DB Union Pension Plan

December 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles (SIP)

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 July 2023.

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

Implementation Report

This implementation report is to provide evidence that the 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 2023 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

- The Plan's full commitment to the IFM Global Infrastructure Equity Fund was drawn down in January 2023, this allocation accounts for c. 10% of Plan assets.
- An in-specie transfer from the monthly dealt M&G Alpha Opportunities Fund to the daily dealt M&G Total Return Credit Investment Fund was completed during March. The rationale behind the switch was to create additional liquidity in the Plan.
- In April 2023 the Trustee Directors agreed to appoint LGIM as the Plan's new LDI manager and agreed to implement a liquid credit mandate via an allocation to LGIM Absolute Return Bond Fund. This mandate will sit alongside the LDI mandate and act as a primary source of collateral. The rationale for this was twofold: 1. It followed a loss of confidence in the previous LDI manager, BlackRock; and 2. The Trustee consolidated more of the Plan's liquid assets with the LDI manager (in line with regulatory guidance). The Trustee also agreed to increase the Plan's target interest rate and inflation hedge to 90% (on a Technical Provisions basis).

- In addition to the introduction of the 10% allocation to Absolute Return Bonds, the Plan reduced its allocations to Semi-Liquid Credit and Multi-Asset Credit to 15% and 10%, respectively.

Implementation Statement

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

Signed

ANGELA J MCCALLUM

Position: Trustee Director

Date: 9 January 2024

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 90% (on the Technical Provisions basis) of liability movements caused by changes to interest and inflation rates.	Following discussions at the April Trustee meeting, the Trustee agreed to appoint LGIM as the Plan's new LDI manager (albeit this has not yet been implemented). The Trustee also agreed to increase the Plan's target interest rate and inflation hedge to 90% in the short-term, and to equal funding level in the medium term (measured on the Technical Provisions basis).
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. The Plan will soon be implementing a liquid credit mandate via an allocation to the LGIM Absolute Return Bond Fund. This will sit alongside the LDI portfolio as part of the 'collateral waterfall' and will provide capital to the LDI portfolio in the event of any re-capitalisation events.
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 2023, which are outlined on the previous page. Market risks were taken into account when deciding upon a new investment strategy.
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 allocation to credit assets remains diversified in terms of number of managers and credit sub-asset classes, providing increased diversification of default risk.

		the yield 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 factored ESG considerations into the decision making process when deciding to appoint LGIM as the Plan's new LDI and liquid credit manager. 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 2024. 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 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: June 2023	
How the Trustee Directors expect investment managers to vote on their behalf	• The Trustee Directors have acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf.
How the Trustee Directors will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustee Directors have also acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf. The Trustee Directors, via their investment consultant, will engage with managers about 'relevant matters' at least annually. Example stewardship activities that the Trustee Directors have considered are listed below: ▪ Selecting and appointing asset managers – the Trustee Directors will consider potential managers' stewardship policies and activities. ▪ Asset manager engagement and monitoring – the Trustee Directors assess the voting an engagement activity of their asset managers. ▪ Collaborative investor initiatives – the Trustee Directors will consider joining/supporting collaborative investor initiatives.
Appendix A: Asset Allocation	Strategic asset split by asset class (as at 31 March 2023):

Investment Manager	Asset Class	Strategic Benchmark (%)	Expected Return[1] (%)
Apollo	Semi-Liquid Credit	15.0	3.5
LGIM	Liability Driven Investment	30.0	0.0
IFM	Infrastructure Equity	10.0	4.6
M&G	Multi-Asset Credit	10.0	2.6
LGIM	Passive Equity	15.0	4.0
LGIM	Absolute Return Bonds	10.0	1.5

Nordea	Multi-Asset Growth	10.0	3.5
	Total	**100.0**	**2.7**

[1] Expected return assumptions quoted relative to Gilts and based on Isio's central assumptions as at 31 March 2023.

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 2023.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 55 Environment: 48 Social: 23 Governance: 14 *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: Garda World Security Corporation – Apollo engaged with the company on the underlying ESG theme of Social. As part of this engagement, they met with the company to discuss their safety measures in the Middle East. The Company confirmed to Apollo that they have subsequently increased their compliance training. Moss Creek Resources Holdings, Inc. – Apollo met with the oil and gas exploration company to discuss how they were

		working to mitigate their high environmental and governance risks. Moss Creek confirmed they are working to mitigate their environmental impact by reducing the emissions in operations through building a water infrastructure and recycling system. In terms of governance, Moss Creek confirmed the steps they have taken to improve their governance structure, which include establishing a Corporate Responsibility Team and appointing a third party consultant to gather stakeholder feedback.
Nordea Diversified Returns Fund	Total engagements: 131 Environment: 52 Social: 37 Governance: 18 Strategy: 24	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: Alibaba Group Holding Ltd. – Nordea met with the ESG representative from the Investor Relations team to discuss the how ESG and decarbonisation targets have been impacted following strategic and governance restructurings at the Company. The Company confirmed that the carbon neutral goal by 2030 remains, and there is Board-level oversight to ensure this target is met. Alibaba also confirmed that following the restructuring, subsidiaries will be given flexibility to tailor their own decarbonisation roadmaps, specific to themselves. Nordea suggested the company incorporates ESG KPIs into the incentive structure for newly established subsidiaries who were established during the re-organisation. Alibaba agreed to take the suggestion into internal discussion. Nordea will

