# Annual Implementation Statement

# 1 January 2023 to 31 December 2023

This document is the Annual Implementation Statement ('the Statement') prepared by HSBC Bank UK Pension Trust (UK) Limited (the 'Trustee') in relation to the HSBC Bank (UK) Pension Scheme (the 'Scheme') covering the Scheme year to 31 December 2023.

This Statement focuses on the investments held for the purposes of providing the Scheme's Defined Benefits ('DB'). A separate statement relating to the investments held for members with Defined Contribution ('DC') benefits can be found here.

The purpose of this statement is to:

- set out how the Scheme's Statement of Investment Principles for the Scheme's DB assets (the 'SIP') has been followed during the year;
- detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review - information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-8 below;
- describe the voting behaviour by, or on behalf of, the Trustee over the year - this is provided in Section 9 below.

This statement is intended to meet requirements under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which were introduced on 1 October 2020 and is expected to evolve over time. The Statement will be included in the Scheme's Report & Accounts and made public online. The Trustee has also had regard to the guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions ('DWP's guidance') in June 2022. In preparing this Statement, the Trustee has taken advice from its advisors.

The Trustee is satisfied that the Scheme's performance against its funding and investment objectives, integrated risk management and approach to stewardship during the Scheme year drives long-term value for beneficiaries.

## 1. Review of, and changes made to the SIP

The SIP was reviewed and updated during the Scheme year with changes becoming effective in October 2023. The updated SIP includes:

1. Clarification on the process for setting the Trustee's ESG priorities.
2. Refining the list of ESG organisations that the Trustee is associated with
3. Adding a reference to the Trustee's Stewardship Policy
4. Updates to the measurement and management of liquidity risk
5. Updating the asset allocation and expected returns for the Sections' investments

The Trustee has, in its opinion, followed the policies in the Scheme's SIP during the year. The following sections of this Statement provide detail and commentary about how and the extent to which it did this.

## 2. Governance

The Trustee has ensured that only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Scheme. Key to this is the four-person dedicated team of investment professionals within the Pension Scheme Executive ('PSE') headed up by an experienced Chief Investment Officer ('CIO'). In addition, the Trustee calls on the skills of recognised external advisors including the fund and asset managers, custodians, legal advisors, accountants, DB investment advisors and Scheme Actuary, as well as that of the PSE, especially the CIO. All these agents feed into the Scheme's Asset and Liability Committee ('ALCo'), a dedicated committee who handle the majority of investment matters in relation to the DB assets and their ability to pay the liabilities. Where decisions are required to be taken by the Trustee, the ALCo has made recommendations to the Trustee.

Monitoring investment managers is covered in Section 4 below. The Trustee has set objectives for the DB investment advisors against which they are reviewed annually.

## 3. Objectives of the Scheme

There are three sections of the Scheme providing DB benefits, the HSBC UK ('HBUK') Section, the Bank plc Section and the HSBC Global Services ('HGSU') Section.

The Trustee is satisfied that the HBUK Section objectives have been achieved, and in particular that:

- The current DB assets will enable the Scheme to meet the expected cost of current and future benefits. This has been borne out through regular reviews of funding, as well an annual review of asset versus liability cashflow expectations.
- The solvency Value at Risk has remained at or below 8% of the solvency liabilities. This is measured quarterly and forms part of the Scheme's regular risk reporting.
- The Trustee continues to follow a CDI policy consistent with the General Framework agreed with the sponsor.

The Trustee is satisfied that the HSBC Bank plc and the HGSU Section's objectives have been achieved, and in particular that:

- The current DB assets, together with any agreed contributions from the Bank, will enable the Scheme to meet the cost of current and future benefits. Given the volatile nature of the funding level for these Sections, additional contributions above those currently agreed may be required in future. The investment strategy for both sections continued to be monitored during the year. The Trustee reviewed the strategy in Q1 2024.
- The agreed strategies fulfilled the desired objectives of being simple, low cost, and liquid.

The Trustee is satisfied that it has upheld other principles in this section as follows:

- The Trustee receives advice on the satisfactory nature of the Scheme's investments from its DB investment advisors. The latest versions of these letters were received in February 2024.
- ALCo revised its approach to monitoring and management of liquidity risk following the market volatility in late 2022. They are comfortable that the liquidity position remains sufficient to meet the Scheme's liabilities on an ongoing basis with a reasonable level of prudence, as well as adequately support the leverage within the liability matching portfolio.

