2023 Stewardship Report

BCSSS
British Coal
Staff Superannuation Scheme

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British Coal Staff Superannuation Scheme 2023 Stewardship Report

British Coal Staff Superannuation Scheme (the "Scheme") is a long-term signatory to the UK Stewardship Code. This report sets out how the Coal Staff Superannuation Scheme Ltd has ensured the Scheme has fulfilled its stewardship responsibilities through 2023 and the outcomes of this activity to the extent CPTI are able to assess this. The UK Stewardship Code 2020 has 12 principles and this report has been presented according to those 12 principles.

Principle 1
Purpose, Beliefs, Strategy and Culture

British Coal Staff Superannuation Scheme is a UK based pension scheme providing benefits to just under 42,800 members as at 31 March 2023.

The Scheme was established by an Act of Parliament on 1 January 1947 following the nationalisation of the Coal industry. The Coal industry was privatised in December 1994 and because of this, contributing members of the Scheme became deferred members. The Coal Industry Act 1994 established the parameters under which the Scheme operates with the Government in place as the Guarantor.

The Trustee has ultimate responsibility for decision-making on investment matters. Coal Pension Trustees Investment Limited (“CPTI”) is responsible for providing investment advice and investment management services to the Trustee.

The Trustee delegates responsibility for the day-to-day management of the assets to appointed investment managers. The Trustee’s objective is to pay all member benefits from the Scheme’s assets whilst achieving the returns required in order to deliver future bonuses.

The culture of the Trustee and CPTI, driven by senior leadership and the nature of the Scheme, is focussed on delivering high growth over the time period assets are expected to be held before being sold, considering all relevant risks and opportunities. This includes a rigorous focus on stewardship with the aim of improving outcomes for members through mitigating risks or improving returns.

The Trustee has agreed a set of investment beliefs, which align with its culture and cover return, risk, future expectations, illiquidity, complexity, sustainability and internal governance structure.

The Trustee has a specific belief in relation to sustainable investment provided below:

- Long-term investment success should come from a focus on sustainability. In particular, environmental, social and governance (“ESG”) factors can have a material impact on long-term investment returns. They should be considered before any investment is made.
- Investments with good or improving ESG characteristics are more likely to deliver long term sustainable returns
- The more long-term an investment, the more important ESG factors become
- Ignoring environmental and societal and regulatory issues can create investment and reputational risk, which ultimately reduce returns
- Being a good steward of assets can lead to better risk adjusted returns”

This belief is included in the Scheme's Responsible Investment policy which is published on the Scheme website (see link). This policy was last updated in 2021 and covers climate change, responsible investment integration, stewardship and collaboration as well as reporting and communication. The Trustee also agreed a new stewardship policy in 2021, which is published alongside the responsible investment policy. This provides more detail on the Scheme's approach to stewardship across assets classes including investment philosophy; purpose and beliefs; goals and priorities; escalation; and voting policy.

The Trustee supports and applies the UK Stewardship Code 2020 definition of stewardship: "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." The Scheme seeks to uphold good stewardship as well as hold to account the Scheme's investment managers and service providers.

Given the Scheme makes all of its investments via asset managers, CPTI's key stewardship tool is engagement of those managers to ensure they are fulfilling their duties to the Scheme and are engaged and aligned with the Scheme's key engagement priorities. This has been an increasing part of CPTI's work this year with a number of tough discussions held with the managers. Better data has enabled CPTI to ask more challenging questions and become better stewards of the managers and thus the Scheme's end assets.

Trustee Focus on Themes

Following a survey in 2021 of Trustee views on various stewardship issues, one of the outcomes was a renewed focus on human rights issues. This led to a policy to minimise the risk of investing in companies which were in breach, or at significant risk of breaching, UN Global Compact ("UNGC") principles. During 2022 this policy was implemented and CPTI has continued working with the investment managers through 2023 to ensure that they are not investing in companies that breach UNGC principles or, where potential breaches have been flagged, that the managers are responding appropriately. Human rights are a key focus within the Scheme's stewardship approach across public equities and public credit and within CPTI's own engagement with both public and private markets fund managers.

The Trustee has continued to focus on climate change, seeking to understand the risks and opportunities embedded across all areas of investment. Climate-related issues are a focus for stewardship across asset classes resulting in several changes to managers and strategies in 2023. The Scheme's second Task Force on Climate-Related Financial Disclosures ("TCFD") report was published on 31st October 2023 and is available via this link. CPTI is embedding climate risk and opportunity across all areas of investment and stewardship.

Asset Owner Diversity Charter

As a signatory to the Asset Owner Diversity Charter (AODC), CPTI has actively engaged on this topic across all the Scheme's large manager relationships and all new appointments during 2022 and 2023. During 2023 all public managers and a large proportion of private managers (not including some smaller legacy managers) were assessed and rated following their responses to the Diversity Charter's questionnaire. Critically CPTI has then used this assessment to feedback to managers and engage them on improvements going forward. It has also fed into CPTI's overall assessment of the managers.

For public equity overall, the results of the analysis were very encouraging. Following the assessment, CPTI actively engaged with the managers on this topic, reviewing with the managers their current ratings and where improvements might be made.

Within the private assets assessments, CPTI observed a diverse range of responses, with some managers providing comprehensive data while others supplied incomplete and uninformative responses. Ranges reflected both asset classes and firm sizes, with real estate managers for example providing comprehensive responses and smaller private equity managers offering only partial data. Additionally, gender diversity emerges as a recurring concern that demands continuous monitoring, attention, and effort to enhance metrics both within the firms and across the entire industry. Moreover, ethnic minorities and women continue to be underrepresented in front office and senior positions. A function of weaker diversity representation in private markets is partially a function of the size of the firms and the generally lower turnover.

The same assessments will be completed during 2024 incorporating the Diversity Charter's updated questionnaire and focusing on progress since the last discussions. CPTI appreciates that different asset classes face different challenges relating to DE&I and as such the team try to ensure that they are comparing like-for-like in their assessments of questionnaire responses.

Responsible Investment and Stewardship Integration

Climate change considerations are actively embedded in the Trustee's investment strategy with ESG risks being built into a broader risk framework that is under development. Other areas of ESG, in particular diversity and quality of stewardship are a formal part of manager selection and mandate design.

During the year the Scheme and CPTI worked with three strategic partners who are expected to manage collectively a significant portion of the Scheme's assets across a number of areas as well as providing broader advice and input to CPTI. Assessment of firm culture, purpose and approach to responsible investment, climate and diversity was a key part of this strategic partner selection process. As a result of this initiative, CPTI note that there have been improvements in working towards a lower internal governance burden, reduced complexity and cost synergies across asset classes plus greater engagement and debate with these managers versus a traditional service relationship.

Reducing the number of asset managers used by the Scheme and forming stronger more challenging relationships with these asset managers should enable the Scheme to improve the stewardship of its managers overall.

All of the Scheme's assets are managed by external asset managers. As such the Scheme's influence and duty as a steward is implemented via the selection and engagement of these external managers as well as in setting the investment strategy, policies and asset allocation. The Scheme's focus as a steward of assets is to ensure priorities are clear and are enacted by the managers on behalf of the Scheme. Where there are concerns the Scheme must have a clear approach for challenge and escalation.

2023 update

Through 2023 CPTI, on behalf of the Trustee, continued to integrate responsible investment and stewardship considerations into its formal external investment manager oversight and monitoring process, to ensure the investment managers were aligned with the Trustee's responsible investment and stewardship policies. This included a range of considerations such as:

- Firm-wide responsible investment resources, capabilities and commitment;
- Firm-wide commitment to diversity and inclusion;
- Level and effectiveness of stewardship of assets including voting for equities;
- ESG integration into the investment process focused on risk and opportunity;
- Integration of key responsible investment themes – Climate Change, Human Rights, DE&I – into investment approach and effective stewardship around these issues;
- ESG reporting on Scheme specific investments.

Over 2023, CPTI, on behalf of the Trustee got involved in two collaborative engagement groups:

1. ShareAction's Long-term Investors in People's Health (LIPH) and
2. First Sentier's Microfibres engagement group

Both engagements align with the Scheme's purpose and objectives, as they contribute to improving health outcomes (LIPH) and addressing environmental and health issues (microfibres). More information on both groups can be found in Principle 4.

As noted in the Scheme's last Stewardship report, CPTI formally added ESG considerations to its Manager Watch List framework during 2022, meaning any managers where CPTI is concerned around ESG or stewardship will be placed under formal review. Several points were followed up with external managers during 2023. Where there have been explicit action points identified, CPTI's policy is to engage further with external managers over the course of the year and reevaluate if positive changes are not made. CPTI expects managers to either evidence that these action points have been adhered to, and/or, there have been significant improvements in terms of the direction of travel into 2024. One manager where CPTI had significant concerns around the insufficient level of stewardship is now in the process of being terminated, as discussed in Principle 11.

In 2023, this framework was implemented through the Scheme's decision to disinvest its portfolio with an Onshore China Active Equity manager. This decision, orchestrated by CPTI on behalf of the Trustee, was grounded in a meticulous evaluation process. While various factors were considered, including the strategic reduction of exposure to China, cost implications, and structural complexities, a crucial aspect was the manager's approach to climate risk and opportunity, coupled with their limited engagement in stewardship practices. This decision underscores CPTI's dedication to aligning the Scheme's investment strategies with the Trustee's core beliefs and long-term objectives, further details of the escalation process are covered in Principle 11.

2023 update continued

As described under Principle 2, another example of a successful external manager engagement which began in 2022 and continued through 2023 was that CPTI's own stewardship of the Scheme's real estate assets led to a change in property manager, a project which involved in depth engagements between CPTI and prospective managers. During the appointment process, CPTI engaged with the new property manager regarding concerns that their HR policies were outdated and lagged peers in the market. CPTI also engaged at length with the manager regarding an insufficient level of insight and planning on climate as well as the lack of any policy related to diversity, equity and inclusion. CPTI is pleased to report that the manager very quickly took the feedback on board and made significant steps toward delivering good plans on all points discussed. CPTI will continue to engage with the manager this year to ensure the plans are fully realised. As part of the onboarding, clear goals were set for tenant engagement with the target of 90% of tenant level energy data to be reported by 2024. This would be a significant leap from previous levels.

CPTI applies the Scheme's stewardship policy across all of the Scheme's assets. As discussed in the last Stewardship report, CPTI has also formulated an add-on policy for private markets recognising these markets require a different approach.

CPTI utilises EOS at Federated Hermes ("EOS") to provide additional stewardship services alongside the Scheme's managers across a large part of the Scheme's public markets holdings. CPTI delegates voting to EOS for the majority of the public equity holdings, but also delegates voting to certain investment managers on specific equity mandates where CPTI believes stewardship to be of a high quality. This is an active decision that is considered carefully. CPTI monitors the Scheme's voting and has appointed an external advisor to enable better understanding of the voting carried out by the Scheme's managers and EOS. This has led to changes in understanding of quality of voting provided by different managers and has enabled CPTI to better challenge the managers on this or to indeed make changes.

Principle 2
Governance, Resources and Incentives

The British Coal Staff Superannuation Scheme shares links with the Mineworkers' Pension Scheme through their joint and equal ownership of Coal Pension Trustees Services Limited ("CPT"), which provides support services to both Schemes. CPTI is a subsidiary of CPT and is the primary investment advisor to the Scheme, providing strategic advice and investment management services to the Trustee.

The organisation charts below show the structure and accountability across the Trustee and CPT/CPTI.

Committee Of Management (COM) – Highest governing body composed of member-elected Trustee Directors and appointed Trustee Directors usually from the financial sector. COM has ultimate accountability for risk and policies (including the RI and stewardship policies) plus ownership of oversight of key metrics.

