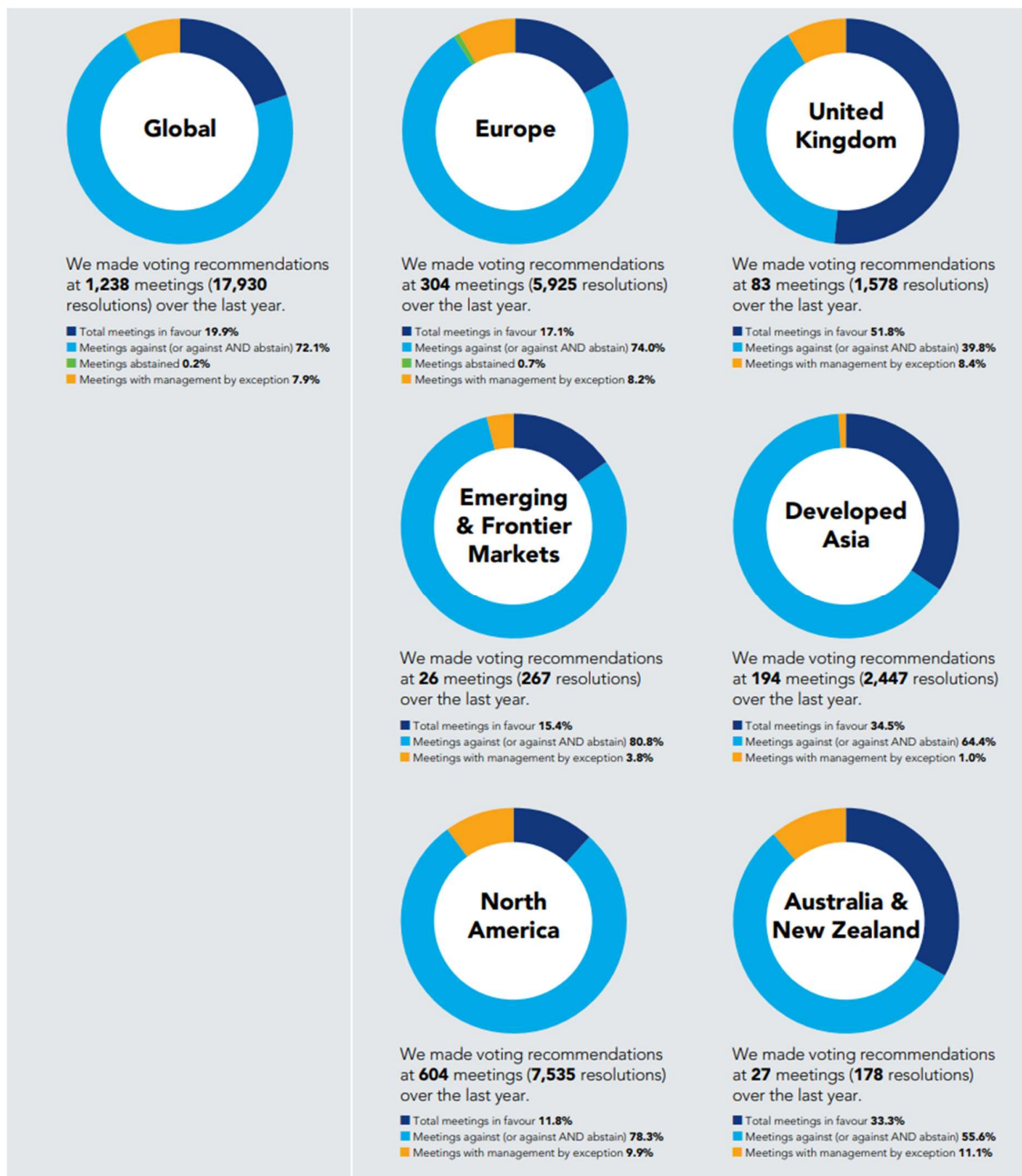
Percentage of resolutions voted against management, as a percentage of the total number of resolutions voted on	15.3%
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<sup>1</sup> This only counts votes that are in executed and accepted status. While the aim is to place a vote instruction on all ballots, it will not have always been executed and accepted due to requirements for powers of attorney, share-blocking, late ballot generation or requirements for physical attendance.

The issues on which EOS at Federated Hermes recommended voting against management or abstaining on resolutions are shown below.

In 2022, on behalf of the UKRF's holdings, EOS made voting recommendations on 17,930 resolutions at 1,238 meetings. At 892 of those meetings, EOS recommended opposing one or more resolutions, while at 2 meetings, they recommended abstaining. EOS recommended voting with management by exception at 98 meetings and supported management on all resolutions at 246 meetings.