The Trustee remains comfortable that the other principles around diversification, derivatives and borrowing were met during the year.

## 4. Strategic asset allocation and manager structure

Based on advice from the DB investment advisor and Scheme Actuary, the HBUK Section has adopted a CDI approach to investment strategy and management of investment risks. The DB assets seek to generate cashflows which broadly match the expected benefit obligations arising from the Scheme's liabilities. As such, the asset class weights in the DB assets are expected to evolve over time as asset cashflows are released, reducing the value of the Scheme's DB assets and impacting the relative proportions of remaining DB assets. The table below illustrates the allocation as at the end of December 2023.

| Asset class | December 2023 Allocation (%) |
|---|---|
| Credit (including investment grade credit, asset-backed and mortgage-backed securities) | 51 |
| Gilts, US Treasury Inflation Protected Securities, swaps and Cash | 39 |
| Illiquid Matching | 10 |
| Total physical assets | 100 |

The HBUK Section's investment strategy and cashflow matching characteristics were reviewed in March 2023. Within the DB assets, the HBUK Section employs a range of long-term focused DB Funds to diversify by asset and manager approach. These are listed in the table below:

| DB fund/portfolio | DB asset/fund manager | Benchmark/Index | Performance target (for active management) |
|---|---|---|---|
| Private equity | Pathway Capital Management[2] | 30% FTSE 100, 70% S&P 500[1] | 4.0% per year over the long term |
| UK commercial property | LaSalle Investment Management | N/A – Mandate in run-off | N/A |
| UK corporate bonds (screened) | BlackRock Investment Management (UK) Limited | N/A – Mandate in run-off | N/A |
| Global credit | AXA Investment Management | Custom mandate | N/A |
| Global credit | Legal & General Investment Management | Custom mandate | N/A |
| Global credit | Schroders | Custom mandate | N/A |
| UK corporate bonds | M&G Investments | N/A – Mandate in run-off | N/A |
| Global credit | Loomis, Sayles & Company | Barclays Capital Global Aggregate Credit Index, (Dev Mkt GBP hedged) | 0.75% - 1.0% per year above benchmark over rolling three years |
| Asset-backed and mortgage-backed securities (US) | Wellington Management | 3-Month T-Bills | 1.3% - 1.8% per year above benchmark over rolling five years |
| Liquid Matching Assets (index-linked gilts and swaps) | Insight Investments | Custom mandate | N/A |

| | | | |
|---|---|---|---|
| Liquid Matching Assets (USD and GBP Core Portfolio) | Insight Investments | Custom mandate | N/A |
| US Treasury Inflation Protected Securities ('TIPS') | Insight Investments | Custom mandate | N/A |
| Cash – liquidity | HSBC Global Asset Management | Sterling Overnight Index Average (SONIA) | N/A |
| Illiquid Matching Assets (index-linked corporates) | M&G Investments | Custom mandate | N/A |
| Illiquid Matching Assets (property) | LaSalle Investment Management | Custom mandate | N/A |
| Illiquid Matching Assets (renewables) | Schroders Greencoat | Custom mandate | N/A |
| Illiquid Matching Assets (infrastructure debt) | Vantage Infrastructure | Custom mandate | Gilts + 175 bps net of fees and expenses for fixed rate assets; SONIA + 175 bps net of fees and expenses for floating rate assets |
| Illiquid Matching Assets (ground rents) | Alpha Real Capital | Custom mandate | N/A |

1. Included only for performance measurement, the Manager is required to manage to a different benchmark.
2. Pathway also manages (on a monitoring basis) the legacy HSBC and Montagu private equity investments.

As part of the cashflow matching strategy, the Trustee agreed to increase the allocation to US TIPS managed by Insight Investments. In 2020 the Trustee agreed a new investment strategy for the Bank plc and HGSU sections. This was implemented in 2021 and was reviewed in Q1 2024. The DB funds that were used for these two sections are detailed below.

| DB fund | DB fund manager | Benchmark/Index | Performance target (for active management) |
|---|---|---|---|
| Diversified Fund | Legal and General Investment Management | FTSE Developed World Index – 50% Hedged | N/A |
| Matching Core Fixed Long Duration Gilt Fund | Legal and General Investment Management | Markit iBoxx - Fixed Long | N/A |
| Matching Core Real Long Duration Gilt Fund | Legal and General Investment Management | Markit iBoxx - Real Long | N/A |
| Sterling Liquidity Fund | Legal and General Investment Management | Sterling Overnight Index Average (SONIA) | N/A |

The Scheme reviews manager fees annually. The overall fee being paid to managers over the year was 0.09% for the HBUK Section and 0.11% for the HSBC Bank plc and HGSU sections. The Trustee and its advisors view this as very competitive versus other large UK pension funds. The advisors and PSE continue to look for opportunities to reduce fees for the Scheme.