		continue to monitor the Company's progress. Colgate-Palmolive – Nordea met with the Company, including the Chief Sustainability Officer, to discuss the findings of a report which identified that the company was on a +3 degrees pathway, which conflicts which their goal of a 1.5 degree pathway by 2040. Colgate expressed their disagreement with the findings and accuracy of the reporting body, SBTi. Nordea are happy with the information provided by Colgate and their pledge of commitment to a 1.5 degree pathway but will continue to closely monitor their progress.
M&G Total Return Credit Investment Fund	Total Engagements: 6 Environmental: 2 Social: 3 Governance: 1	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: Brambles Finance PLC – M&G met with the Company to discuss Governance, in particular the link between executive renumeration KPIs and sustainability targets. The Company were receptive of M&G's requests and confirmed that objectives are currently tailored to individual roles but, they will

		work to improve these on a role-by-role basis. M&G were satisfied with this response and will follow up with a report on their expectations to the renumeration committee, depending on the role-by-role objectives provided by the Company. M&G additionally raised concerns over the Company's decarbonisation strategy and encourage them to make a commitment to net zero, they plan to follow these points up on a call with the Head of Sustainability at the Company. Newriver REIT PLC. – M&G met with Newriver to encourage improvements in diversity and inclusion practices by increasing board gender diversity and setting and disclosing workforce diversity targets. As part of the engagement, Newriver explained that they are currently meeting M&G expectations on board gender diversity as they are no longer a FTSE 350 Company. In addition, they confirmed that it is difficult to make improvements in this area given the company's small size and low turnover rate. The company confirmed that while they are not currently expanding the Board, they will consider diversity actively when such a time comes. M&G are pleased with the Company's progress out with this, which includes a gender pay gap report and enhanced shared parental leave but will continue to monitor their situation.
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: 1,060 Environment: 630 Social: 108 Governance: 217 Other: 105 *One engagement can cover multiple engagement themes	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM have not provided examples of Fund-specific significant engagements.
IFM Global Infrastructure Fund	IFM currently do not provide details of their engagement activities due to the nature of the Fund. Isio will work with IFM on the development of the firm's engagement reporting	IFM engage through board representation in both their private equity and public market portfolio holdings. IFM will only invest in companies which have appropriate governance structures in place. IFM bring together key executives of their portfolio companies to help spread good ESG practice and objectives across the portfolio. Buckeye Partners: Buckeye and IFM have begun looking for Merger & Acquisition opportunities to acquire renewable development projects as well as currently developing solar projects. Both of these projects together may generate enough renewable power to offset over 200% of Buckeye's 2019 electricity consumption.

Voting (for equity/multi asset funds only)

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on its behalf.

The Plan's equity and diversified growth managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 30 September 2023. The Trustee has adopted the managers' definitions of significant votes and has not set stewardship priorities. The managers have provided examples of votes they deem to be significant. When requesting data annually, via their investment consultant, the Trustee informs their managers what they deem most significant.

Fund name	Voting summary	Examples of significant votes	Commentary
Nordea Diversified Return Fund	Meetings eligible to vote at: 202 Resolutions eligible to vote for: 2,500 Resolutions voted on: 98.2% Resolutions voted with management: 84.0% Resolutions voted against management: 11.3% Resolutions abstained or withheld from: 2.6%	Mastercard Incorporated – Date: 27/06/2023 Percentage of portfolio: 1.5% Nordea voted in favour of a shareholder proposal to make the company provide further disclosure of their direct and indirect lobbying expenditure. The manager believed that the resolution would allow shareholders to better assess the benefits and risks of the Mastercard's participation in this practice. Nordea consider this one of their most significant votes as the outcome (a vote against the resolution) is severely against their principles. Microsoft Corporation – Date: 13/12/2023 Percentage of portfolio: 3.6% Nordea voted in favour of the production of a report on tax transparency. The rationale for this vote was that the proposed report (GRI Tax Standard) would provide greater transparency on the Company's tax practices to investors globally. The resolution was not passed, but Nordea will continue to support shareholder proposals in this area. Nordea consider this one of their most significant votes as the outcome (a vote against the resolution) is severely against their principles.	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. In general Nordea rely on their own bespoke voting policies at ISS and/or vote manually on nearly all votes.

LGIM All World Equity Index	Meetings eligible to vote at: 6,324 Resolutions eligible to vote for: 64,047 Resolutions voted on: 99.9% Resolutions voted with management: 79.8% Resolutions voted against management: 19.5% Resolutions abstained or withheld from: 0.6%	Macdonald's Corporation **–** Date: 25/05/2023 Percentage of portfolio: 0.4% LGIM voted in favour of adopting a policy to phase out the use of medically-important antibiotics in beef and pork supply chains. They voted against management's recommendation on this resolution as Antimicrobial resistance is an important focus of LGIM's approach to health, and they consider it a systematic risk. This resolution failed but LGIM will continue to engage with the company and monitor progress in this area. Amazon.com, Inc. **–** Date: 24/05/2023 Percentage of portfolio: 1.5% LGIM voted in favour of a resolution for Amazon to report on median and adjusted gender and racial pay gaps. LGIM voted against management's recommendation on this resolution as LGIM expects companies to disclosure meaningful information on its gender pay gap and believe this is an important disclosure as it allows investors to accurately assess progress in diversity and inclusion initiatives. The resolution did not pass, but LGIM will continue to engage with the company and monitor progress on the matter. LGIM consider this vote one of their most significant since they view gender diversity as a financially material issue for clients with implication for assets they manage on clients behalf's.	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.

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