DB Union Pension Plan

January 2025

isio.

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 September 2024.

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 2024 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 Trustee instructed a partial redemption of £6.15m from the Plan's Semi Liquid Credit Mandate with Apollo in November 2023 to reduce the mandate's overweight position relative to target. The monies were then re-invested equally between the Diversified Growth and Multi Asset Credit mandates, with Nordea and M&G, respectively. This resulted in the Diversified Growth and Multi Asset Credit mandates increasing their allocations to 10% and 15%, respectively.
- In May 2024, the agreed transition of the LDI portfolio from BlackRock to LGIM was completed. Alongside this, the Plan funded a 10% allocation to Absolute Return Bonds to sit alongside the LDI portfolio and act as its primary source of collateral for the Plan.
- Following the Trustee meeting in May 2024, the Trustee instructed an additional £2.2m redemption from the Semi Liquid Credit mandate with Apollo to further reduce the mandate's overweight position. The proceeds were then re-invested into the LGIM Absolute Return Bond Fund. This saw the Semi Liquid Credit allocation reduced to 10%, in line with its strategic target.

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 DocuSigned by: A726A74276D84A3...

Position Trustee Director

Date 21/1/2025

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 95% (on the Technical Provisions basis) of funded liability movements caused by changes to interest and inflation rates.	In May 2024, the Plan increased the hedge to 95% on the Technical Provisions basis, in line with the funding level for the Plan. Following the increase to the hedge, the Plan completed the transition of the LDI portfolio from BlackRock to LGIM in May 2024.
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 introduced a 10% allocation to Absolute Return Bonds, to be managed by LGIM. This will sit alongside the LDI portfolio and form part of the 'collateral waterfall', providing 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 2024, 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 yield available sufficiently compensates the Plan for the risk of default.	The allocation to credit assets remains diversified in terms of number of managers and credit sub-asset classes, providing increased diversification of default risk.

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 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 currently undertaken formal ESG training but expect to undergo training with Isio, its investment advisor. 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.	
Non-Financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments unless specifically requested as part of the evaluation criteria.	

Changes to the SIP

Policies added to the SIP

Date updated: September 2024

Collateral Management Policy

At the time of writing, the Trustee Directors are targeting a level of collateral over and above that within the Plan's LDI funds that is sufficient to withstand (at least) one collateral call from each of the Plan's LDI funds.

The Trustee Directors will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

The Plan has a collateral waterfall system in place. Assets held with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustee.

Manager	Asset Class	Dealing frequency	Notice period	Settlement period
LDI manager	**LDI**	**Weekly frequency**	**T – 2**	**T + 2**
LDI manager	**Absolute Return Bonds**	**Daily frequency**	**T – 1**	**T + 2**
LDI manager	**Equity**	**Weekly frequency**	**T – 2**	**T + 2**
Non-LDI manager	Multi-Asset Credit	Daily frequency	T	T + 2
Non-LDI manager	Multi-Asset Growth	Daily frequency	T	T + 3

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 next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan. 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee Directors.
Approach / Framework	3. The Trustee Directors should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore, the Trustee Directors will receive training as required to develop their knowledge. 8. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee Directors will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustee Directors will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

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 2024.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 99 Environment: 13 Social: 2 Governance: 17 *ESG: 67 *One engagement covering 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: Guitar Centra, Inc. - Apollo met with the Company to discuss multiple financially material ESG risks and opportunities which could impact performance or fail to meet stakeholder needs. This engagement focussed on the Company's rationale for moving its music instructors from being workers to become employees in 2020, and the impact this had on credit risk. While this initially put strain on the Company's margins, in the long-term they believe it will lead to more satisfied instructors and expanded their student

		base. Apollo will continue to engage with the Company on any issues they identify as being financially material. Pacific Gas & Electric Company - Apollo met with the Company twice during the reporting period to discuss topics including; renewables, transmission, electrification and social aspect concerning customer affordability. The engagements gave Apollo a better understanding of the Company's exposure to ESG risks and allow them to integrate these within their investment thesis. Apollo will continue to engage with the Company on these topics.
Nordea Diversified Returns Fund	Total engagements: 184 Environment: 82 Social: 51 Governance: 31 Strategy: 20	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: Air Liquide - Nordea met with the executive in charge of the Company's Sustainable Development following an increase in Air Liquide's Scope 1,2 and 3 emissions between 2019 and 2021 and analysis which projected that they would fail to meet their Science-Based Target initiatives by 243% by 2030 if no action was taken. Nordea discussed how the funds Air Liquide previously dedicated to their energy transition would drive a reduction in emissions, and gain a better understanding of the Company's aims to ensure aims to ensure alignment between its trade associations and the Paris Agreement. Nordea were satisfied following confirmation from Air Liquide that they are due to