The Trustee's DB investment advisor monitors the asset and fund managers on an ongoing basis, through regular research meetings. The DB investment advisor monitors any developments at asset and fund managers and informs the Trustee promptly about any significant updates or events they become aware of that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the DB funds or portfolios the Scheme invests in, or any material change in the level of diversification in the funds or portfolios.

The PSE regularly meets the Trustee's asset and fund managers, seeing each manager at least once every year. These meetings follow a semi-annual meeting with the DB investment advisor's research team to highlight any developments or areas of concern. Any areas where investment practices could be improved (in the view of the PSE or the DB investment advisor) are highlighted at these meetings. Over the period, the PSE met with all the Trustee's managers to discuss the investments.

The PSE receives confirmation from all managers on an annual basis that their ESG and engagement policies align with those set out in the Scheme's SIP or agreements with the managers.

The PSE monitors the performance of the Scheme's DB funds and portfolios on a quarterly basis, using the quarterly investment report. The report shows the performance of each manager over the 1-year, 3-year and 5-year periods. Performance is considered in the context of the manager's benchmark and objectives. The most recent quarterly report shows that all managers have produced performance broadly in line with expectations over the long-term.

The Trustee's DB investment advisor monitors the turnover of each DB fund and asset manager and confirmed that, over the Scheme year, turnover was in line with expectations and therefore there were no particular concerns highlighted around inappropriate costs being incurred. Two managers noted small additional costs linked to tax preparation and legal advice.

Information on portfolio turnover as provided by the DB asset and fund managers is given below. WTW has asked DB asset and fund managers to define turnover as the lesser of the value of purchases or the value of sales as a proportion of the average market value over the period:

| DB fund/portfolio | DB asset/fund manager | Turnover experienced in 2023 | Expected Range | Comments |
|---|---|---|---|---|
| Private equity | Pathway Capital Management | Not applicable. | Not applicable. | Assets are held until liquidated, therefore turnover is not calculated. No associated costs. |
| UK corporate bonds (screened) | BlackRock Investment Management (UK) Limited | Not applicable. | Not applicable. | DB Fund is in run off so no further purchases are being made. |
| Buy and Maintain Credit | AXA Investment Management | 4.0% | 0%-5% | |
| UK corporate bonds | M&G Investments | Not applicable. | Not applicable. | DB Fund is in run off so no further purchases are being made. |
| Global credit | Loomis, Sayles & Company | 78.8% | 40%-100% | Turnover was in line with expectations |
| Asset-backed and mortgage-backed securities (US) | Wellington Management | 29% | 20%-70% | Turnover was in line with expectations |
| Liquid Matching Assets (index-linked gilts and swaps) | Insight Investments | Not applicable. | Not applicable. | Not applicable |
| Liquid Matching Assets (USD and GBP Core Portfolio) | Insight Investments | USD Core: 2%<br>GBP Core: 0% | USD Core: 0%-5%<br>GBP Core: 0%-5% | Turnover was in line with expectations |
| US Treasury Inflation Protected Securities ('TIPS') | Insight Investments | Not applicable | Not applicable. | This is a buy & hold mandate therefore no turnover is expected |
| Cash – liquidity | HSBC Global Asset Management | Not applicable. | Not applicable. | Given the short-term nature of instruments, turnover is not calculated. |
| Total of LaSalle Property funds | LaSalle Investment Management | 0% | 0% | Turnover was in line with expectations. The return-seeking portfolio is being actively wound down so is not undertaking any new purchases. The matching portfolio is acquiring DB assets and hence is not selling anything it currently holds |
| Illiquid Matching Assets (renewables) | Schroders Greencoat | Not applicable. | Not applicable. | Both Solar II and Buckingham are buy and hold for the life of the fund (25 years from final close) so aren't making any sales. |
| Illiquid Matching Assets (infrastructure debt) | Vantage Infrastructure | 3.8% | 0%-5% | Turnover was in line with expectations |
| Illiquid Matching Assets (ground rents) | Alpha Real Capital | 0.0% | 0%-5% | Turnover for HSBC's direct portfolio was in line with expectations |
| Buy and Maintain Credit | Legal & General Investment Management | 2.26%5% | 0%-5% | Turnover was in line with expectations |
| Buy and Maintain Credit | Schroders | 1.2% | 0%-5% | Turnover was in line with expectations |

## 5. Investment beliefs

The Trustee formally reviewed all its investment beliefs in 2022. Since then, it has reviewed the investment strategy for consistency with the beliefs and is comfortable that these arrangements remain valid. However, the Trustee will continue to keep this under review.

