DB Union Pension Plan

January 2023

isio.

Document classification: Public

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and pension schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that pension schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The DB Union Pension Plan updated its SIP in to in response to the DWP regulation to cover

- policies for managing financially material considerations including ESG factors
- policies on the stewardship of the investments

The Plan's SIP, ESG and risk management policy outlined in this document refers to the latest version of the SIP, which was updated in January 2022.

The SIP can be found online at the web address below:
https://dbsantasalo.com/legal/ethics-compliance#:~:text=DB%20Union%20Statement%20of%20Investment%20Principles%20The%20Trustee,available%20via%20the%20link%20in%20the%20table%20
Changes to the SIP are detailed on the following page.

Implementation Report

This implementation report is to provide evidence that DB Union Pension Plan continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Plan has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Plan has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 30 September 2022 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key actions undertaken over the Plan reporting year

- In September 2021, the Trustee Directors agreed to an alternative strategy, implementing a 20% allocation to semi-liquid credit and a 10% allocation to infrastructure equity. Both mandates were implemented over the reporting period; the semi-liquid credit allocation being managed by Apollo and the infrastructure equity mandate with IFM.
- The Trustee Directors agreed to fully disinvest from the holdings in the Invesco Global Targeted Returns Fund. The disinvestment proceeds were used to fund the new semi-liquid credit allocation with Apollo.
- The Trustee Directors also agreed to consolidate their active equity portfolios into a single passive global equity mandate with LGIM. The active equity portfolios were previously split between Morgan Stanley and Vontobel. The transition to the passive LGIM equity portfolio was implemented in June 2022.

Implementation Statement

This report demonstrates that DB Union Pension Plan has adhered to its investment principles and its policies for managing financially material considerations including ESG factors.

Signed

Position

Date

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 91% (on a Technical Provisions basis) of funded liability movements caused by changes to interest and inflation rates.	The Trustee Directors conducted a review of the Plan's hedging portfolio in May; following this the Directors provisionally agreed to revise the hedge to target the Plan's funding level. However in light of the issues in the LDI market experienced over September and October 2022, this plan has since been amended. This will be covered in further detail in the next implementation report.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI/synthetic equity manager.	The Plan maintains an allocation to cash to meet ongoing cashflow requirements.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Plan undertook strategy changes over the 12 months to 30 September 2022, which are outlined on the previous page. Part of the reason for this was to increase the Plan's exposure to contractual assets, increasing the certainty of returns.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield	The allocation to credit assets remains diversified in terms of number of managers and credit sub-asset classes, providing increased diversification of default risk.

		available sufficiently compensates the Plan for the risk of default.	
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	The Trustee Directors expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process. The Trustee Directors will be provided with the investment managers' policies in respect of financially material considerations and will ensure they are satisfied that these are consistent with the above approach. The Trustee Directors will take into account the managers' ESG policies when appointing and reviewing investment managers.	The Trustee Directors have not yet undertaken formal ESG training but expect to undergo training with Isio, its investment advisor, and review the Plan's position in 2023. As part of any future ESG session, the Trustee Directors will look to: • Review the Plan's investment managers' ESG policies, with the intention of doing this at least on an annual basis. • Review the Trustee Directors' ESG policies for the Plan. **The Trustee Directors ESG approach has been included in the Plan's 2022 SIP. This ESG policy will be reviewed annually.**
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	The Trustee Directors are comfortable being exposed to currency risk from their equity portfolio, however hedge all currency risk on all assets that deliver a return through contractual income.	

Changes to the SIP

Policies added to the SIP	
Date updated: January 2022	
Stewardship in relation to the Plan's assets	• The Trustee Directors' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustee Directors' behalf. In doing so, the Trustee Directors expect that the investment managers will use their influence as major institutional investors to exercise the Trustee Directors' rights and duties as shareholders, including where appropriate engaging with underlying issuers of debt or equity to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses. The investment managers are also expected to use their influence to engage with the wider investment manager community. The Plan does not hold any direct debt or equity investments, and so engages solely through the pooled investment managers. • The Trustee Directors will monitor and engage with the investment managers about relevant matters (including business performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters), through the Plan's investment consultant. The Plan's investment consultant conducts meetings with each of the investment managers to discuss these matters. The

Plan’s investment consultant then liaises with the Trustee Directors to convey the outcome of their engagements.

- Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee Directors will, with input from their investment consultant, monitor and review the information in DB Union Pension Plan’s Statement of Investment Principles provided by the investment managers. Where possible and appropriate, the Trustee Directors will, through the Plan's investment consultant, engage with their investment managers for more information and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council’s UK Stewardship Code.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy with regards to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee Directors intend to review the Plan's ESG policies and engagements periodically to ensure they remain fit for purpose.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• As part of any manager selection exercise, ESG considerations will form part of the evaluation criteria; • The Trustee Directors will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments; • As part of ongoing monitoring, the Trustee Directors will use any ESG ratings information provided by their investment consultant to assess how the Plan's investment managers take account of ESG issues; • Through their investment consultant, the Trustee Directors will request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis;	• The investment manager has not acted in accordance with their policies and frameworks. • The investment managers' ability to abide by the Trustee Directors' ESG policies ceases due to a change in the manager's ESG policies.

Engagement

As the Plan invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to the end of September 2022.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 57 Environment: 6 Social: 3 Governance: 18 Broad-based ESG: 30 *One engagement can cover multiple engagement themes	Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors. Examples of significant engagements include: **Ecopetrol SA –** Apollo engaged with the company on the underlying ESG themes of Governance and Environment. More specifically, Apollo engaged on the governance of the company at board level in addition to efforts to reduce flaring and spending on alternative energy. As a result of Apollo's engagements, the company have committed $1.4bn to furthering their ESG efforts, developing their own renewable power sources and a board that is now

		made up of 80% of independent members **EnfraGen, LLC** – Apollo engaged with the company on the underlying theme of Governance. Apollo requested that EnfraGen enhance their current Governance by becoming a signatory of UN PRI. The company have agreed to consider becoming a signatory but do not view this as a priority over the short-term.
Nordea Diversified Returns Fund	Total engagements: 114 Environment: 32 Social: 31 Governance: 51	Nordea's engagements cover each aspect of ESG, with a strong focus on the environmental and governance themes. Their main focus areas include climate, human rights, good governance, water and biodiversity. Examples of significant engagements include: **Infineon Technologies AG –** Nordea met with Infineon to discuss the company's ESG reporting, target setting and sustainability priorities. The discussions focused on the company's Carbon Disclosure Project ("CDP") score and the potential for introducing more ambitious climate targets. The company was receptive to points surrounding the CDP score and have confirmed they are working to improve their climate and water disclosures. The company were less receptive to proposal for more ambitious target setting, Nordea will continue to monitor and engage with the company. **Linde Group –** Nordea engaged with the vice president for sustainability to discuss Linde Group's decarbonisation targets and ESG target setting. Nordea encouraged the company to implement more ambitious climate targets, specifically

		align their targets with a 1.5 degree scenario than their current 2 degree scenario. The company confirmed they will raise the issues with the board and Nordea will continue to monitor and engage with the company on the progress of these points.
Janus Henderson Multi Asset Credit Fund	Total engagements: 72	Janus Henderson has a firmwide ESG policy, setting out their ESG investment principles and ESG considerations across asset classes. Janus Henderson's Global Responsible Investment team are responsible for engaging with companies across a variety of environmental, social and governance themes. Examples of significant engagements include: **Masmovil –** Janus Henderson met with Masmovil to discuss the company's Governance. Janus Henderson were concerned that the company's governance standards had not been upheld since a change in the company's ownership in 2020. The company confirmed there are two Boards, each containing an independent Chairman with industry experience and that compensation of senior management is linked to long-term company performance. Following the meeting, Janus Henderson are satisfied that Masmovil's governance standards have been retained. However, they have recommended that the company introduce a Sustainability Committee going forward. **Altice France** – Janus Henderson engaged with Altice France to address their concerns surrounding the company's Governance,

		in particular the lack of board independence, executive renumeration policies and the absence of an audit committee. The engagement failed to convince Janus Henderson about the company's commitment to improve governance standards. Janus Henderson will continue to engage with the company on these issues and monitor its progress.
M&G Alpha Opportunities Fund	Total Engagements: 15 Environmental: 10 Social: 2 Governance: 3	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements. M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's Corporate Finance & Stewardship ("CF&S") Team, allowing them to leverage their expertise and sustainability themes. Examples of significant engagements include: **ArcelorMittal** – M&G met with ArcelorMittal to discuss the company's climate disclosures, specifically to encourage them to consider reporting on Scope 3 emissions and link executive renumeration with climate considerations. The company confirmed that renumeration was in the process of being aligned with climate considerations but the Company was less receptive to the Scope 3 request. M&G will continue to monitor the Company's disclosures and continue to engage with them on these topics.