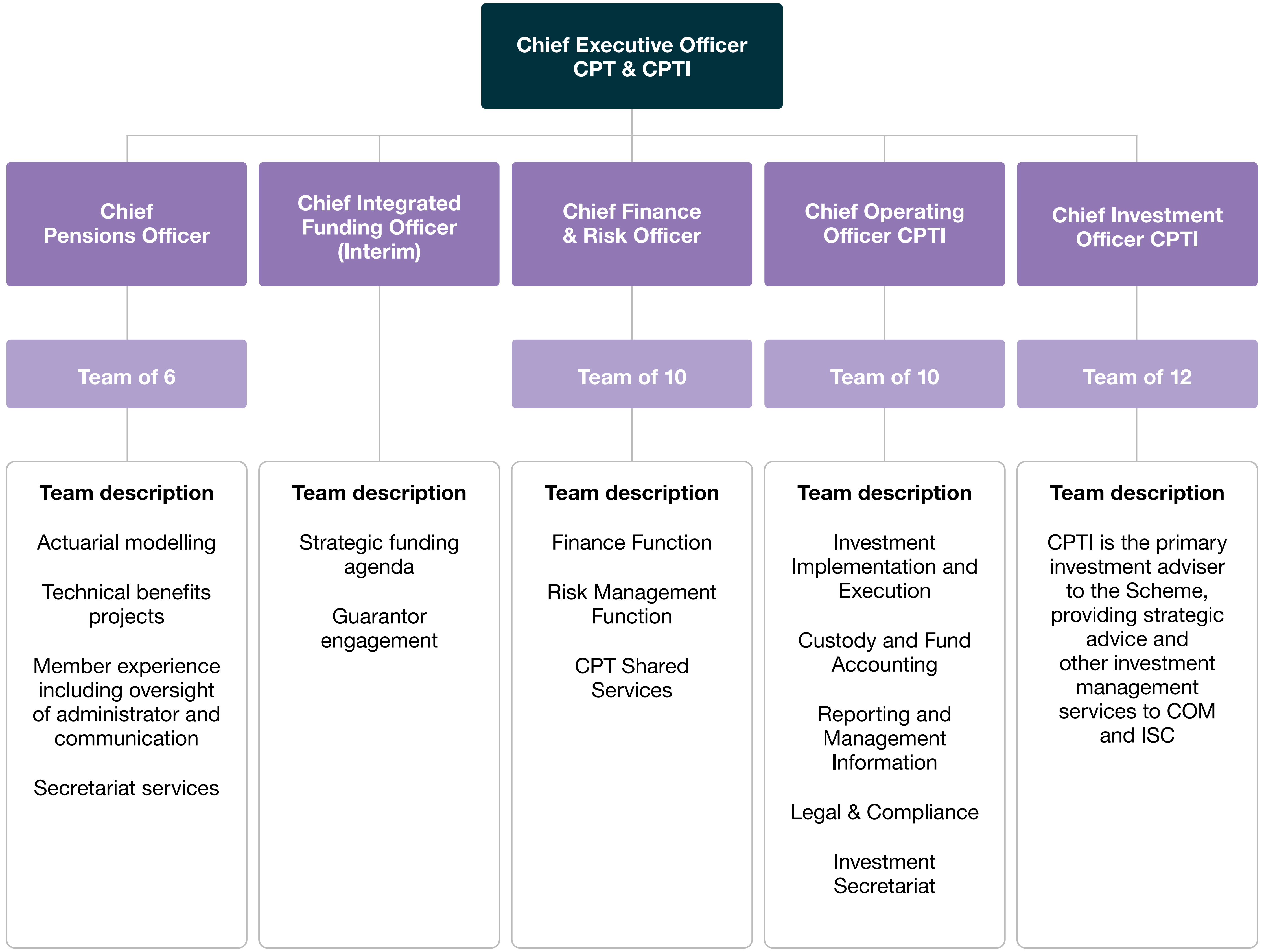
Investment Sub-Committee (ISC) – ISC is a subset of COM and also includes external investment advisors who are professional investors with decades of relevant experience. COM delegates to ISC the ongoing oversight of investment risks and opportunities including those related to responsible investment. ISC is responsible for detailed oversight and challenge of the CPTI investment team.

Risk and Assurance Sub-Committee (RASC) – RASC is a subset of COM and overseas the design and operation of the overall risk management framework to ensure that it is fit for purpose to provide an appropriate level of assurance, that the Scheme adopts a sound approach to financial management and reporting and that all operational activities are effectively managed.

CPT – CPT has an established governance framework for delivering services to COM and ISC.

CPT Investment Team – Led by the CIO, the investment team has responsibility for ensuring the investments adhere to COM's RI and stewardship policies and ensuring the asset portfolio best captures opportunities and manages risks.

Responsible Investment team – The RI team provides support, expertise and research, proposes key themes and oversees implementation of the RI and stewardship framework, working with and challenging the investment managers. The RI team is led by the Head of Responsible Investing and includes 5 members across investment and operations who spend a high proportion of their time in this area.



Skills and experience

The profiles and experience of British Coal Staff Superannuation Pension Scheme can be accessed via this link to the Scheme website. Four of the eight members of the Trustee body are elected from and by the membership. The four elected members represent geographical constituencies across the UK and any member is entitled to stand for election for four-year terms.

Specific relevant skill sets:

- The member elected Trustee Directors have direct experience working in an industry with human rights, safety and environmental risks and have a clear understanding of these issues and in dealing with labour rights.
- The appointed Trustee Directors have significant financial, asset management and pensions experience as well as team and business leadership.
- The investment advisors are industry experts with direct and relevant experience covering macroeconomics, investment strategy and risk across multiple asset classes.
- The CIO has significant experience in responsible investment and stewardship from his past roles including at a global investment consultant and through his role as CIO at the Unilever pension schemes. He was previously a member of the EOS Client Advisory Board and the PRI's Asset Owner Advisory Committee.
- The Head of Responsible Investment previously spent 13 years at Willis Towers Watson (WTW) where she was the lead for responsible investment on the global portfolio management group as well as the portfolio manager for the company's flagship multi-asset fund, which has a large focus on impact investment. She has also been a member of numerous diversity steering groups and a vocal advocate on this topic across her career.

Resources

The Scheme's internal investment resource is provided by CPTI, whose senior leadership is committed to ensuring strong ESG and stewardship practices. There are two members of the CPTI team spending dedicated time on responsible investment including stewardship and they are supported by three members of the operations teams who, amongst other things, collate ESG data and assist with reporting. All members of the team are knowledgeable on incorporating ESG and stewardship across all areas. Internal resources are limited so the use of external managers for investments and the appointment of EOS for additional stewardship services in public markets is a key focus for CPTI, ensuring that investment managers and EOS have sufficient resources to engage effectively. In addition, CPTI also benefits from partnerships with Redington, MSCI and three strategic partners as mentioned in Principle 1.

CPTI has high expectations of its managers' stewardship of assets regardless of asset class and jurisdiction. EOS has been appointed to provide additional engagement and voting services on a large proportion of the Scheme's public market assets (both equity and credit). EOS enables CPTI to access best in class resources and collaborate with other asset owners for the purpose of engagement. EOS also provides knowledge and training for CPTI, particularly around newer themes in Responsible Investment as well as in direct company engagement. EOS has assets under advice of $1.45tn (as at 31st December 2023) meaning it can have a meaningful voice with companies. EOS engagement is conducted on behalf of the Scheme by an experienced team with expertise across industries, professions, cultures and languages (including 20 nationalities and 16 languages). On average engagers have at least 15 years of professional experience. EOS have specially selected their team to include a diverse range of expertise and experience with backgrounds including industry, academia, law, consultancy and sciences. This is to enable the team of engagers to engage most effectively in a variety of markets, sectors, and issue areas. The EOS engagement plan (see link) provides further detail on their approach to engagement and voting, and the influence that comes from combining the Scheme's assets with other institutional investors around the world. Where EOS has been appointed this does not remove stewardship duties from the asset managers as the ultimate buy and sell decisions are being made by the managers. Indeed CPTI believes the dual focus on stewardship by the manager and EOS creates challenge and helps identify areas for CPTI to focus on in its reviews of all of EOS, the manager and the underlying holdings.

CPTI regularly reviews the investment managers that are conducting engagement and voting on the Scheme's behalf in public markets to decide whether the voting best rests with the investment manager or EOS recognising the conflicts that exist between investing and engaging as well as the differing escalation tools available to the manager versus EOS. Details regarding the outcome of voting and engagement reviews during 2023 are included within Principle 5.

Within private markets, assessing the approach to ESG and stewardship is a core focus of appointments and the ongoing monitoring process. This has been one important driver of changes being made across infrastructure and real estate assets. As part of the efforts to enable effective stewardship across the Scheme's assets, CPTI has been implementing a framework for engagement within private assets. Whilst much of this work is already being carried out by CPTI and its managers, CPTI recognised the need to strengthen and formalise this process. The framework recognises some of the limitations for engagement in private assets whilst aiming to encourage improved engagement and reporting on these assets moving forward. The approach will be tailored for each asset class and according to how the asset class is accessed, for example via funds or in a segregated mandate where CPTI has more direct control and input. Whilst this framework was agreed during 2023, the process of implementing it is a work in progress. CPTI expect to be able to report more on specific outcomes in the 2024 report.

Infrastructure

Within infrastructure the Scheme owns assets critical to the UK and also assets with high levels of impact on the environment and consumer cost of living. The Trustee takes ownership of these assets very seriously and believe that there is more that they and other asset owners can do to be better stewards in this area. During 2023 CPTI conducted a detailed review of the assets owned in this space as well as the stewardship provided by the Scheme's asset managers. This review led to a decision to significantly reduce infrastructure exposure and those changes were implemented during the course of 2023 and continuing into 2024. For the infrastructure assets the Scheme retains, which is primarily a solar portfolio, stewardship of these assets will be a key focus.

Real-Estate: Nuveen Appointment

On 2nd December 2022, Nuveen Investment Management International Limited were appointed as the Property Investment Manager to the Scheme. Nuveen were appointed based on their strong track record and commitment to sustainable property investing which aligned to the Scheme's targets. Below is a list of some of the current industry commitments, standards and benchmarks that are supported by Nuveen:

- Nuveen Real Estate is one of 37 Better Buildings Partnership member companies to have become a signatory to their Climate Change Commitment. It is also one of 34 ULI Greenprint member companies to have publicly announced their alignment with the net zero goal.
- Nuveen monitors key performance indicators in line with GRI and INREV.
- Nuveen sets annual targets and benchmarks against the wider industry using the GRESB (several of its Funds are 5-star rated).
- Nuveen Real Estate has set a goal to achieve for net zero carbon by 2040.
- Nuveen is rated 4 stars by the UN Principles for Responsible Investment for its direct real estate capability.
- Nuveen was named a '2023 ENERGY STAR Partner of the Year – Sustained Excellence Award' winner for their ongoing commitment to outstanding energy management practices and reductions in greenhouse gas emissions. The 2023 award marks their 17th consecutive year as a Partner of the Year.

Property Investment Management Agreement

Key commitments have been agreed to within the Property Investment Management Agreement focusing on the importance of ESG within the management of the Scheme. The agreement requires ESG risk factors to be integrated within the investment and business planning processes, with a material focus on promoting Net Zero Carbon and climate related transition risk. Further to this, several ESG objectives have been agreed to be achieved over the first two years of Nuveen's appointment. These include:

- Achieving at least 90% accuracy of Scope 1 and 2 carbon emissions;
- Achieving 100% Scope 3 carbon emissions (tenant operational energy usage data);
- Prioritise Net Zero Carbon pathways on new acquisitions;
- Develop Net Zero Carbon business plans for all investments, focusing on best use of capital based on carbon savings per GBP invested;
- Reposition the Scheme's property portfolio towards more energy efficient investments via acquisitions, disposals, and capital expenditure.
- Shift the portfolio to a renewable energy Power Purchase Agreement.
- Develop asset level action plans which focus on the 3 pillars of community engagement: "Wellbeing of communities"; "Education for all"; and "Social equity and support".

To support in the measurement of the portfolio's ESG performance, annual GRESB submissions will be prepared from 2024 by the manager.

Work to date

In the period since Nuveen were appointed, the management team have focused on several ESG initiatives to support the Scheme objectives:

- A sustainability consultant has been appointed to provide 100% Scope 3 carbon emission data directly from tenants' utility providers.
- Tenant engagement has taken place to discuss installing solar photovoltaic panels on available roof space, focusing on assets which provide the largest carbon reduction. As part of this process, selected tenants have been approached with bespoke illustrative documents outlining potential savings available to them once the panels have been installed, along with an estimate of the reduction this will have on their carbon consumption.
- A new agreement with the portfolio's Property Manager is being negotiated which will modernise the property management mandate. The new agreement will focus on sustainable property management practices including securing sustainable power purchase agreements, paying contractors the living wage, supporting in the delivery of Net Zero Carbon asset plans, and improving tenant data collection for GRESB submissions.

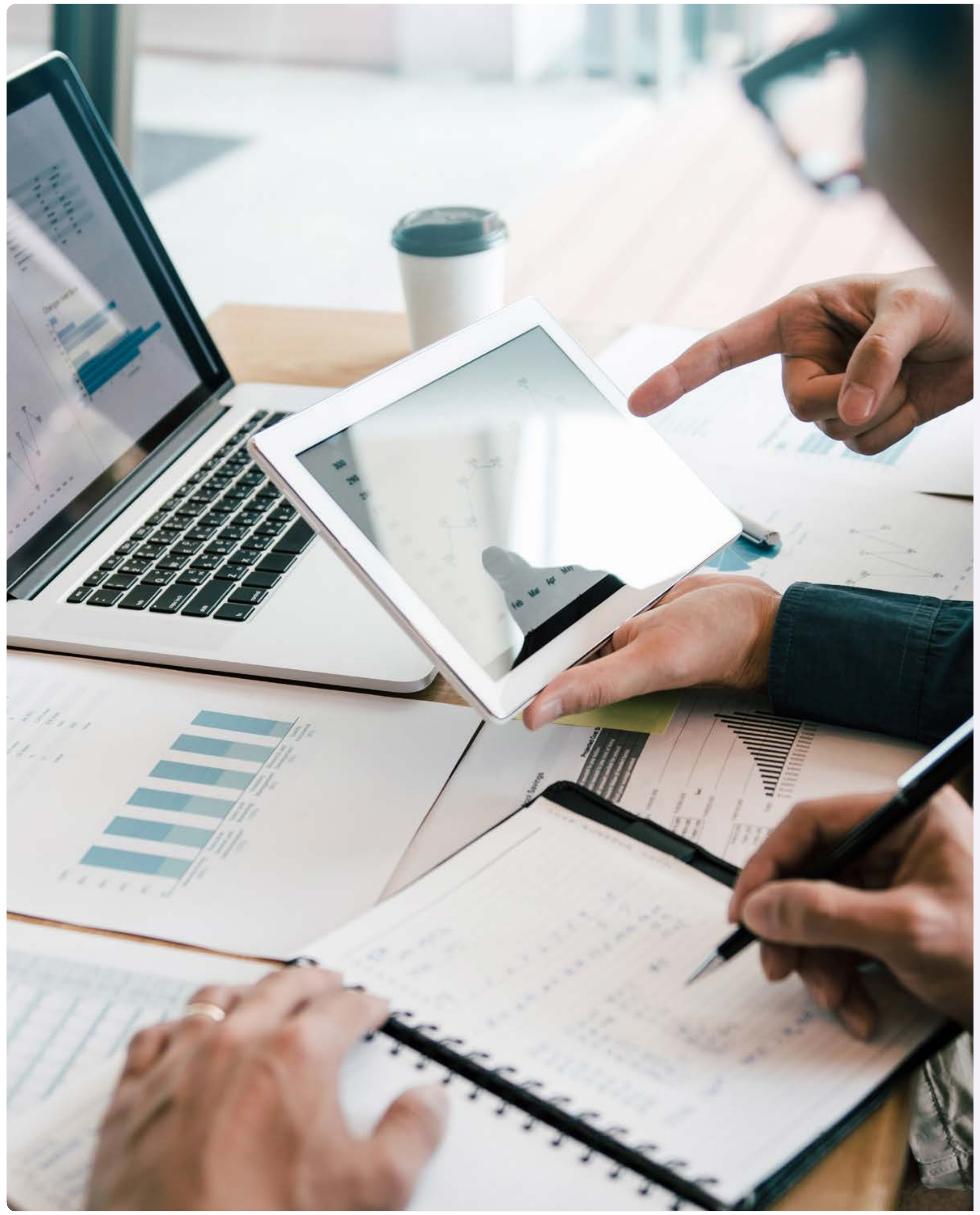
In response to the growing urgency of climate change and the increasing focus on environmental, social, and governance ("ESG") factors in investment decisions, Nuveen has implemented a multifaceted approach to reduce the portfolio's carbon footprint and enhance its ESG performance. By embedding ESG into the asset and fund level business plans, every decision made to improve the value of the property is done in tandem with an improvement of its ESG credentials. Where refurbishments form part of an asset's business plan, the manager targets a minimum EPC rating of "B", and a significant reduction in carbon intensity. If possible, this includes the capping off of gas supply, creating a fully electric building.