Any conflicts of interest between the Trustee, asset owners, and their agents (advisors, DB asset and fund managers, PSE) are recorded in the conflicts register which is reviewed quarterly.

The Trustee's key investment beliefs are reflected in how the Scheme's DB assets are invested. In particular, ESG issues are an important part of the Trustee's decision-making process (please see section 6).

## 6. Environmental, social and governance ('ESG') and other financially material considerations

As stated in the SIP, one of the Trustee's investment beliefs is that ESG (including Climate Change risks) risks are all important factors in investment decision making. The Trustee expects its appointed DB asset and fund managers to be cognisant of financially material climate change risks and opportunities within their investment processes as applied to the DB assets of the Scheme. DB asset and fund managers are further expected to annually report on how these risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions.

As part of its advice on the selection and ongoing review of the DB asset and fund managers, the Trustee's DB investment advisor incorporates its assessment of the nature and effectiveness of DB asset and fund managers approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement. This assessment acknowledges the Trustee's preference for engagement rather than exclusion as a method for incorporating climate change risks into an effective fiduciary framework. However, the Trustee expects fund and asset managers to independently consider whether exclusion or engagement is more appropriate within their respective investment processes.

As part of the quarterly investment report, the Trustee receives responsible investment ('RI') scores for the Scheme's existing DB funds and portfolios. These scores cover the managers' approach to ESG factors, voting and engagement. The Trustee has since evolved its process in relation to DB asset and fund manager monitoring by conducting detailed meetings with specialist researchers for each manager to identify any areas of concern on which to focus their engagement efforts with the managers. The PSE's annual meetings with the DB asset and fund managers are used to test that financially material considerations (including ESG considerations), are incorporated into the investment decision-making process and this is also covered in the six-monthly meetings between the PSE and the Scheme's DB investment advisor's research team.

The Trustee encourages the further development of asset classes that are supportive of achieving the Net Zero by 2050 target provided they are all based within the primary fiduciary framework and align with the overall investment strategy and liquidity needs of the Scheme. This is borne in mind as part of any DB asset or fund manager changes.

The Trustee reports on clear roles and responsibilities, definitions and explicit climate measurement metrics (total carbon emissions, carbon footprint, weighted average carbon intensity, Partnership for Carbon Accounting Financials Data Quality Metric and Transition Pathway Initiative Management Quality Score) for the Task Force on Climate-related Financial Disclosures ('TCFD').

The Trustee is a signatory to the UN-supported Principles of Responsible Investment ('PRI'), the Asset Owner Diversity Charter and the UK Stewardship Code and supports a number of other ESG organisations and initiatives including the Institutional Investors Group on Climate Change ('IIGCC'), the Cambridge Initiative: addressing systemic risks through collaboration, the Transition Pathway Initiative ('TPI'), Climate Action 100+ and the WTW Thinking Ahead Institute ('TAI').

The Trustee's net zero objectives include:

1. targeting a real economy emissions reduction interim target of 50% by 2030 or sooner for the Scheme's equity and corporate bond mandates, in line with the findings of the most recent Intergovernmental Panel on Climate Change ('IPCC') report
2. having the ambition of achieving all of the Scheme's corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030 across its DB and DC assets
3. enhancing its engagement and stewardship efforts through the Scheme's DB asset managers

The Trustee has a policy of avoiding investments in controversial weapons manufacturers (generally accepted to be companies involved in the production of antipersonnel landmines, cluster munitions, chemical and biological weapons, and nuclear weapons) on grounds of financial risk, as it believes this is in the best financial interests of the Scheme and its members. Where the financial implications of excluding controversial weapons manufacturers (either due to increased costs to members or reduced investment opportunities) are, in the opinion of the Trustee, greater than the financial risks of including them, some exposure to controversial weapons manufacturers may be maintained. During 2023 the PSE received details of any controversial weapons holdings from all the investment managers, and concluded the exposure was in line with its policies.