## DB Significant votes

### EOS at Federated Hermes

	Vote 1	Vote 2	Vote 3
Company name	Tesla, Inc.	Royal Bank of Canada	American Express
Date of vote	04/08/22	27/04/22	03/05/22
Summary of the resolution	Report on Corporate Climate Lobbying in line with Paris Agreement	Adopt an Annual Advisory Vote Policy on the Bank's Environmental and Climate Change Action Plan and Objectives	Require Independent Board Chair
How the manager voted	For	For	For
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	N/A	Yes	Yes
Rationale for the voting decision	Shareholder proposal promotes better management of ESG opportunities and risks	Shareholder proposal promotes better management of ESG opportunities and risks	Shareholder proposal promotes appropriate accountability or incentivisation
Outcome of the vote	Fail	Fail	Fail
Implications of the outcome	The resolution failed but with significant shareholder support (34.6%)	The resolution failed but with significant shareholder support (21.6%)	The resolution failed but with increased support from a year earlier.
Criteria on which the vote is considered "significant"	Large and significant company, ESG related shareholder proposal, voted against management.	Large and significant company, ESG related shareholder proposal, voted against management.	Large and significant company, ESG related shareholder proposal, voted against management.



## DC Voting Data

Manager	Jupiter Ecology	BlackRock DGF	BlackRock World Equity	BlackRock UK Equity	BlackRock EM Equity
Structure	Pooled fund	Pooled fund	Pooled fund	Pooled fund	Pooled fund
Relevant Period	1 Jan 2022 – 31 Dec 2022	1 Jan 2022 – 31 Dec 2022	1 Jan 2022 – 31 Dec 2022	1 Jan 2022 – 31 Dec 2022	1 Jan 2022 – 31 Dec 2022
Ability to influence voting behavior of manager	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behavior.	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.	The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.
Number of company meetings the manager was eligible to vote at over the year	60	2,851	2,202	1,087	2,767
Number of resolutions the manager was eligible to vote on over the year	792	31,032	27,494	14,904	24,892
Percentage of resolutions the manager voted on	100%	99.6%	91.7%	96.1%	98.3%
Percentage of resolutions the manager abstained from	0.8%	0.6%	0.5%	1.8%	3.6%
Percentage of resolutions voted with management, as a percentage of the total number of resolutions voted on	97.0%	93.9%	93.0%	95.0%	88.1%
Percentage of resolutions voted against management, as a percentage of the total number of resolutions voted on	3.0%	6.1%	7.0%	5.0%	11.9%

## DC Significant Votes

	Jupiter	Jupiter	BlackRock	BlackRock
<b>Company name</b>	Borregaard ASA	A.O. Smith Corporation	Glencore Plc.	The Home Depot, Inc.
<b>Date of vote</b>	31/03/2022	11/04/2022	28/04/2022	19/05/2022
<b>Approximate size of fund's holding (as % of portfolio)</b>	2.86%	2.09%	N/A	N/A
<b>Summary of the resolution</b>	Elect Directors (Voting for All items 7a.1-7a.5 Bundled), Reelect Helge Aasen as Director, Reelect Helge Aasen as Board Chair	Advisory Vote to Ratify Named Executive Officers' Compensation	Approve Climate Progress Report	Oversee and Report a Racial Equity Audit
<b>How the manager voted</b>	For	Against	For	For
<b>Rationale for the voting decision</b>	Decided to vote in favour of items 7a, 7a.1 and 7b. Jupiter spoke with the nomination committee ahead of the AGM vote and felt a vote against Helge was not warranted at this stage. The concerns around him being overboard still linger, but can be managed, and Jupiter are monitoring the tenure of his CEO position, with the company looking for a replacement.	Jupiter voted against the executive compensation because only 1/3 of the long-term incentive awards are tied to challenging performance conditions. Jupiter don't consider the 5% ROE hurdle for the RSUs to be stretching at all. Furthermore, the options vest over a short time period of less than three years, which doesn't feel in the spirit of a long-term incentive, and it is not clear why the ROIC/WACC tested aspect vests in cash rather than equity when Jupiter would like to see the exec chair own more shares.	BIS supported this proposal in recognition of the company's disclosed plan to manage climate-related risks and opportunities and the company's progress against this plan.	BIS supported this shareholder proposal because, in our view, shareholders would benefit from a third party assessment of Home Depot's diversity, equity and inclusion (DEI) practices given their large and diverse workforce and extensive presence in communities
<b>Outcome of the vote</b>	Pass	Pass	Pass	Pass
<b>Implications of the outcome</b>	Jupiter remains invested and will continue to monitor the tenure of his CEO position.	The resolution passed and Jupiter remain invested in the company. Jupiter will continue to monitor remuneration practices at the company	N/A	N/A

	Jupiter	Jupiter	BlackRock	BlackRock
Criteria on which the vote is considered "significant"	Potential impact on financial outcome	Potential impact on financial outcome.	Large, significant company, ESG related proposal.	Large, significant company, ESG related proposal.

**Exercising Our Rights in other Assets Classes**

The Fund’s fixed income managers play an important role in addressing stewardship for the Scheme, as explained in principle 7.

Additionally, the case studies reported under principle 9 demonstrate how the UKRF has addressed stewardship in 2022 across private market assets.

As reported under principle 9, MAM manage a portfolio of UK Infrastructure Debt investments on behalf of the UKRF, please see the reference to Projects Walkie, Canard and Rook.

**Project Clifton**

Project Clifton relates to an airport investment in the UK. During the covid-19 pandemic, MAM engaged with the borrower to provide the best outcome for investors in light of weak performance at the time.