Alongside improving the ESG credentials of the portfolio, the Manager has sought to improve the energy performance data coverage. Through a freedom of information data request to tenants' energy providers, the Manager has been able to obtain accurate energy usage across the portfolio without the need for each tenants' permission. This allows for a better understanding of the carbon intensity in each property, and where to focus improvements.

Trustee Training and Trustee oversight role

Trustee training is undertaken at Trustee meetings, sub-committee meetings and through other external training as appropriate and is monitored in the Trustee Training log. In addition to CPT keeping a record of any formal training provided by CPTI or third-party providers, Trustees are also required to record any training sessions or seminars they attend independently. This combined log enables the Chair of COM with CPT to keep a watching brief of those subjects the Trustees are voluntarily pursuing, with a view to providing supplementary training on matters of particular interest and identifying any gaps in the Trustees' knowledge and arrange for this to be addressed. Examples of training provided to the Trustees in 2023 were sessions on climate change risks and opportunities, stewardship in this area, metrics and targets and specific investments affected. Trustees also received training on Task Force on Climate-Related Financial Disclosures (TCFD) regulation and respective Trustee duties. Further training was undertaken in relation to Paris Alignment, Net Zero and Scope 3 carbon emissions reporting. Training was provided by subject matter experts within CPTI as well as external parties.

The Trustee retains overall oversight on responsible investment policy implementation and is accountable for ensuring stewardship is embedded within the organisation and investment processes. CPTI ensures ESG and stewardship considerations are factored into the day-to-day investment decision making processes. This includes from an investment strategy and asset allocation perspective as well as from a manager selection, monitoring and reporting perspective. When specific investments and disinvestment are being evaluated, ESG considerations are always considered.



Data, research and analysis

The Scheme has access to a large amount of ESG data to enable its stewardship efforts through various reports and platforms including:

- Holdings-based risk and exposure system, BlackRock Solutions, where it is now possible to assess and monitor ESG and climate related analytics using MSCI data for public assets.
- EOSi Client Portal – EOS online platform providing access to company level engagements, voting and other public policy activity and high-level engagement topics including EOS' Controversial Company Reports (CCR) which the Scheme subscribes to. This reporting provides enhanced engagements on behalf of the Scheme with controversial companies that violate or are at risk of violating commonly accepted international norms and standards. The CCR reporting has an additional benefit to CPTI in that it subscribes to Sustainaltyics, which provides CPTI with an additional layer of verification, particularly helpful given the subjective nature of some of the controversies, ratings and UNGC status. CPTI engaged with EOS during 2022 regarding further development of this resource and as a result of the improved functionality have utilised these to a greater extent during 2023.
- Engagement, voting, TCFD and other sustainability reporting from investment managers.
- PRI research and collaborations.
- Share Action reports and shareholder resolutions.
- In private markets, eFront has been onboarded which will help assess risk data, this also includes RepRisk, a controversy screening service. RepRisk is the world's largest ESG technology company that leverages advanced machine learning and human intelligence to systematically analyse public information and identify material ESG risks on companies, real assets, and countries. CPTI is currently creating a framework for use of RepRisk's rating analysis to identify ESG laggards in private markets. RepRisk analysis is also leveraged to identify UNGC violators.
- eFront collaborate company level carbon data from private market managers and also provide proxied carbon data for use in carbon reporting. Though this remains a work in progress and CPTI hopes to have more useable data from the platform over 2024.
- Redington voting analysis services.

CPTI on behalf of the Scheme subscribes to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data is used to challenge investment managers on specific holdings and understand overall exposures. The data available so far has been focused on public equity and credit but through 2022 and 2023, with the availability of more comprehensive third-party data on other asset classes, particularly in private markets, an additional data provider was added.

During the year the eFront tool was added to the toolkit which should, moving forward, assist with providing additional ESG data on the private assets and CPTI would expect to see that data embedded during 2024. This data will include analysis of possible violators of the UN Global Compact, as well as analysis on “ESG laggards”. This analysis, done through eFront, will leverage data from RepRisk. Manager level engagements are then likely to follow, though CPTI is still in the process of creating a clear escalation plan.

Incentives

All investment decisions taken on behalf of the Scheme by CPTI consider ESG factors in the decision-making process. All members of CPTI have responsible investment integrated into their investment objectives including senior leadership. For those with dedicated time allocation to responsible investment, the responsible investment objectives make up a high proportion of their overall objectives. These objectives are an important input to year end appraisal and any decisions on performance related pay.

CPTI has been clear with investment managers that ESG integration is a critical part of the investment process across all asset classes and investment managers are appraised on that basis. If there are concerns around ESG integration in an investment manager’s approach, then the manager will be placed on the investment manager watchlist for enhanced scrutiny and, unless concerns are addressed, the mandate could be removed from the investment manager or greater restrictions can be added to the mandate. During 2023 there was one public equity manager on the watch List for responsible investment reasons and therefore subject to enhanced monitoring and engagement by CPTI, however this manager has since been terminated.

Within the Private Equity portfolio there was one non-core legacy manager on the watch list for responsible investment reasons. During May 2023, CPTI was informed of a fatal accident at one of the fund’s portfolio companies, a holding company for rail car leasing based in South-West Africa. The accident was due to the failure of a sub-contractor to follow mandatory safety protocols which contributed to the derailment. CPTI continues to monitor exit progress through the advisory board meetings.

Reflection – Principle 1 and 2

Having reviewed the Scheme's approach to stewardship during 2023, the Trustee believes the Scheme's purpose, beliefs, governance structure, and choice and use of service providers has enabled it to be a strong steward of assets. The responsible investment policy and stewardship policy agreed at the end of 2021 have clarified the Trustee's approach to being a good steward of the Scheme's assets. The effectiveness of the approach is demonstrated in the data and case studies provided in this report. That said, there are areas where more work is required, which are detailed throughout this report. In particular, the Scheme plans to continue with the work accelerated in 2023 to address climate risks and opportunities as highlighted in the Scheme's first TCFD report. Other areas where CPTI is planning more work on behalf of the Scheme include social factors, nature, data improvements and improving private market engagements as discussed earlier in this report. The Scheme will also continue to work to better understand the outcomes of its stewardship.

As discussed with the Trustees, and in-line with the recommendations from the Taskforce on Social Factors, a significant amount of the planned work around social factors will focus on mitigating the portfolio's exposure to Modern Slavery. The team at CPTI is currently working with the Scheme's managers as well as third-party data providers to create a framework for assessing assets, sectors and regions to focus these efforts. The team is also considering the creation of a questionnaire, similar to the one used for work on DE&I that will be sent to managers and will enable open, honest and insightful discussions relating to their approaches in this area. Within nature, over 2023 the team has been closely monitoring the development of the TNFD framework and, as with Modern Slavery, engaging with managers and third-party providers to better understand the key areas of focus within this theme for the Scheme. Work over 2024 will likely include further education for both CPTI staff and Trustees on types of biodiversity loss and focus areas within the portfolio. We note that in some asset classes, namely real estate and infrastructure, work in this area has already begun.

We note that in some asset classes, namely real estate and infrastructure, work in this area has already begun.

While biodiversity has more recently become a focus theme for asset owners, EOS, on behalf of their clients, has been engaging and voting in support of a nature positive world for years. Over 2023, EOS maintained a strong focus on biodiversity, particularly addressing deforestation. This entailed sector-specific engagements with food and beverage companies, commodity traders, and fast fashion retailers, recognizing their significant impact on the Amazon rainforest through their supply chains. More details of these engagements are covered in Principle 11.

The Responsible Investment and Stewardship policies will be reviewed during 2024 and will be updated to reflect some of the additional priorities and considerations mentioned.

Principle 3
Conflicts of Interest

The Trustee has developed policies to identify, manage and disclose any potential conflicts of interest that may arise, which includes in relation to stewardship activities.

The Trustee's conflicts of interest policy covers the Trustees themselves, key advisers to the Scheme and CPTI staff. The policy is posted on the Scheme website at the following link.

One potential conflict relates to the principal/agent problem where a member of CPTI staff or a Trustee has an ethical or moral view that might not be aligned with members' financial outcomes. This is addressed by ensuring the Trustees and CPTI staff have a strong focus on the fiduciary duty to members and delivery of the financial outcomes required.

In terms of conflicts related to stewardship, it is believed that appointing a separate stewardship provider (EOS) who does not make active investment decisions reduces inherent conflicts. Additionally, CPTI ensures that all investment managers have robust conflicts of interest policies and actively investigates any conflicts it perceives in the management of the Scheme's assets. This conflict of interest and the pros and cons of a close relationship to corporate leadership of assets invested in is a key focus of CPTI's discussions on stewardship.

EOS has a group conflicts of interest policy and conflicts of interest register which requires that it identifies and manages actual or potential conflicts of interest between itself and its clients, or between different clients of EOS. In the event that a conflict occurs between EOS and its client then it is the clients' interests that are put first. Some examples of actual conflicts previously identified, recorded and escalated by EOS are provided on the final page of their stewardship conflicts of interest policy, which can be found at the following link.

CPTI observes evidence of greater independence from management when analysing EOS's voting implementation vs the asset managers. The asset managers vote in line with management more often than EOS does. When deciding whether voting should reside with managers or EOS this has actively influenced the decision to lean towards EOS in several cases.

Another clear conflict which comes up regularly is that between short term financial gains and those over the medium and longer term which the Trustee must carefully balance to fulfil its fiduciary duty to all members. This is an issue that CPTI continues to challenge managers on if they appear overly focused on the short term.

Principle 4

Identifying and responding to market-wide and systemic risks to promote a well-functioning financial system

CPTI considers any market-wide and systemic risks when settings its economic scenarios and investment themes. These are regularly debated at weekly team meetings, strategy meetings, and are escalated to the Trustee where appropriate. CPTI also receives regular questions and challenges from the Trustee on these issues.

The Scheme has a customised asset liability modelling tool as well as cashflow forecasting technology. These models and tools are key inputs to look at different Scheme risks and stress test different downside scenarios. Examples of significant market-wide risks on which the Trustee is focused are geopolitics, climate change, inflation and recession. Inflation in particular is a key sensitivity for the Scheme in terms of both its assets and liabilities. As a UK Government guaranteed Scheme, the relationship with the Guarantor is important.

CPTI continually engages with the Trustee, advisors, asset managers and other asset owners to discuss market-wide and systemic risks.

Geopolitics

CPTI and the Trustee recognise the importance of understanding, monitoring, and responding to the effects of geopolitical tensions within the investment decision making process. Over 2023, the team monitored three areas of significant risk: the Russia/Ukraine conflict; the Hamas/Israel conflict; and US/China competition. When considering the two conflicts, the team considers the potential impacts on financial markets (heightened volatility), inflation (particularly in relation to commodities) and sanctions. Regional stability is key when considering the risks.

The team views the increasing competition between the US and China as a systemic risk and closely monitor developments in this area, as it could affect sectors such as technology and manufacturing, as well as trade. The team also considers the potential for regulatory changes, currency fluctuations, and shifts in economic policy. Changes in political relationships regularly require stewardship goals and timelines to be adjusted. Conflict and political tensions can significantly change government approaches and or timelines on climate change for example and there is a need to be responsive to these changes without losing focus on longer term goals.

Climate change

Addressing the systemic issue of climate change has remained a key focus in 2023 for CPTI and the Trustee, with climate change featuring on the agenda at a number of ISC and COM meetings. CPTI and the Trustee believe climate risk could have a material impact on the long-term performance of the Scheme's assets. This is formally documented in the Scheme's Responsible Investment policy and Stewardship policy as well as the Scheme's second TCFD report, which was published on 31st October 2023.

A greater understanding of climate change risks and opportunities has led to changes in the asset allocation of the Scheme. In particular, an increase to investments in climate solutions has been targeted and certain assets with significant stranded asset risk, particularly in real assets, are being exited. Climate change has also led to changes in mandate design and has been a key factor in manager changes over the last 24 months.