When the PSE met with the Scheme's DB investment advisor's research team and DB asset and fund managers during the year, the PSE asked several questions about the managers' ESG, voting and engagement practices. The responses have helped the Trustee understand how managers' policies operate in practice and inform future dialogue with them. The Trustee also reviewed reports from their DB asset and fund managers on voting and engagement activities undertaken on its behalf.

The Trustee has not considered any non-financial matters in setting the investment strategy for the HBUK Section, the HSBC Bank plc Section and the HGSU Section during the year.

The Scheme's asset and fund managers' approach to stewardship and voting is covered in Sections 9-12 below. The Trustee is satisfied that this Implementation Statement demonstrates that the Trustee's policies in relation to ownership rights and stewardship within the SIP have been appropriately delivered on over the Scheme year.

## 7. Risk Management (incl. Appendices 6 and 7 of SIP)

Risks are monitored on an ongoing basis with the help of the DB investment advisor.

ALCo maintains a quarterly risk dashboard covering investment risks, whilst the Trustee also looks at a broader risk register which considers a prioritised list of significant and emerging risks.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary. The Trustee takes external legal and/or investment advice on how to manage these risks within its investment strategy. These include risks associated with cashflow mismatch, funding/solvency, credit, currency, liquidity, DB fund and asset managers, sponsor, longevity, and counterparties.

The Risk Dashboard outlines metrics for the risks listed above, and sets limits which, when breached, indicate that the risk should be considered and action taken where appropriate. During the year, one operational limit was breached as a result of the credit cashflows running-off as expected over time and the cash allocation within one portfolio increasing as a result. This was resolved by a reallocation by the asset manager.

The Trustee has introduced regular horizon scanning sessions to meetings. This year they have covered climate risk scenario modelling, financing of fossil fuels and investing in a geopolitically uncertain world.

The Trustee considers a DB asset or fund manager’s securities lending practices when deciding if they are an appropriate partner to manage the scheme’s DB assets, and remains aligned with the overall investment beliefs of the Trustee.

Manager risk is covered in more detail in Section 4, whilst Climate change and other ESG risks are covered in Section 6.

## 8. Responsibilities, decision-making and fees (Appendix 1 of SIP)

The Trustee has decided on the following division of responsibilities and decision-making for the Scheme.

**Trustee**

The Trustee, via the PSE has regular discussions with the sponsor regarding the investment strategy and the Scheme in general. As part of the SIP update the sponsor was consulted and confirmed it was comfortable with the changes.

As mentioned in Section 4 above, the Trustee obtains formal written advice from its DB investment advisor, before appointing or dismissing DB fund or asset managers. The Trustee assesses the performance of the DB funds and portfolios on an ongoing basis as part of the quarterly investment monitoring reports it receives.

**Asset and Fund Managers**

As mentioned in Section 4 above, the Trustee’s DB investment advisor monitors the DB fund and asset managers on an ongoing basis, through regular research meetings. The PSE also meets each of the DB fund and asset managers at least once a year.

**DB Investment advisors**

The Trustee has put in place formal objectives for its DB investment advisors and reviews their performance against these objectives on a regular basis. The objectives explicitly reference ESG and climate change.

**Fee structures**

See Section 4 for details on the Trustee’s assessment of the fees charged by DB fund and asset managers.

**Performance assessment**

During the year, the Trustee considered the effectiveness of its decision making after each Trustee meeting.

## 9. Description of voting behaviour during the year

The Trustee’s policy is to delegate the day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) to its DB fund and asset managers. Due to the nature of the HBUK Section having no equities, voting does not apply. However, the Trustee believes that engagement activities are also important for credit assets and the credit asset managers’ engagement approach was an important determinant in their selection. The Trustee and the PSE continue to engage with the credit asset managers to ensure their approach remains consistent with the views of the Trustee.

For the Bank plc and HGSU Sections, the Trustee delegates day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) to LGIM within their Diversified Fund pooled fund. Below is a summary of voting behaviour and the most significant votes made over the year.

## 10. Summary of voting behaviour over the previous year

The Scheme had one underlying fund manager who held assets on which they had the right to cast votes on the Trustee’s behalf throughout 2023. The voting behaviour of this fund manager is summarised in the table below.