		Lagardere S.C.A.- M&G met which the company's Chief Financial Officer and internal relations team to discuss enhancing the company's ESG disclosures and in particular, setting science-based targets. M&G encouraged the company to introduce clear, ambitious targets and emphasize the importance of good governance. Lagardere were receptive of M&G's comments and confirmed they are in the process of setting targets. M&G will monitor the progress and engage further should the engagement objectives not be met.
BlackRock Liability Driven Investment Funds	BlackRock currently do not provide details of their engagement activities for these Funds as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting.	BlackRock's ESG related engagements are led by the BlackRock Investment Stewardship (BIS) team. BlackRock have started to engage with derivative counterparties on governance issues and are working on engaging with them on environmental issues. At firm-level, BlackRock engages with many companies and informs clients about its engagement and voting policies via various forms of communication.
BlackRock ICS Liquidity Fund	BlackRock currently do not provide details of their engagement activities for these Funds as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting.	BlackRock currently do not collect engagement data for their ICS Liquidity Fund, which is limited to the extent in which they may assess underlying counterparty exposure. Whilst BlackRock have a clear business level ESG policy, there are currently no formal ESG objectives or engagements targets for the ICS Liquidity Fund itself.
LGIM All World Equity Index Fund	Total Engagements: 547 Environment: 194 Social: 139	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with

	Governance: 192 Other: 22 *One engagement can cover multiple engagement themes	portfolio companies and the metrics on which they are based. LGIM have not provided examples of Fund-specific significant engagements.

Voting (for equity/multi asset funds only)

As the Plan invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 30 September 2022. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Nordea Diversified Return Fund	Meetings eligible to vote at: 194 Resolutions eligible to vote for: 2,381 Resolutions voted on: 98.8% Resolutions voted with management: 84.7% Resolutions voted against management: 9.1% Resolutions abstained or withheld from: 1.4% Management say-on-pay votes: 4.9%	**Nike -** Nordea voted in support of a shareholder proposal for the company to publish a Gender Pay Gap Report. The outcome of the resolution was against the publishing of the report however did receive substantial support from shareholders at the AGM. Nordea will continue to support shareholder resolutions on this issue as it aligns with their own principles. **TJX Companies –** Nordea voted in favour of a report on the due diligence on human rights in the supply chain. Nordea believe that shareholders will be able to better assess how the company manages human rights related risks through greater transparency of the processes the company uses to assess human rights issues within its operations and supply chain. Nordea will continue to support shareholder proposals on this issue as long as they deem it necessary.	Nordea assess shareholder ESG proposals on an individual level which analyses the relevance and adequacy of the requests. Proxy voting is facilitated by two external vendors, ISS and Nordic Investors (these merged in 2021) with Nordea's Corporate Governance unit overseeing all voting activities.

LGIM All World Equity Index	Meetings eligible to vote at: 6,672 Resolutions eligible to vote for: 67,019 Resolutions voted on: 99.9% Resolutions voted with management: 78.8% Resolutions voted against management: 19.9% Resolutions abstained or withheld from: 1.3%	**Apple Inc –** LGIM voted in favour of a resolution proposing a Report on Civil Rights Audit. LGIM voted in favour of the resolution as part of their commitment to improving diversity and inclusion policies across portfolio companies. LGIM view diversity and inclusion as a material risk and as such will continue to support resolutions on this theme. **Alphabet Inc. –** LGIM voted in support of the production of a Report on the Physical Risks of Climate Change. LGIM voted in favour of the resolution as they expect companies to be acting on the topic of climate change., LGIM will continue to engage with the company on climate-related issues despite the outcome of the resolution being against the production of the report.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. The team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.

www.isio.com