Examples include:

- A quantitative China equity manager was discontinued.
- Appointing a public equities manager to run a best-ideas climate and environmental solutions mandate (funded March 2022).
- The decision to sell a number of infrastructure assets.
- Appointment of a new real estate manager.
- Private debt investment lending toward renewable energy, green loan programs, economic and social development, affordable housing and climate resilience.
- A unique CLO (collateralised loan obligation) investment opportunity which applies an ESG filter to the underlying portfolio of credits.
- Commodities being added as a new asset class with an investment thesis based on an expected higher inflation environment and greater regionalisation, but also the impact of climate transition and climate change on commodity prices. The mandate focus is on commodities needed for the climate transition as well as those whose prices will likely rise with greater physical risk. The mandate excludes less aligned commodities such as coal, oil and livestock.
- A listed infrastructure mandate was funded, including companies directly expected to benefit from the climate transition.

Climate change continued

As a reminder, during 2021 the Scheme transitioned its passive equities to a bespoke mandate with BlackRock, which focused on multiple metrics to assess climate transition readiness. This was a major change which significantly reduced the Scheme's exposure to carbon intense assets as well as reducing exposure to controversies and environmental laggards according to MSCI data (the Scheme's passive equities had previously been a laggard in these areas). As part of this mandate shift, stewardship of passive equities was assigned to EOS, which CPTI assessed to be better aligned with the Trustee's stewardship priorities. CPTI continue to review and work with BlackRock providing feedback on their stewardship approach despite the voting being delegated to EOS at present.

The Scheme's climate strategy continues to be developed – in addition to targeting greater investment in climate solutions and reviewing stranded asset risk exposure, CPTI continues to evaluate how physical risks and/or the climate transition are likely to impact different asset classes and geographies. During 2023 CPTI formally assessed and considered the Scheme's approach to reporting on Paris alignment and Scope 3 emissions data which was included in the second TCFD report. CPTI believes that understanding the complete supply chain and product impact of assets will enable companies and managers to make better decisions and take better account of risk. Whilst the level of Paris Alignment in the portfolio is currently low, this is a key metric to monitor, in particular whether companies have assessed and costed their path to net zero.

Climate change is an explicit focus for stewardship as noted in the Trustee's policies. In line with this, EOS and a number of the Scheme's investment managers name climate change as a key focus in their stewardship priorities. All Investment Manager Agreements implemented in 2023 include obligations on investment managers to take account of material ESG issues when making investment decisions, comply with Trustee policies including around UN Global Compact violations and provide reporting in relation to TCFD and diversity.

It is worth noting the Scheme's active involvement in industry initiatives aimed at addressing climate-related risks. Notably, through EOS and certain investment managers, the Scheme participates in Climate Action 100+, a collaborative engagement platform targeting major corporate greenhouse gas emitters to drive climate action. More details relating to this are covered in Principle 10.

As part of all manager appointments and regular manager reviews, the manager's approach to climate change both in terms of their investment decisions and their stewardship is discussed. This has been a key driver of some manager changes and has also led managers to improve their approach and resources in this area.

CPTI continually engages with external investment managers and service providers in discussions around market level risks and opportunities. Both EOS and managers are used for training on new areas, in particular with a recent focus on increasing expertise on modern slavery and biodiversity as well as physical risk and insurance, ahead of implementing process changes around this next year. CPTI is also focused on ensuring that the Scheme is resilient through a range of scenarios. Stewardship is one way to mitigate the risk that parts of the Scheme's portfolio are not prepared for various future scenarios. CPTI also actively engages with EOS on its stewardship priorities to ensure that these reflect the Trustee's own concerns.

Engagement to address systemic risk

On behalf of the Scheme, EOS and the Scheme's asset managers regularly engage with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. CPTI on behalf of the Scheme has also been involved in dialogue with UK regulators during the year via the OPSC (Occupational Pensions Stewardship Council) forum. Through EOS and groups like the OPSC, the Scheme engages to promote effective regulation in the markets in which it invests to encourage governance structures that facilitate the accountability of companies to their owners, to give companies the certainty they need to plan for the future and to promote a level competitive playing field, which enables companies to prioritise long-term profitability.

EOS has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard setters to help shape capital markets. Their public policy work includes:

- Engagement on issues and written responses to consultations on behalf of the Scheme;
- Providing the Scheme with the opportunity to endorse or co-sign responses to consultations; and
- Providing the Scheme with written responses to consultations for use as a basis for its own communication.

Examples of EOS public policy engagement during 2023 are provided below:

EOS were disappointed by the lack of progress on UK audit reform, and continued to advocate through multiple channels for substantive efforts in this space. They also continued to promote best practices and standards through consultation responses such as the Financial Conduct Authority's Consultation on Listing Rules and the Financial Reporting Council's Consultation on the UK Corporate Governance Code.

EOS also signed an open letter to the UK Secretary of State for Energy Security and Net Zero from investors, their representatives, and companies. The letter welcomed an amendment to the Energy Bill, which included a specific net zero and carbon budget objective as part of Ofgem's mandate. Ofgem is the UK's electricity and downstream natural gas regulator. It demonstrated EOS's support for the government to move quickly to equip Ofgem to deliver on its new mandate, following approval of the bill. EOS emphasised the need to scale up renewable energy infrastructure in the UK and to address the delays in grid connection. The letter also urged the government to finalise Ofgem's strategy and policy statement and ensure that Ofgem has sufficient capacity and resources to deliver against its revised mandate.

EOS also supported a statement from industry about amending the Financial Services and Markets Bill to include a focus on nature. Introducing the notion of nature into the existing regulatory principle on climate change is a necessary and sensible step towards a sustainable future. The statement outlined how focusing solely on climate could risk overlooking the broader environmental challenges that we face.

EOS provided input into the development of the UK's National Action Plan (NAP) on antimicrobial resistance (AMR) for 2024-2029, by responding to a consultation led by the UK government. EOS underlined the importance of tackling AMR from a holistic perspective, including human health, animal health and planet health. EOS suggested that the NAP include a system of incentives to help companies with the development of vaccines or other alternatives to the use of antimicrobials, as well as incentivising the development of new antimicrobials.

Outside of EOS the Scheme has been part of a group of UK asset owners seeking to address the systemic issues present in applying ESG frameworks to private markets. CPTI is also a signatory of the Diversity Charter which seeks to address the systemic issues associated with the lack of diversity in the financial industry and in corporate leadership.

As mentioned in Principle 1, CPTI, on behalf of the Trustees, joined two collaborative engagement groups over 2023. The details of both groups are shown below:

LIPH (Long-term Investors in People's Health) Collaborative Engagement Programme

Introduction: LIPH is a global collaborative engagement initiative that recognises the pivotal role of good health in fostering societal well-being and economic prosperity. In the wake of the Covid-19 pandemic, which accentuated existing societal challenges, including health inequalities and chronic ill-health, LIPH aims to address these issues by mobilising investors to prioritise health within their portfolios.

Context: The aftermath of the pandemic has left a significant workforce gap, with approximately half a million Britons aged 15-64 citing long-term illness as the primary reason for unemployment. In the US, poor health costs businesses substantially, averaging $3,900 per employee per year due to absences and lost productivity. LIPH underscores how poor health poses preventable financial risks for investors and the businesses they support.

Objectives: The LIPH initiative serves to empower investors in four key areas:

- Lead: Gain a competitive advantage by committing early to prioritise health, aligning with the growing momentum of social engagement around this theme.
- Collaborate: Participate in collaborative engagement initiatives to accelerate progress and disclosure on crucial health issues within companies.
- Learn: Access insights, support, and best practices through shared knowledge, company benchmarks, and briefings to proactively mitigate health-related risks within investment portfolios.
- Influence: With LIPH support, contribute to influencing policymakers and data providers to enhance the health data landscape globally.

Framework for Health: LIPH has developed a comprehensive framework focusing on three critical aspects:

- Worker Health: Emphasises the significance of work quality, conditions, and benefits in determining health outcomes. This includes promoting a Living Wage, secure contracts, equitable parental leave, supportive sick pay packages, and health insurance. Well-designed jobs that offer autonomy and control are also recognised as vital for employee health.
- Consumer Health: Acknowledges that a substantial portion of global deaths results from overconsumption of products such as alcohol, tobacco, and unhealthy food and drinks. LIPH encourages companies to take responsibility for their impact on consumer health, particularly in the context of rising childhood obesity.
- Community Health: Recognises the broader impact of companies beyond their employees and customers. This involves considering the health effects of business operations on communities, including issues like pollution and supply chain practices. The global cost of health damage due to poor air quality, for instance, is estimated to represent 6.1% of global GDP.

Note: LIPH data sourced from the ShareAction website

Microfibres

Introduction: First Sentier Investors initiated the Microfibre collaborative engagement, partnering with scientists from the Marine Conservation Society (MCS), to address the widespread issue of marine microfibre pollution. This strategic collaboration aims to combat the environmental threat posed by synthetic microfibres entering the ocean through washing machines, impacting ocean ecosystems and biodiversity.

Context: The collaboration involves over thirty institutional investors engaging with thirteen washing machine manufacturers. The initiative is grounded in the latest scientific insights into the detrimental effects of microfibre pollution on the marine environment. Microfibres, particularly from textiles, constitute a significant portion of primary microplastic pollution in the ocean. With an estimated 9 trillion fibres released from washing textiles per week in the UK alone, the initiative aims to understand and mitigate this growing environmental threat.

Objectives: Working in partnership with MCS specialists, the investor group has specific, time-bound objectives. These include:

- Microfibre Filter Integration: Ensure that domestic and commercial washing machine manufacturers commit to integrating microfibre filter technology into all new washing machines produced by the end of 2023. Whilst good progress has been made on this objective, CPTI note that it has not yet been completed.
- Policy Influence: Influence policymakers to enact legislation prohibiting the sale of new washing machines without built-in filter mechanisms from 2025.

The objectives are geared towards not only encouraging industry-wide adoption of microfibre filters but also driving legislative changes to enforce environmental responsibility. The collaboration has so far yielded tangible successes, with companies like Grundig and Electrolux introducing filters, and Samsung announcing plans to develop machines with filters in partnership with Patagonia. The initiative also contributed to the progression of a bill in the UK parliament, mirroring similar legislation in France, underscoring the potential for collaborative efforts to effect positive change in mitigating microfibre pollution – this bill will be an area of focus for the group going into 2024.

Reflection

The Trustee continues to focus on assessing and reviewing market wide and systemic risks and views stewardship as a key tool in this regard. Through EOS, collaborative groups like the OPSC, collaborative engagement initiatives and the Scheme's investment managers CPTI is actively part of dialogues aiming to find solutions to systemic issues. CPTI on behalf of the Trustee continues to identify, report on and engage on key systemic risks, as well as developing knowledge on newer areas. Whilst this is an ongoing project for the Scheme and wider markets CPTI continues to make progress here.

Principle 5

Policy review, process assurance and assessment of the effectiveness of activities

A key part of the Trustee's risk management framework is a programme of assurance to ensure that the risks of the Scheme are being managed and the controls in place are robust.

An annual risk-assessed assurance plan is established and agreed by Trustee, and results are reported to the Trustee via RASC and the relevant sub-committees. The assurance plan is made up of internal audit (outsourced to PWC), deep dive reviews by CPT management and the use of specialist third party providers where required.

In addition, external audit provides an opinion on the financial statements based on the risk of material misstatement. The audit of the Scheme's and CPT's financial statements includes a limited element of control testing to gain comfort over the accuracy of financial statement balances and disclosures. Where any control weaknesses are identified they are highlighted to CPT management and the Trustee.

The Scheme continuously seeks to improve all policies and processes in relation to stewardship wherever possible and these are regularly under review. In 2021, the Trustee agreed a new Responsible Investment Policy, which included a dedicated section on climate change, as well as a new Stewardship Policy, which replaced the previous corporate governance policy. Throughout 2022 and 2023 the policies agreed during 2021 were embedded with a focus on improving processes, integrating stewardship and assessing the effectiveness of the managers and EOS. These policies will be reviewed regularly as appropriate. The Trustee has agreed to review and update the Responsible Investment policy in 2024 to reflect changes to the portfolio since the policy was agreed, with the introduction of new mandates, new collaborative engagement groups, reviews of the Scheme's memberships to RI groups and an ongoing review of Trustee beliefs. Since the last review, CPTI has drafted a new Private Markets stewardship policy and a policy for the engagement with managers around voting, holdings in laggards or controversies, both of which are detailed within Principle 2.

As the Scheme delegates the management of individual assets to its investment managers, the Scheme's key levers of control and influence in stewardship are:

1. the appointment of aligned managers and stewardship providers; and
2. ongoing engagement, oversight and challenge of those managers and providers.

> "The nature of stewardship varies across asset classes, from private markets where the investment managers have direct control over an asset or company, to public markets where the reliance is on engagement and voting."

The Trustee is committed to ensuring effective management and engagement across all asset classes. As referred to in Principle 2, engagement within the private asset classes has been more difficult to track than in the public assets historically, however, CPTI has been working on implementing a framework to encourage improved engagement and reporting in this area.

In line with TCFD requirements, the Trustee has set metrics and a target for climate data which are part of the Responsible Investment Policy. These are formally reviewed on an annual basis and referenced in the Scheme's TCFD report.

As part of ongoing challenge and oversight, CPTI continues to review the public equity investment managers that engage and vote on the Scheme's behalf to ensure they remain consistent with the Scheme's own stewardship goals and priorities. As part of this review and as discussed under Principle 2, CPTI invested in a listed infrastructure equity portfolio during 2023, with the voting rights currently delegated to EOS. The manager coverage, approach and voting trends were reviewed and CPTI was of the view that the delegation at this time remains appropriate. During 2023, CPTI also reviewed the arrangements of two public equity portfolios where voting rights are currently assigned to EOS and as a result CPTI's view here also remained the same with no changes being made. CPTI aim to review the continued appropriateness of arrangements at least annually.