The Trustee has access to the voting records of this fund manager. This data is aggregated by the advisor through its own proprietary system. The Trustee takes this data as reported and recognises that there is a small margin for error due to potential errors accruing as part of data collection and amalgamation. However, the Trustee’s advisor sense checks the output, and reviews the underlying data received from the fund manager should any underlying errors become apparent. Given these checks, the Trustee’s advisor believes the data the Trustee and PSE receives is adequately robust to enable it to exercise its stewardship responsibilities by holding the manager to account for quality of decision making and independence of thought.

In the voting data below, resolutions have been split between those proposed by management and shareholders respectively. Management resolutions are typically skewed more towards governance matters when compared to shareholder resolutions. Fund manager voting behaviour often differs between the two types of resolutions.

| | LGIM Diversified Fund |
|---|---|
| Meetings voted at | 8,646 |
| Resolutions voted | 94,295 |
| Management resolutions | 91,918 |
| Shareholder resolutions | 2,377 |
| % Voted in favour of management resolutions | 74% |
| % Voted against management resolutions | 21% |
| % Voted 'other' on management resolutions[1] | 5% |
| % Voted in favour of shareholder resolutions | 65% |
| % Voted against shareholder resolutions | 34% |
| % Voted 'other' on shareholder resolutions[1] | 2% |

1 'other' includes abstentions, withheld votes, and 'do not vote instructions'.

## 11. Most significant votes over the year

Most Significant Votes (MSV) have been chosen through use of the vote significance framework as described above. The votes shown in the below tables have therefore been chosen due to a combination of the following factors:

- Cast at issuers where the Scheme has higher exposure;
- Relate to one of the Trustee's key priorities of climate change, biodiversity, anti-microbial resistance and diversity & inclusion;
- Due to the significance of the resolution itself i.e., driven by its nature, the scale of any public media interest and whether votes against management on the resolution were particularly high.

During 2023 the Trustee revised this process and included additional considerations, allowing for a more targeted list:

- Climate change: the Trustee selected votes at Climate Action 100+ companies that focused on climate strategy and transition planning, scope 3 targets and climate lobbying.
- Biodiversity: the Trustee identified resolutions related to biodiversity, and included the ones that related to the company's impact on the environment.
- Anti-microbial resistance (AMR): the Trustee identified AMR resolutions, which have been included as MSVs.
- Diversity & inclusion: the Trustee included resolutions that received significant support (over 30%) from shareholders.

The Trustee only selected one resolution per company in most cases, allowing for an exception where warranted (e.g. two MSVs at Glencore have been included, both tackling the same issue).

***Climate change-related votes***

| Company | Date | Country | Proponent | Resolution nature | Vote | Proportion of votes against management |
|---|---|---|---|---|---|---|
| PACCAR | 25/04/2023 | US | Shareholder | Climate lobbying | For | 49% |
| Engie | 26/04/2023 | France | Shareholder | Regular climate strategy vote | For | 44% |
| BP | 27/04/2023 | UK | Shareholder | Scope 3 targets | Against | 19% |
| General Electric Company | 03/05/2023 | US | Shareholder | Climate in accounting assumptions | Against/For[1] | 11% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Holcim | 04/05/2023 | Switzerland | Management | Climate report | For | 4% |
| Cummins | 09/05/2023 | US | Shareholder | Link executive pay to emissions reductions | Against | 16% |
| Valero Energy Corporation | 09/05/2023 | US | Shareholder | Climate transition plan and emissions targets | For | 36% |
| Equinor | 10/05/2023 | Norway | Shareholder | Emissions targets | Against | 29% |
| The Southern Company | 24/05/2023 | US | Shareholder | Scope 3 emissions target | For | 24% |
| Glencore | 26/05/2023 | Jersey | Management | Climate report | Against | 40% |
| Glencore | 26/05/2023 | Jersey | Shareholder | Coal consistency with Paris Agreement | For | 38% |
| TotalEnergies | 26/05/2023 | France | Management | Sustainability and climate progress report | Against | 14% |
| TotalEnergies | 26/05/2023 | France | Shareholder | Scope 3 targets in line with Paris | Against | 35% |
| Chevron | 31/05/2023 | US | Shareholder | Scope 3 targets | For/Against[1] | 12% |
| Caterpillar | 14/06/2023 | US | Shareholder | Climate lobbying | For | 29% |
| Toyota Motor Corp. | 14/06/2023 | Japan | Shareholder | Climate lobbying | For | 16% |

[1] resolutions have been voted on inconsistently by the Trustee's managers.