		publish their transition plan based on its main decarbonisation levers in 2024. Nordea will continue to engage with the Company on this topic and push for increased disclosures on energy transition investments and expected emissions reductions.
M&G Total Return Credit Investment Fund	Total Engagements: 12 Environmental: 9 Social: 2 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: AIB Group PLC - M&G met with the Bank to discuss their Net Zero and Decarbonisation Commitments. In particular, discussion focussed on the process the Bank went through to have its near-term decarbonisation targets approved by the Science Based Target Initiatives ("SBTi"). As part of this engagement, M&G recommended the Bank have their Net Zero targets approved by SBTi and begin regular reporting on the outcome of its scope 3 engagement programme. The Bank confirmed that they intend on getting the Net Zero target approved. M&G will continue to engage with the bank on the

		progress against these actions. **Celanese US Holdings LLC** - M&G met with the Company to communicate their expectations in relation to Net Zero targets and decarbonisation disclosures. Specifically, as part of the engagement M&G requested that Celanese set formal Net Zero targets and enhance their decarbonisation disclosures. Celanese confirmed that they are not currently in a position to introduce a formal net zero target as they need to establish a realistic path to achieve this. They also confirmed that they currently have a target of a 30% reduction in scope 1 and 2 carbon emissions by 2030, and are committed to understanding and quantifying scope 3 emissions. M&G will continue to engage with the Company on the progress against these actions.
LGIM All World Equity Index Fund	Total Engagements: 2,387 Environment: 1,553 Social: 399 Governance: 333 Other: 102 *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.
LGIM Absolute Return Bond	Total Engagements: 416 Environment: 223 Social: 65 Governance: 89 Other: 39 *One engagement can cover multiple engagement themes	

LGIM LDI Portfolio	LGIM currently do not provide engagement activities for the LGIM LDI.	
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. Naturgy - IFWM engaged with the company over the environmental and climate change topics, in particular IFM had targeted Net Zero across all asset classes by 2050. As a result, Naturgy had set the target of reducing its Scope 1 and 2 emissions by 48% by 2025 as well as 60% renewable energy generation mix.

Voting (for equity/multi asset funds only)

The Trustee Directors have acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their 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 2024. The Trustee Directors have adopted the managers' definitions of significant votes and have 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 Directors inform 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: 194 Resolutions eligible to vote for: 2,443 Resolutions voted on: 95.5% Resolutions voted with management: 85.5% Resolutions voted against management: 12.4% Resolutions abstained or withheld from: 1.6%	NextEra Energy Inc – Date: 23/05/2024 Percentage of portfolio: 0.6% Nordea voted in favour of a shareholder proposal to report on climate lobbying. Nordea believe that shareholders would be able to better evaluate the Company's lobbying efforts and compare with its peers if they provided additional disclosures on the Company's framework for identifying alignments and its approach to addressing misalignments. Nordea consider this one of their most significant votes as the outcome was a vote against the resolution. Microsoft Corporation - Date: 07/12/2023 Percentage of portfolio: 4.5% Nordea voted in favour of Microsoft reporting on risks of operating in countries with significant human rights concerns. Nordea voted in favour of this resolution as they believe that investors will be better able to make an assessment of the Company if disclosures on the management of human rights related risks in high-risk countries are improved. 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 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: 6,643 Resolutions eligible to vote for: 64,367 Resolutions voted on: 99.8% Resolutions voted with management: 79.2% Resolutions voted against management: 20.0% Resolutions abstained or withheld from: 0.8%	Walmart Inc. – Date: 05/06/2024 Percentage of portfolio: 0.4% LGIM voted in favour of a resolution to establish a compensation policy of paying a living wage. They voted against management on this resolution as LGIM believes by paying the living wage, Companies can reduce the potential negative financial impact stemming from low worker morale and poor health, amongst others. Amazon.com, Inc. – Date: 22/05/2024 Percentage of portfolio: 2.2% LGIM voted in favour of a resolution for Amazon to report on customer due diligence. LGIM voted against management on this resolution as they believe enhanced transparency over material risks to human rights is essential to understanding the company functions. LGIM acknowledged that Amazon conducts internal review's for certain products and collaborates with third parties to develop its policies. However, LGIM recommends increasing transparency and making this information publicly accessible.	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