In addition to stewardship process assurance, during 2023, CPT engaged with an external subject matter expert, Mercer Sentinel for provision of operational due diligence (ODD) to ensure the proposed due diligence process would be fit for purpose and add value in terms of operational risk assessment of new and incumbent investment managers.

Initially, Mercer Sentinel conducted a prioritisation assessment summarising potential risks and issues and are currently providing guidance on developing the Operational Due Diligence policy and framework. Thereafter, they will be conducting a monitoring survey on a semi-annual basis which will supplement the ongoing monitoring already in place with regards to investment manager operational performance and will also form a core input of the wider supplier framework. CPT will maintain Operational risk assessment (ORA) ratings for each Investment Manager that will feed into the Investment 'Manager watch list'.

For process assurance, EOS performs a sample-based audit of approximately 50 meetings every 6 months where an EOS engagement professional has manually entered vote recommendations for clients. The audit is performed by the Voting and Engagement Support team and reviewed by the Engagement Regional Team Leads. The main purpose of the audit is to look at instances where the voting goes against the policy to ensure these were intentional. The process has been reviewed and agreed as appropriate by CPT's risk function. Separately, EOS ask ISS to provide evidence of a selection of auto-instructed meetings to ensure accuracy of EOS policy interpretation and operational workflow.

EOS provides a range of qualitative and quantitative reporting for clients on the engagement and voting activities which they have undertaken on their behalf.

EOS engagement case studies are reviewed by the named companies in advance of publication for fact checking. CPTI reviews EOS's activities by examining regular reporting (client portal, quarterly and annual reporting), holding quarterly meetings and attending the bi-annual EOS client conference. CPTI regularly provides feedback on behalf of the Scheme. One of the key tools CPTI has used for assurance around engagement and voting is the additional look-through and analysis of this activity that Redington has conducted on the Scheme's behalf.

The Scheme is an active owner of a large amount of private markets assets where investment managers may directly control the companies, assets and properties invested in. As such their ability to influence these is often significant. Investment managers are expected to actively manage the assets, maximising opportunities and minimising risks around material environmental, social and governance factors. Stewardship examples in private markets are included under Principle 7, however, the impact of the Scheme's ownership in these areas is something where the intention is to provide greater visibility in future. As discussed and as a result of continuous review leading to the improvement of CPTI stewardship policies and processes, CPTI has developed a framework for private assets.

All key manager relationships are reviewed, including their action on stewardship and responsible investment more generally on a regular basis and at least annually. Key themes, such as DE&I are reviewed with each key relationship annually. CPTI request, review and challenge case studies around key stewardship themes such as climate change and social factors at least annually around the drafting of the TCFD report and stewardship code. Each of these reports is reviewed and approved by the head of responsible investment, the CIO, CEO and the full Trustee Board.

Principle 6

Taking account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them

The Scheme is a UK based pension scheme with 42,790 members as at 31 March 2023.

The Scheme's members are mostly pensioners (70%) but also dependants (27%) and deferred members (3%). At the most recent Actuarial Valuation (31 March 2021) the Scheme's average age weighted by total pension was 75 years for pensioners, 83 years for dependants and 58 years for deferred members.

The Scheme has a fiduciary duty to meet the liabilities of the members benefits both long term and short term. While a significant proportion of the Scheme's cash flows will be paid out in the next 10 years, other cash flows continue for around 50 years. In light of this, understanding and responding to long term systemic risks such as climate change are a key part of the Trustee's fiduciary duty, ensuring that the ability to meet long term liabilities is not compromised by short term actions.

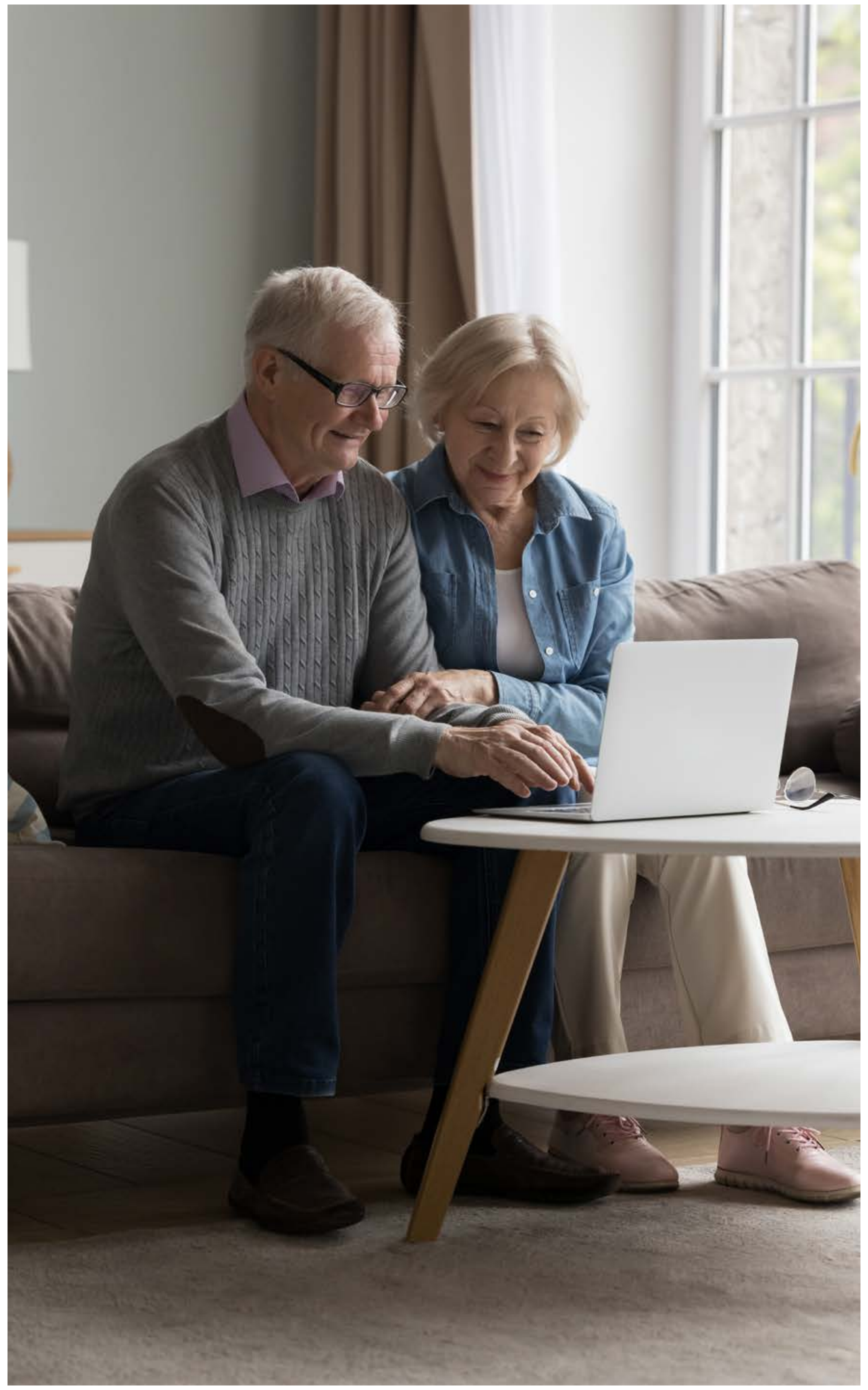
Four members of the eight-person Trustee body are elected from the membership. Elections happen annually per constituency and each Trustee stands for four years. The role of all Trustees is to represent the views and interests of the members. As a particular part of their role the elected Trustees meet and correspond regularly with members, inputting questions and their understanding of member views to CPT. The Scheme also has a website and holds annual meetings with members in four different areas of the UK. These annual meetings provide members with an opportunity to hear from some of their Trustees on Scheme matters and raise any questions they have.

Communication to members

The Scheme discloses, on a quarterly basis, summary details of its voting and engagement on public equities as undertaken by EOS and the Scheme's investment managers. Summary statistics show the key issues on which EOS and the investment managers have engaged with the companies the Scheme is invested in. The Scheme also discloses Public Policy highlights reported by EOS, including key activities and achievements in discussions and consultations with regulators during the quarter.

As discussed earlier, the Scheme recently published its second TCFD report and this along with the annual stewardship report is publicly available to members on the Scheme's website (https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing).

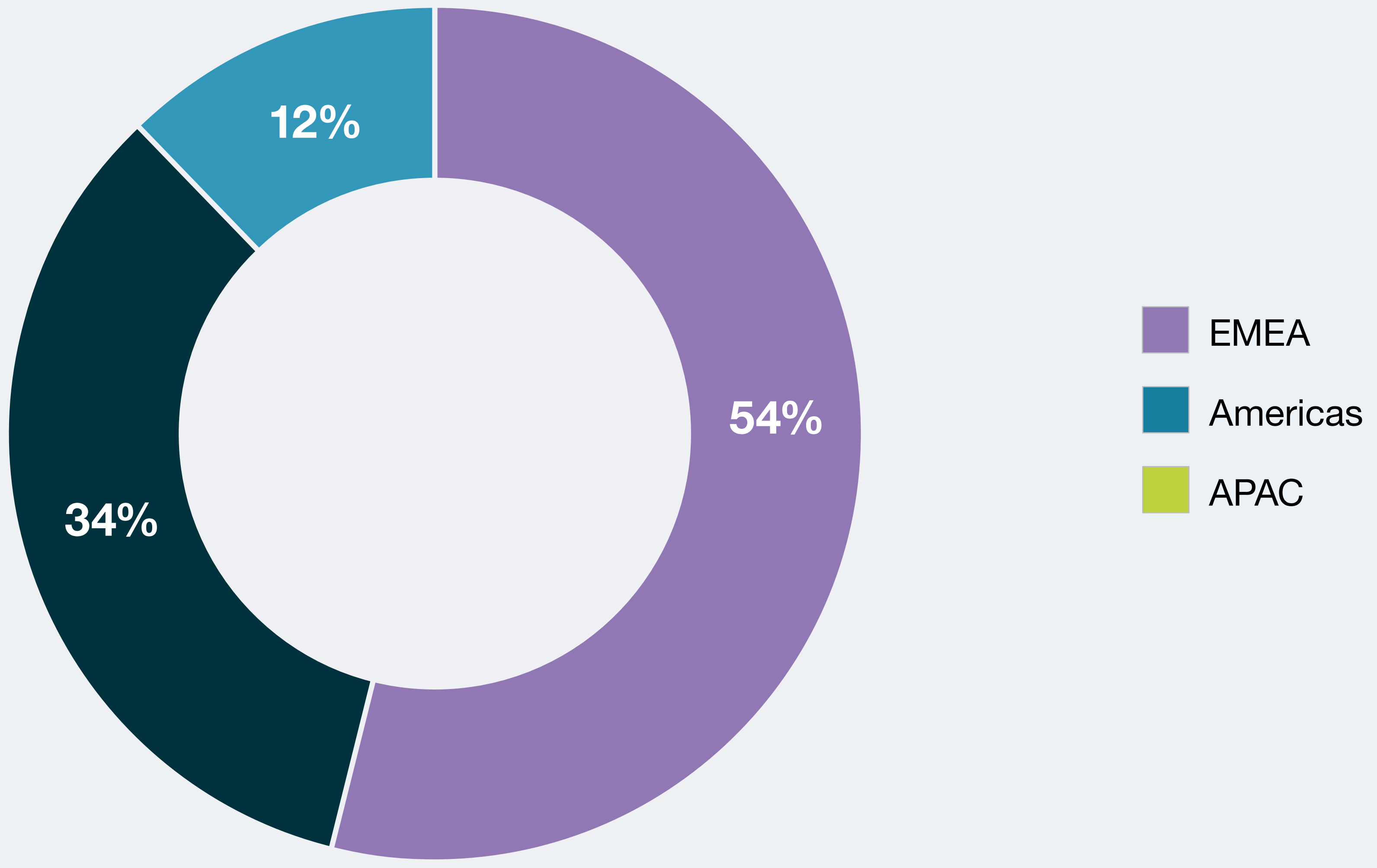
Members have contact details for the Trustee's office and any queries or views that may be communicated are passed from the Secretariat onto CPTI to consider and respond. During 2023, the Scheme received queries from three members relating to a range of responsible investment themes including fossil fuels, deforestation and climate solutions and these were responded to accordingly. In addition to posting information on the Scheme's website and sending emails where members have provided their addresses, the Scheme publishes a newsletter at least once each year and sends out letters to members on important topics of relevance.