**Biodiversity**

| Company | Date | Country | Proponent | Resolution nature | Vote | Proportion of votes against management |
|---|---|---|---|---|---|---|
| Yum! Brands | 18/05/2023 | US | Shareholder | Plastics packaging | For | 26% |
| Constellation Brands | 18/07/2023 | US | Shareholder | Plastics | For | 38% |

***Anti-Microbial Resistance***

| Company | Date | Country | Proponent | Resolution nature | Vote | Proportion of votes against management |
|---|---|---|---|---|---|---|
| Tyson Foods | 09/02/2023 | US | Shareholder | Comply with World Health Organisation guidelines on antimicrobial use through supply chains | For | 5% |
| McDonalds | 25/05/2023 | US | Shareholder | Report on Public Health Costs of Antibiotic Use and Impact on Diversified Shareholders | For | 18% |

***Diversity & Inclusion***

| Company | Date | Country | Proponent | Resolution nature | Vote | Proportion of votes against management |
|---|---|---|---|---|---|---|
| The Coca-Cola Company | 25/04/2023 | US | Shareholder | Audit non-white stakeholder relations | For/For/For | 38% |
| AT&T | 18/05/2023 | US | Shareholder | Racial Equity Audit | For | 23% |
| Walmart | 31/05/2023 | US | Shareholder | Worker pay in executive compensation | For/For | 11% |
| UnitedHealth Group | 05/06/2023 | US | Shareholder | Racial equity audit | For/For/For | 22% |
| Oracle | 15/11/2023 | US | Shareholder | Pay gap reporting | For/For/For | 65% |

## 12. Summary of engagement behaviour over the previous year

The Trustee has two main methods of engagement: engagement directly with portfolio companies through their DB fund and asset managers, and engagement with their DB fund and asset managers through the PSE. The Trustee has identified four key priority areas for engagement: climate change, biodiversity, anti-microbial resistance and diversity & inclusion.

**Engagement with asset and fund managers**

As part of the Trustee's ongoing manager monitoring process, the PSE meet with all the Trustee's fund and asset managers on at least an annual basis to discuss their activities including stewardship practices. The Trustee believes ongoing engagement with the Scheme's fund and asset managers is important to ensure that they are aware of, and working towards meeting, the Trustee's stewardship expectations as set out in the Trustee's Stewardship Policy.

*Case Study: Setting clear expectations of fund managers in an annual CIO letter*

Issue: The Trustee is driven by the spirit of continuous improvement and continues to deepen its understanding of how investments impact the sustainability of the planet and its people, and how sustainability impacts investment. Given the Trustee's outsourced model, the Trustee views institutional alignment between the fund managers it works with and the Scheme as an important tenet of both manager selection as well as ongoing manager monitoring to ensure the Trustee's priorities are implemented.

Action: At the beginning of 2023, the Scheme's Chief Investment Officer sent a letter to all the Scheme's managers communicating the Trustee's investment beliefs, ESG priorities and commitments around universal ownership, stewardship and ESG. The letter outlined the Trustee's expectations in these areas and made several 'asks', including commitment to the UK Stewardship Code, clarity and efficacy of engagement activities, engagement resources, commitments to net zero and climate disclosure, measurement capabilities and positions/policies addressing nature-related risks, antimicrobial resistance, and diversity, equity, and inclusion. Principally the key ask of the managers was to help in ensuring these priorities are being addressed within the mandates they manage for the Scheme. The letter asked fund managers to respond to the 'asks' conveyed in the letter, evidencing the managers' commitment to the Trustee's ESG priorities and their plan for making progress on these issues. By formally articulating these expectations, the Trustee seeks to encourage improvement in the quality and quantity of stewardship activities.

Outcome: The CIO letter and the relevant responses started a discussion with the Scheme's asset and fund managers on the Trustee's evolving expectations, setting the tone for the manager monitoring meetings during 2023. The PSE continued to engage with the managers throughout the year and provided a progress report against the 'asks', including where progress has been made as well as areas for improvement to the ALCo at the end of the year. The CIO letter was repeated at the start of 2024, providing a powerful tool for the Trustee to evolve and communicate its expectations of fund managers and monitor progress on their implementation of each of the Trustee's ESG priorities.

Regarding underlying issuers, the Trustee prefers engagement over exclusion as a way of influencing long-term behaviour. The Trustee believes the proximity of its asset and fund managers to their investments can deliver more meaningful change via proactive and constructive engagement, and the Trustee makes this belief clear to them via the Trustee's investment guidelines and further discussions. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages asset and fund managers to prioritise stewardship opportunities and to apply the most suitable and influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company.