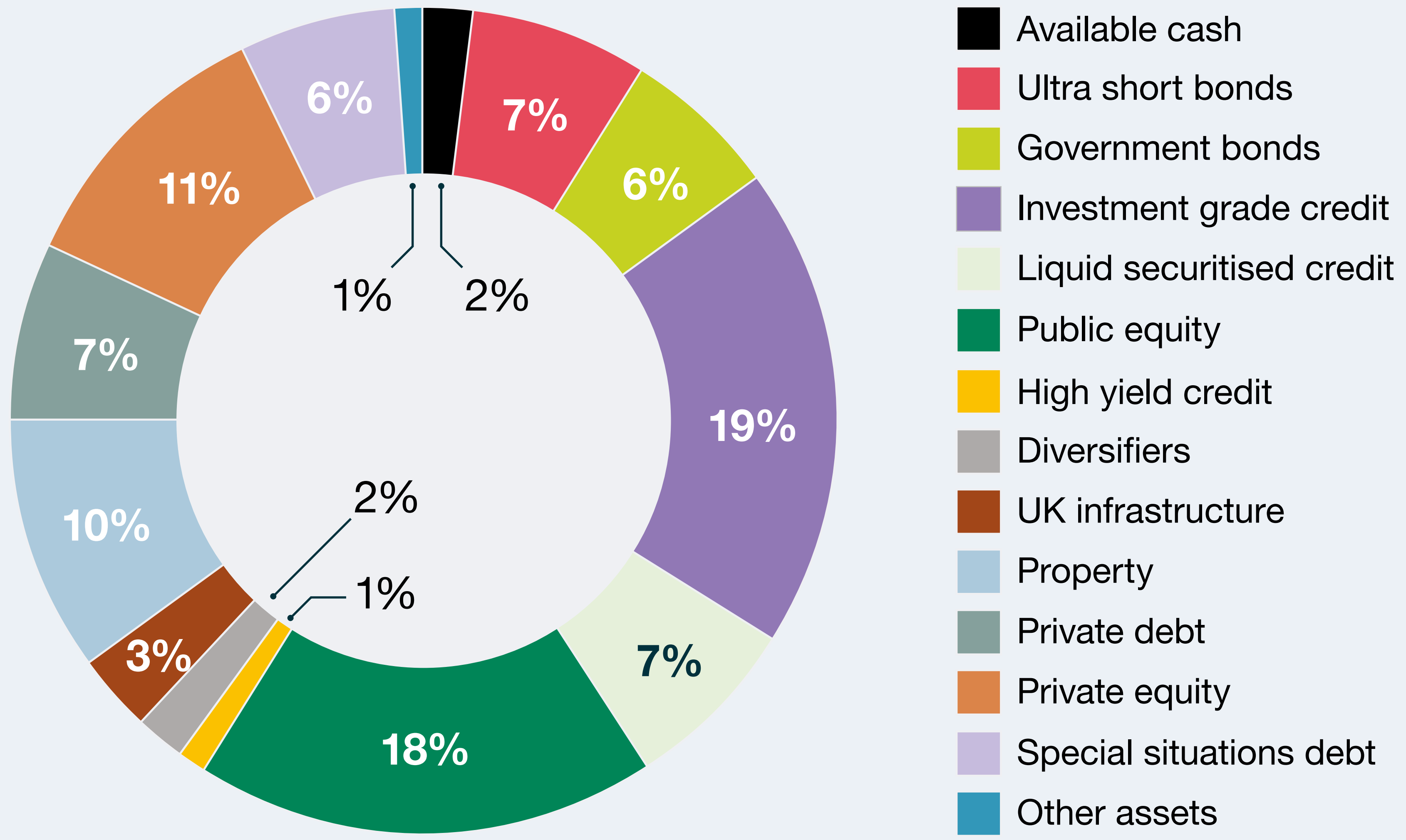
Assets under management

The Scheme's audited net assets as at 31 March 2023 totalled £8.86 billion and the asset value totalled c. £8.59 billion as at 31 December 2023. A summary of the Scheme's assets by asset class and geography as at 31 December 2023 are provided below:

BCSSS asset allocation by geography



BCSSS asset allocation



Time horizon

The primary responsibility of the Trustee is to administer the Scheme in accordance with the rules and for the benefit of all beneficiaries over the whole life of the Scheme. Given the specific context of the Scheme, the Trustee has considered its own objectives carefully. Over 2022 and 2023 the work undertaken in relation to TCFD, in combination with the increased maturity of the Scheme, caused the Trustee to actively review the time horizon of the Scheme as set out below. While the Scheme maintains a multi-year investment horizon the Trustee is cognisant that a significant proportion of the liability cash flows will be paid out within the next 10 years.

The Trustee has defined time horizons as follows:

Short term

Everything up to 3 years in the future. This would cover the Scheme's next actuarial valuation (undertaken every 3 years) and is in line with the Scheme's economic scenario modelling, which is used to assess risk and asset allocation.

Over the short term the most material impact to the Scheme's assets associated with climate is likely to be Transition Risk and Opportunity. The Scheme has made a number of investments in climate opportunities to take advantage of market moves likely to occur over this time period. The Scheme has also focused on reducing exposure to less efficient companies who produce more waste than their peers.

Even over the short term the Scheme has already experienced the impact of some physical risks to the Real Asset portfolio, for example (i) flood risk and retrofitting requirements in the property portfolio; and (ii) greater stranding risk and investment requirement in the UK infrastructure holdings.

Medium term

Defined as the period between 3 and 10 years. The end of this period is aligned with long term expected return forecasting which is done over 10 years. Over 65% of the Scheme's future payments (in real terms) are expected to be made over the next 10 years. During this period Transition Risk and Opportunity, Physical Risk and potentially Stranded Asset risk in some of the least efficient fossil fuels are all relevant.

Long term

Defined as anything beyond 10 years up until 35 years (2058) when less than 1% of the Scheme's future payments (in real terms) are expected to remain. All risks and opportunities are relevant over this period, however the Scheme's risk taking capacity is likely to be greater in the medium term than the long term.

Principle 7

Systematically integrating stewardship and investment, including material environmental, social and governance issues, and climate change

The Scheme takes an integrated approach to stewardship.

Across CPTI all members of the team take ESG considerations into account when making investment decisions and two members of the CPTI team and three members of the operations team spend dedicated time on responsible investment including stewardship. The Trustee has outlined its beliefs related to stewardship and ESG, and these beliefs help frame the Scheme's responsible investment policy. As highlighted in Principle 4, the Trustee believes climate change is a systemic risk. In 2021, the Trustee updated their responsible investment policy to include a dedicated section on climate change and climate change was also highlighted as a key priority for stewardship.

Themes

The Trustee has agreed two investment themes that it expects to provide significant risk and opportunity over the medium term – climate change and healthcare. Both have grounding in ESG considerations. These investment themes directly influence the Scheme's asset allocation.

Alongside these two explicit investment themes, the team at CPTI overlays responsible investment themes across the portfolio both from a risk-management perspective and from an investment opportunity perspective. Climate change is both a Trustee selected investment theme and an area for responsible investment overlay within CPTI. In terms of risk, the team considers both physical and transition risks associated with the existing and new portfolios and the team is continuously engaging with the Scheme's managers, third-party providers and others to better understand and mitigate these risks. Investment opportunities within climate have been highlighted earlier in the report.

Other Responsible Investment themes that are integrated into the investment process include DE&I, as mentioned in Principle 1. CPTI is a member of the Asset Owner Diversity Charter (AODC) and considerations of DE&I are integral to the manager assessment and monitoring processes - the Trustees and CPTI team believe that diverse and inclusive teams are more likely to make good investment decisions and keep up with a rapidly changing environment. Systemically integrating DE&I into the investment process means effectively managing risks such as workforce stability, talent attraction, infective decision-making/group think and investment performance.

As highlighted in Principle 2, in 2021 CPTI on behalf of the Scheme subscribed to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data has been used throughout 2023 to continue to challenge investment managers on specific holdings or understand overall exposures. In a number of cases CPTI has been dissatisfied with manager responses on these areas and this has led to some portfolio changes. Where managers hold laggards CPTI expect to get a clear understanding of why this risk will be mitigated through time as well as stewardship around this.

Greater private markets data has been sought during 2022 and 2023 although carbon data for much of the private markets portfolio is already received and there is ongoing work around physical risk assessment for property. All of this data is used to produce updates for review by CPTI and highlight areas of particular risk and drive challenging questions of the CPTI team and of service providers. A Trustee Risk Dashboard was also developed in 2022 with improvements made during 2023, and this includes several areas of ESG risk. The Dashboard is reviewed quarterly by the Trustee (through its Investment Sub-Committee).

The Scheme holds its investment managers to account on their management of ESG risks and opportunities. As discussed within Principle 4, all IMA's implemented in 2023 include obligations on investment managers to take account of material ESG issues when making investment decisions, comply with Trustee policies including around UN Global Compact violations and provide reporting in relation to TCFD and diversity. As part of this oversight, and as described in Principle 2, CPTI also engaged the EOS CCR service to highlight and engage laggards in the portfolio.

Manager Selection process

CPTI's manager selection process considers investment managers' ability to integrate stewardship and investment including considering ESG factors. This is a key input to the research and tendering process for new managers and the oversight of existing managers. All public and private markets managers have been assigned a rating in relation to ESG. ESG, climate and stewardship are regular topics in manager meetings, and separate dedicated sessions are often held with managers in this area. As mentioned earlier in the report, three Strategic Partners were appointed to work with the Scheme across asset classes and to be used for advice and as sounding boards. Assessing culture, purpose, ESG and specifically the approach to climate change was a key part of these appointments. Climate change is a specific risk that is focussed on given the large potential market impact and investment managers are expected to integrate climate risk guidelines, such as TCFD, into their decision making and reporting. Managers have been challenged across all asset classes on this throughout the year and these issues are formally part of all new appointments and manager "devil's advocate" reviews. Managers are challenged in meetings based on a qualitative understanding of their approach and quantitative data is also used on the managers' holdings and voting activity. Any manager where significant concerns around RI integration or stewardship are raised will be placed on a formal watchlist and will be subject to increased scrutiny and challenge to determine if the issue can be resolved in a timely fashion. This is also reported to the Trustees.

For public equity, the Scheme uses EOS as the formal voting and engagement mechanism to supplement the activity of managers, which enables the Scheme to implement stewardship goals, particularly around company engagement and voting, to a high standard. As referenced in Principle 5, CPTI expanded the engagement by EOS to cover a listed infrastructure public equity mandate in 2023. EOS's research and engagement insights provide useful information for CPTI on the Scheme's holdings across a number of investment managers, which can be used to challenge and scrutinise their investment decisions. For each manager in this asset class CPTI makes a formal assessment of whether the asset manager or EOS will be able to deliver better engagement and voting, which is based on comparing stewardship approaches and on coverage. All public equity managers have a clear understanding that ESG, climate change, diversity and stewardship are important areas which are systematically integrated across all areas of policy, monitoring, review and investment decision making.

Human rights

Following the Trustee Director survey which took place in 2021 and additional research around Human Rights, this has been a key area of focus for 2023 and continues to be through 2024. Following guidance from the Taskforce on Social Factors, CPTI and the Trustees plan to focus on mitigating the portfolio's risk of exposure to Modern Slavery over 2024. During the year the Trustee has begun receiving regular information on its controversies exposure within the portfolio and has regular conversations on this issue. The Trustee commitment to the Stewardship Code ensures a focus on being active stewards of assets, engaging with managers, service providers and the broader market to ensure goals are met.

Private equity

In private equity, investments in funds and co-investments are regularly evaluated. Consideration of ESG factors for both fund and co-investment opportunities is a critical input to the decision-making process when deciding where to commit assets for the long-term and in what magnitude as well as in the ongoing stewardship and challenge of managers. In order to ensure a strong voice with managers, CPTI will take Limited Partner Advisory Committee (LPAC) seats where possible and push for agendas to include ESG priorities. The Scheme has LPAC seats with 5 private equity managers currently across 24 underlying funds. Some examples of the ESG approach in this area are detailed below:

- In its capacity as LPAC member for many of the Schemes' private equity and special situations debt funds, CPTI has frequent resolutions to review. These can range from relatively simple matters such as an extension to the life of the fund to more complex matters such as a change in key person or the sale of an asset to another fund under the manager's control. Fund term extensions need to be reviewed with regard to appropriate fee levels and provide an opportunity to push back. CPTI reviews all matters carefully for potential conflicts of interest as well as in the interests of the Scheme and other limited partners. During 2023 CPTI continued to see an increase in the number of single asset continuation vehicles being formed by managers and these needed to be reviewed in terms of fairness to existing Limited Partners, including if there had been a 3rd party valuation (and the reasonableness of this) and the terms of the continuation vehicle. CPTI often needs to decide whether the best course of action is to roll over the investment into the new vehicle for future growth and upside, or if now is the right time to take liquidity.
- CPTI recently engaged with an underlying PE manager with regard to a defence-related business in its portfolio to understand if it had any meaningful exposure to Israel. From this engagement the manager was able to demonstrate that it had reviewed this carefully through its own Responsible Investment Committee and its ESG specialist has prepared further analysis as a result.
- All due diligence processes now include CPTI's diversity questionnaire, which managers are required to complete an annual survey follow-up. This has led to CPTI engaging on behalf of the Scheme in productive Diversity and Inclusion (D&I) discussions with managers. This has included impressing on those that are less diverse CPTI's wish to see more gender and ethnic minority representation in investment teams, not least as diversity is expected to improve the quality of decision-making and challenge.
- CPTI now request Scope 1 and 2 emissions data from existing managers and engage with them to understand any gaps in reporting as well as timelines and initiatives in place to improve capture of this data.

Large market private equity manager

The Scheme's PE advisor sits on the LPAC for one of the funds of a large buyout fund. During an LPAC last year, it challenged the manager on its dealings with the local regulators regarding the insolvency of one of the fund's financial services portfolio companies. It had had the company on watch after it was written down to zero following interest rate rises and the regulator had had to step in. The private equity manager was unable to sell the company within the timeframe set by the regulator, at which point the regulator encouraged the manager to repay the monies taken out in a prior recapitalisation, which the manager did then do. However, the PE manager has treated this injection of capital as an expense to the fund; the Scheme's PE advisor has pushed back on this because as a fund expense it will not impact the return on the underlying investment which is misleading and will also impact the gross to net spread at fund level. It is also pushing the manager on what further reserves might be required for the company, as given the age of the fund there are limited sources of capital remaining and this fund is now on its close watch list.

PE company co-investment

The Scheme's PE advisor recently spent substantial time in the LPAC meeting understanding the company's approach to ESG, their improvements in reducing carbon footprint, and their target dates to get to Net Zero. In terms of diversity in its employee base, the company has made positive progress with 26% of senior management being female, however there remains room for further improvement. They also focused on ESG factors in purchasing and procurement. As a result, the company will aim at a 60% reduction: the company has made a commitment to reduce emissions from their own operations (scope 1 and 2) by 60% by 2030, versus the 2021 baseline. Our advisor has asked them to provide examples of what they are doing to track progress and to meet target.

Real estate

For property, a new manager was appointed during 2022 and one part of the reason behind this change was insufficient focus on systemic market changes with the previous provider. A key part of the new appointment has been a focus on the costs and opportunities associated with the necessary building upgrades required to meet climate regulation. As part of the hiring process there was active engagement with the new manager on diversity and inclusion policies. A lack of tenant and contractor engagement and stewardship was a key failing of the previous manager.

UK Infrastructure

The Trustee's investment belief is clear that being a good steward of assets can lead to better risk-adjusted returns and the longer the term of an investment, the more important ESG considerations are. Infrastructure is a very long-term illiquid investment and therefore stewardship including ESG integration has been a key focus of CPTI's oversight of the Scheme's infrastructure managers. The Scheme's investments include renewable energy and projects that support energy efficiency.

As mentioned in Principle 2, within infrastructure the Scheme owns assets critical to the UK and also assets with high levels of impact on the environment and consumer cost of living. The Trustee takes ownership of these assets very seriously and believe that there is more that they and other asset owners can do to engage in this area. During 2022 CPTI conducted a detailed review of the assets owned in this space as well as the stewardship provided by the Scheme's asset managers. This review led to a decision to significantly adjust infrastructure exposure and access route and those changes were implemented during the course of 2023 through the sale of the Infrastructure co-investment portfolio.

Principle 8
Monitor and hold to account managers and/or service providers

CPTI applies its formal monitoring framework across all the Scheme's external managers to make sure they align with the Scheme's expectations for responsible investing including stewardship. All external managers are encouraged to have formal policies covering stewardship and engagement in addition to being required to review the Scheme's policies and be comfortable with these. If external managers do not have a formal policy, engagement occurs to understand why, then where possible work is undertaken with external managers to help create formal policies. During the year, the Scheme's real estate manager was successfully encouraged to develop policies in this area. As part of CPTI's ongoing review process, changes to engagement and voting coverage have also been made during the year as highlighted in Principle 9 and CPTI has added managers to the formal watchlist due to concerns around ESG. ESG integration (particularly climate change) has been a key driver of appointments and terminations as also highlighted in Principle 9. Managers note that the Scheme is an engaged client in this area, asking challenging questions and providing useful feedback. As more work on modern slavery and biodiversity is undertaken in the coming years a similar process of education, challenge and engagement will be followed.

When conducting formal manager monitoring updates, CPTI will discuss with external managers portfolio activity, and how stewardship including ESG considerations were factored into the decision-making process at the individual security level.

CPTI's rating for each manager is based on multiple factors which include:

- Firm-wide responsible investment resources, capabilities and commitment;
- Firm-wide commitment to diversity and inclusion;
- Level and effectiveness of stewardship of assets including voting for equities;
- ESG integration into the investment process focused on risk and opportunity;
- Integration of key responsible investment themes – DE&I, Human Rights, Climate Change – into investment approach and effective stewardship around these issues.
- ESG reporting on Scheme specific investments.

The Scheme continues to evolve its climate and ESG monitoring of managers with significant progress achieved through 2023, including in relation to private market assets as described under Principle 2. During 2023 CPTI formalised its ESG Risk monitoring process for public equity and investment grade credit. Laggards and UNGC watchlist and violation companies are identified quarterly for public equities and annually for investment grade credit and each manager is written to asking them to explain how they are considering and addressing these risks. As a result, this process has already facilitated meaningful dialogue with the managers regarding areas of potential concern for challenge, and reinforces CPTI's continued focus on this area of risk. In addition to this, an annual template was provided to managers during 2023 requesting examples of engagements over the course of the year covering the Scheme's key themes. This exercise was intended to improve the quality of engagement examples received where previously such engagements often appeared to be lacking the structure and standard which CPTI would expect. Following the first completion of these templates feedback was provided to the managers, a number of which fell short of expectations despite clear guidelines having been provided. CPTI is currently working with some of the managers to improve efforts on these moving forward. In general, examples are still provided where engagements do not detail goals of the engagement or how these were taken forward, rather they just discuss hearing from management on a particular area. CPTI do not think this is sufficient.

Manager challenge

CPTI utilises a number of third-party data sources to challenge managers including MSCI, which includes ESG risk ratings, carbon emissions data, controversies and screening data. Additionally, CPTI subscribes to the CCR service described in Principle 2 through EOS, which utilises Sustainalytics as its data source and highlights those companies which are considered as being in violation of internationally recognised guidelines. CCR provides insight into the nature of those violations and a view on engagement with the company. During 2022 CPTI engaged with EOS on enhancements to this reporting, which EOS completed during 2023. These changes have enhanced the toolkit available to CPTI in engaging with the investment managers on these issues going forward.

Any manager where significant concerns around RI integration or stewardship are raised will be placed on a formal watchlist and will be subject to increased scrutiny and challenge to determine if the issue can be resolved in a timely fashion. This is also reported to the Trustees.

CPTI has also engaged with managers who scored poorly according to ShareAction's Stewardship report to understand the rationale for this and any planned improvements. CPTI also engaged with those managers publicly supporting changes to the UK's corporate governance code to understand how this aligned with their stewardship commitments to clients.

EOS

EOS is a key stewardship service provider for the Scheme and therefore CPTI regularly reviews their service on behalf of the Trustee including the scope of their engagement work for the Scheme. CPTI focuses on monitoring the work carried out by EOS on behalf of the Scheme, and this is done as follows:

- Regular meetings, in person and online
- Sitting in on live engagements
- Analysis of research
- Analysis of engagement data and reporting

In terms of meetings, the team at CPTI attends the twice annual EOS Client Advisory council where clients are able to drive the engagement agenda and approach taken by EOS and ensure that the Scheme's priorities are at the fore. The team also meet regularly on a one-to-one basis with the EOS team for feedback, idea sharing and other ad-hoc requests.

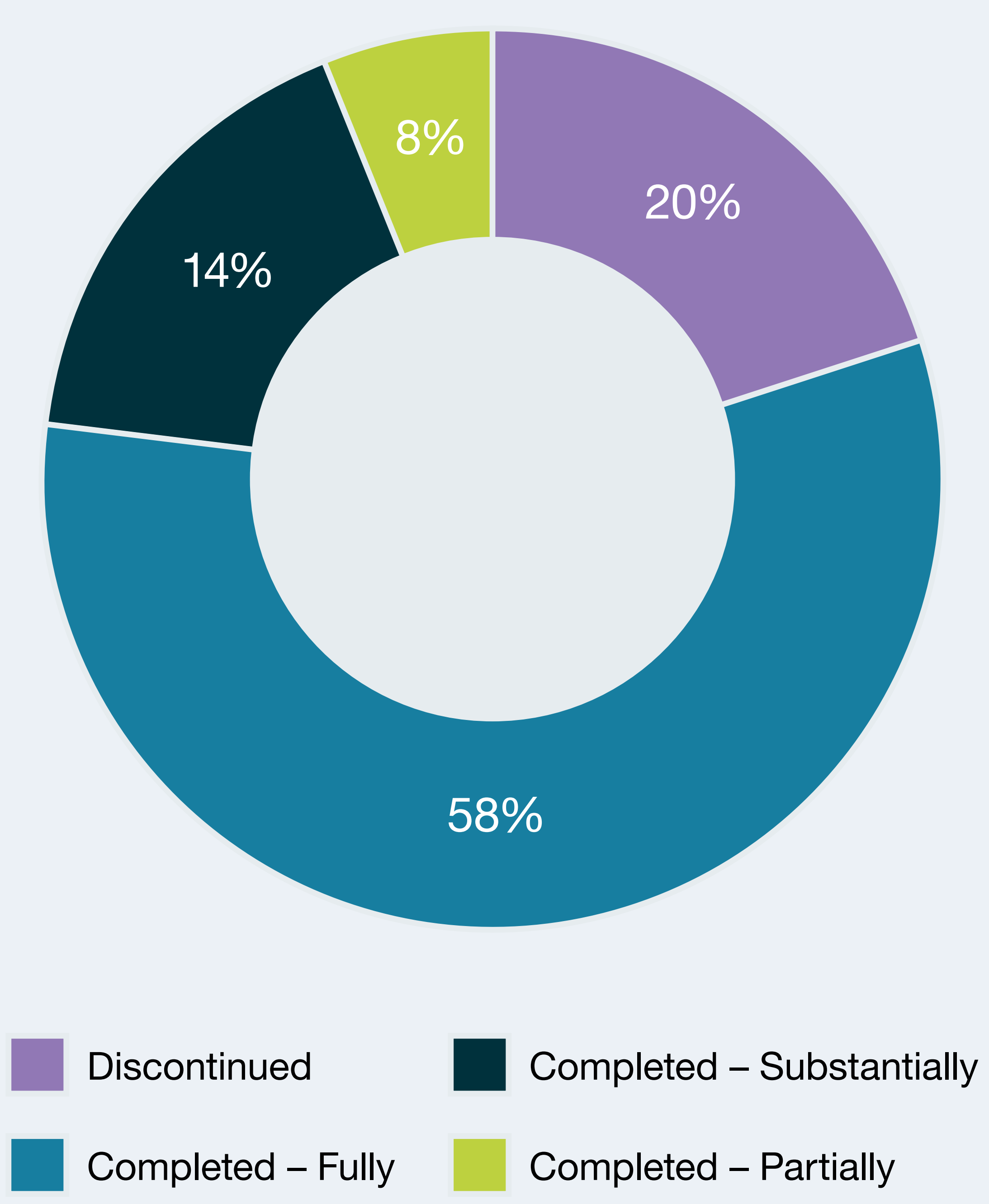
In 2023, the team at CPTI was able to join live engagements. Two of these happened at the EOS client advisory council and another was joined online. The online engagement, with Volkswagen, focused on their approach to human rights practices in a subsidiary of the company in China, gaining a better understanding of how the team manage such risks. This was a beneficial exercise for CPTI as it gave insight into how the engagers conduct these meetings.

The team at CPTI will often use research from EOS for enhanced decision making and understanding of a company's ESG risks. This comes in many forms, from analysing the engager's notes on the platform, to considering EOS' voting record in relation to a certain issue at a company. CPTI also use their research relating to public policy work.

EOS provide the Scheme with multiple reports across the year, covering themes, geographies, engagement statistics and voting case studies. This is analysed by CPTI on an ongoing basis and provides assurance that EOS' engagement approach, goals and strategy are effective and aligned with Scheme's. Below some of the engagement statistics that CPTI uses to assess the above are shown:

- EOS note 704 objectives over the year, the majority (616) of which are still ongoing. The pie chart below shows those objectives that have either been completed (partially/substantially or fully) and those which have been discontinued (where a company disagreed with EOS, the concern was no longer relevant or material, it was restarted as a new objective, or the company was unresponsive to the concern). The ratio of discontinued to completed (80/20) is promising as it shows that a large majority of the objectives being set are achievable and the engagement team is working efficiently.

2023 EOS Objectives



Changes over 2023

Changes to the portfolio implemented in 2023 include investments in a commodities portfolio and a listed infrastructure mandate, both expected to benefit from the climate transition. Over 2023, CPTI began the process of implementing a public equity mandate with a specific focus on Healthcare stocks. The voting and engagement responsibilities have been delegated to EOS for the listed infrastructure portfolio and the healthcare mandates voting will be under review in early 2024. Managers are assessed to determine whether voting and engagement is best placed with the investment manager or EOS with this decision kept under review. Through regular communication with EOS, as outlined in Principle 9, CPTI hold EOS accountable for the stewardship services they provide.

CPTI uses qualitative assessment during meetings and of materials and newspaper coverage to assess the managers, however quantitative data around portfolio holdings and other factual action such as voting is also key to both challenging and assessing the managers.

Whilst no single consultant is engaged for overall advice, input is often sought from a range of consultants and/or strategic managers on particular projects or asset classes. During the year, consultants have provided input across a range of areas including private market carbon emissions data, new mandate selection, voting analysis and TCFD reporting. In each case, CPTI has delivered feedback around the quality and alignment of the services provided. An example was using proxy carbon emissions data for the private equity portfolio, provided by one of CPTI's consultants. The data highlighted certain funds as being higher in terms of their overall emissions profile due to certain underlying portfolio companies; CPTI queried the categorisation of these companies with the consultant and the consultant is working on improved modelling for this year.

CPTI, on behalf of the Scheme, has held to account the Scheme's investment managers during the year on how they are monitoring and engaging companies that have low ESG scores or are implicated in ESG controversies. This is to ensure that they are effectively managing and mitigating the risks involved in investing in these assets and reinforcing that this is an area of focus for CPTI. This also serves to deepen CPTI's knowledge of the portfolio and areas of elevated ESG risk.

As described in the previous section, CPTI has also engaged closely with EOS during the year.

The Diversity Charter

Numerous studies have shown a correlation between companies with diverse teams and business success. A lack of diversity in background and experience can stifle innovation and promote groupthink. As discussed in Principle 1, the Scheme has been a signatory to the Diversity Charter for two years. So far, CPTI has been collecting data across all core and strategic relationships. CPTI has scored these responses and provided managers with feedback on the scores as well as what would be required to improve these over both the short and long term. Further conclusions on this analysis has been detailed in Principle 1.