Given the nature of the Trustee's outsourced approach to investment, the Trustee reviews engagement reports from its asset and fund managers to track their actions in material stewardship initiatives and the outcomes from those actions. Examples of direct engagement activities include letter writing, phone calls, annual meetings, and thematic/targeted engagements with management teams.

**Engagement by asset and fund managers**

*Case study: Direct engagement from one of the Scheme's managers on climate change and fossil fuel financing*

Issue: One of the Trustee's global bond fund managers identified that one of its US counterparty banks is one of the most active banks with regards to fossil fuel financing according to Rainforest Action Network. The bank also lagged behind its peers on its fossil fuel financing policy.

Action: The fund manager engaged with the bank on its fossil fuel financing policy, suggesting improvements to the policy. Over 2023 the fund manager carried out two engagement actions with the bank on its progress in implementing their suggested changes. Another topic of engagement was the introduction of a sustainable financing framework for the bank.

Outcome: Since the engagements, the bank has made some progress, notably implementing initiatives to equip its bankers with the ability to assess companies against a climate framework, including a financed emissions lending intensity score. While the fund manager notes the positive developments, it maintains a view that the bank's fossil fuel financing disclosures are weak and there is a lack of a clear escalation process for the bank's clients. The fund manager continues to engage with the bank on this topic.

*Case study: Direct engagement from one of the Scheme's managers on deforestation policies and supply chains*

Issue: As the Trustee has identified biodiversity and nature loss as one of its priority themes, the PSE is closely monitoring manager activities on this issue. One of the Trustee's fund managers identified a large multinational home improvement retailer and a major purchaser of wood products which lagged behind its peers on its wood sourcing policy. They also identified slow progress to improve the traceability of timber. This represented not only biodiversity risks, but also reputational, regulatory, and business risks. Subsequently the manager engaged with the company to assess how it is working to improve its wood sourcing practices.

Action: The manager asked the company for greater transparency of its supply chains, so they can identify potential vulnerabilities to the availability of timber supply and lumber price volatility, including due to climate change and deforestation.

Outcome: A shareholder resolution in 2022, supported by the manager, was passed for the company to publish a report assessing if and how it could increase the scale, pace, and rigour of its efforts to eliminate deforestation and the degradation of primary forests in its supply chains.

*Case study: Direct engagement from one of the Scheme's managers on antimicrobial resistance*

Issue: As the Trustee has identified antimicrobial resistance as one of its priority themes, the PSE has taken a close interest in manager activities on this issue. One of the Trustee's key managers has been engaging with a large food service retailer for more than two years about the use of medically important antimicrobials in its supply chains.

Action: The World Health Organisation (WHO) has developed guidelines to help preserve the effectiveness of medically important antimicrobials, particularly those judged to be critically important to human medicine. The manager asked the company to apply the WHO guidelines throughout their full supply chain, including beef, chicken, and pork. The manager co-filed a shareholder resolution to this effect.

Outcome: The proposal received 18% votes in favour, which, although slightly lower than hoped, still draws attention to the issue and has put pressure on the company to acknowledge it. The manager continues to engage with the company on this issue. The company has since released its antibiotic reduction targets and stated it is aligning with the WHO guidelines. However, the manager does not deem this to be sufficient progress on AMR, not least as these policies do not currently apply to its pork supplies. While the manager recognises the steps that the company has taken so far, it still believes that it should go further and continues to engage with management.

*Case study: Direct engagement from one of the Scheme's managers on diversity, equity, and inclusion*

Issue: As the Trustee has identified diversity, equity, and inclusion as one of its priority themes, the PSE has taken a close interest in manager activities on this issue. One of the Trustee's key managers has been engaging with a large UK supermarket chain, including co-filing a shareholder resolution, to become a living wage accredited employer. The manager believes that paying a living wage to workers presents businesses with opportunities to improve morale, productivity, increased retention rates and improve mental and physical health.

Action: Over 2023 the manager extended its campaign to address income inequality across the food retail sector. During the year it targeted 15 large supermarkets, including the aforementioned, based on the companies' size and influence in the retail sector.

Outcome: The manager has set out its expectations and the timeframe in which these should be met. If these companies have failed to meet their minimum expectations by 2025, the manager will use voting sanctions.