In addition to monitoring and holding to account the Scheme's investment managers CPTI monitors service providers in a similar way as outlined in the example to the right:

MSCI

MSCI was engaged in relation to a data issue identified by CPTI with the reported and estimated carbon emissions assigned to the Scheme's investment grade credit portfolio. The issues included missing data, discrepancies with issuer names and estimated data showing for companies which previously had reported data. MSCI have since confirmed that some of the issues are now queued for update and it is expected that once completed this will materially increase the Scheme's reported data for this asset class. CPTI acknowledges the complexities of accurately linking emissions to issuers and the need for manual override from MSCI at times, which will inevitably lead to delays. In order to minimise such delays, CPTI regularly sense checks and cross checks data with managers to ensure accuracy in order to provide assurance, while keeping an open dialogue with MSCI as and when such discrepancies arise.

Additionally, CPT highlighted a number of companies that were identified within the MSCI ESG manager database as not having reported carbon emissions, despite CPT having confirmed from alternative sources that those companies had reported carbon data. CPT engaged with MSCI to understand the reasons for each of these cases, a number of which MSCI hadn't processed due to a backlog. Following this engagement MSCI has been working on their backlog and reviewing their processes and resources in this regard.

Principle 9
Engagement with issuers to maintain or enhance the value of assets

Both EOS and the Scheme's investment managers undertake company level engagements on behalf of the Scheme in both public and private markets on issues that may impact their long-term sustainable value.

Trustee expects issues for engagement to involve some breach of generally accepted financial, strategic, operational, legal, social, environmental, ethical or governance best practice. Engagements may relate to longer-term strategic, environmental, social or governance issues, which may not have immediate stock-specific impacts, for example, where the company's shares or debt are already fully valued and the intent is to preserve that value.

The Trustee expects company specific engagements to be undertaken where it is believed that:

1. Engagement will lead to an increase in value of a company's shares and/or debt over the long term;
2. Engagement will prevent or limit a decrease in the value of a company's shares and/or debt over the long term.

In determining whether and how the engagement is taken forward, due regard should be given to the likelihood of engagement success and potential to bring about positive change. Such considerations should be based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of the Scheme's holding.

Engagements may involve:

- Meetings with executive and non-executive directors;
- Meetings with other company representatives;
- Discussions with other shareholders of the company;
- Participation in collaborative investor initiatives;
- Submission of shareholder resolutions at general meetings as appropriate.

A breakdown of the Scheme's split of public equity voting and engagement activity across EOS and the other investment managers as at 31 December 2022 and as at 31 December 2023 is provided to the right. This breakdown illustrates where voting and engagement coverage has shifted over the year as a result of reviews undertaken or allocation changes.

Managers undertaking voting & engagement activity	Public equity allocation based on value of assets at 31/12/2022	Public equity allocation based on value of assets at 31/12/2023
EOS	77.7%	84.8%
Ninety One	11.1%	8.1%
Schroders	5.3%	0.1%
GreenCourt	5.9%	0.8%
Genesis	0%	6.1%

Note: Totals may not sum due to rounding.

The Trustee's expectations in terms of public market engagement, as summarised above, are met by CPTI through regular meetings with EOS and the Scheme's investment managers. CPTI, on behalf of the Trustee, keeps those currently delegated to engage and vote on the Scheme's behalf under review. As referenced in Principle 5, the key outcomes from that review in 2023 were as follows:

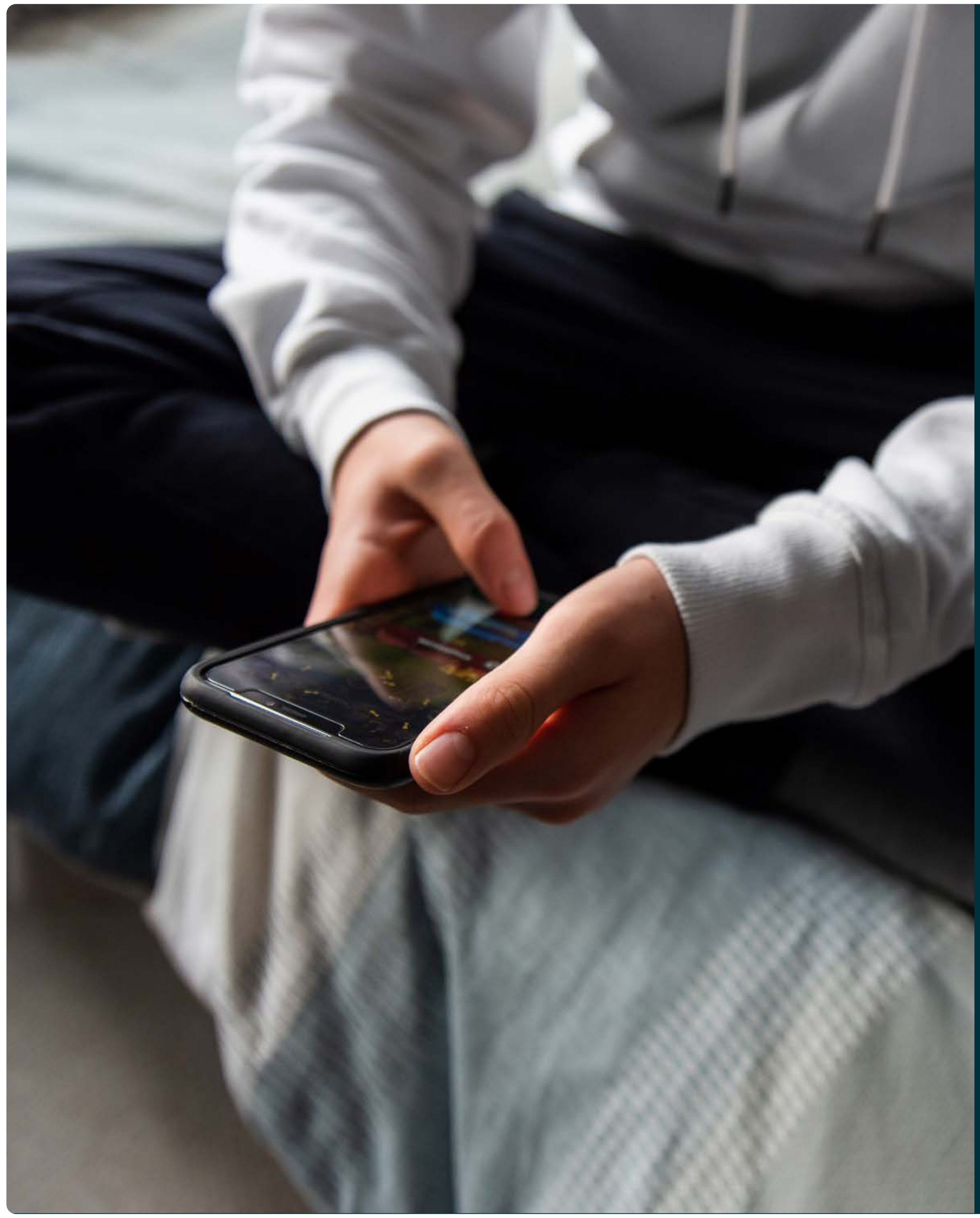
- The onshore China mandate with GreenCourt was terminated.
- Reviewed and reaffirmed the decision to retain current voting arrangements with either EOS or the managers.
- Reviewed the voting undertaken by EOS and the managers and provided feedback and challenge regarding.
- Invested in a new listed infrastructure equity mandate with the voting and engagement delegated to EOS.
- Requested public asset managers complete annual engagement templates and quarterly ESG risk monitoring templates provided by CPTI. As a result of these, where manager responses fell short of expectations, feedback was provided, with follow-up conversations to better understand the manager's approach. Feedback also covered closer alignment of the Trustee's and manager's stewardship goals, with the intention of improving the quality of engagement activity and reporting of the same going forward.

On behalf of the Scheme, EOS undertakes company-specific engagements with the objective of achieving beneficial and sustained change at the companies and in the societies where they operate. EOS analyses company performance, policies and practices based on corporate disclosures and research on Environmental, Social and Governance (ESG) factors. During 2023, EOS engaged on the Scheme's behalf with 308 companies on 1,463 issues and objectives covering the following topics: environmental (31.7%); social and ethical (26.9%); governance (28.8%); and strategy, risk and communication (12.6%). More detailed disclosure on EOS's engagement on behalf of the Scheme through 2023 including objectives by sector/priority themes and outcomes of engagement are in the annual reporting available on the Scheme's website (link).

CPTI, on behalf of the Scheme, provides feedback to EOS on engagement priority areas and process as part of the annual refresh of the Engagement Plan (as referenced in Principle 2). CPTI can also provide feedback through the bi-annual client advisory council events, client advisory board and the Scheme's relationship managers. In 2023, CPTI also engaged with EOS and many of the public equity investment managers on voting covering areas such as board independence, over-boarding, gender and ethnic diversity, climate change and executive pay.

The engagement work with investee companies on behalf of the Scheme is aimed at achieving sustainable investment returns through the promotion of long-term responsible business strategies. Engagements undertaken on behalf of the Scheme are guided by the Scheme's Stewardship Policy and Responsible Investment Policy, both of which can be found at https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing/.

EOS and the investment managers monitor company performance on issues relevant to long-term value on an ongoing basis. Such issues include corporate strategy and governance; capital structure; board structure; directors' pay; social, environmental and ethical matters; and risk management. Examples of engagements conducted on the Scheme's behalf by EOS covering data privacy and executive compensation and by Genesis covering Antimicrobial Resistance are set out below.



Case study

Meta Platforms

EOS engaged with Meta Platforms (formerly Facebook) in 2018 following the Cambridge Analytica scandal to address data privacy challenges and advocate for safeguarding policies to protect users. Concerns were raised regarding the company's approach to data privacy, content management, dual-class share structure, and executive compensation.

The primary goals of the engagement were to prompt Meta Platforms to clearly outline steps to resolve data privacy issues, improve quarterly reporting on data privacy enhancements, accelerate board refreshment, and address concerns regarding human rights policies. EOS aimed to influence Meta's approach to human rights due diligence, privacy rights, freedom of expression, and digital product and service rights.

EOS engaged with Meta Platforms through direct calls, joint calls organized by the Swedish National Pension Fund's Ethical Council, and publication of Digital Rights Principles outlining expectations on privacy rights and freedom of expression. They encouraged Meta to investigate apps with access to large data, enhance data access restrictions for developers, and improve user understanding of data access permissions. EOS also advocated for stronger human rights policies and board effectiveness.

Meta Platforms committed to investigating data access by apps, enhanced data access restrictions, and improved bullying and harassment policies. However, concerns remained about its business model's contribution to problematic content spread and insufficient privacy rights commitment. Meta appointed new independent directors, but concerns persisted over board effectiveness and executive compensation. EOS urged Meta to improve privacy policy communication, include human rights impact assessments in future reports, and strengthen protections for children and young users. Ongoing advocacy focuses on enhancing policies and protections to prevent abuse and exploitation among underaged users.

Case study

Yili

Genesis, the Scheme's emerging market equity manager initiated engagement with Yili, a major Chinese dairy producer, due to its lack of disclosure on antibiotic usage despite good ESG performance in other areas. As a founding member of IAAMR (Investor Action on Antimicrobial Resistance), Genesis aimed to leverage investor influence to address global antimicrobial resistance. The objective was to encourage Yili to share information and policies regarding antibiotic usage and supply chain monitoring. The engagement goals for 2023 included urging Yili to provide comprehensive information on its antibiotic usage and monitoring practices. Genesis aimed to influence the company to adopt best practices in antibiotic policy and enhance transparency in its reporting. Additionally, Genesis planned to monitor Yili's progress on other ESG concerns such as GHG emissions and water management.

Genesis commenced engagement in 2022, led by the Portfolio Manager. They reached out to Yili's Investor Relations team through multiple emails, requesting information on antibiotic usage and sharing a template for best practices in antibiotic policy. Despite initial challenges, Genesis persisted in their efforts, prompting Yili to acknowledge their requests and provide some information on compliance with national programs to reduce antibiotic use. However, the response fell short of expectations, prompting Genesis to continue advocating for further transparency and risk management in Yili's antibiotic usage.

While Yili acknowledged Genesis' requests and committed to providing more disclosure in its next report, the information provided was deemed insufficient. Genesis intends to maintain pressure on Yili for enhanced transparency and risk management in antibiotic usage. They will closely monitor Yili's progress on ESG concerns beyond antibiotics, emphasizing the importance of comprehensive disclosure and responsible practices in sustainability reporting.

Real assets and private equity

Engagement in real assets such as infrastructure and real estate has a focus on ensuring these assets retain value and resilience in the future. As referenced under Principle 2 activity in the Scheme's real estate assets is focussed on becoming more energy efficient and reducing the climate risk impact. In infrastructure, the Scheme has allocated capital to investment opportunities that are contributing towards the decarbonisation of the economy.

Examples of Private Equity engagement by the Scheme's PE Advisor, on behalf of the Scheme, that focus on maintaining or enhancing the value of the assets have been provided in Principle 7. An example of an engagement by the Scheme's real estate manager with an office provider in Croydon.

Case study

The Business Xchange Hub

The manager partnered with The Business Xchange Hub ("TBXH"), a Croydon based co-working and serviced office provider, to occupy the six vacant floors within Sunley House, Croydon. TBXH were chosen due to their focus on community engagement and ability to carry out a refurbishment of the vacant space using recycled materials, minimising the embedded carbon within the property. TBXH were able to relocate a large portion of their previous office fit out and furniture from a nearby building. Alongside minimising the amount of new material to be consumed in the fitout, this also significantly reduced the cost required to refurbish the space, allowing capital expenditure to be deployed elsewhere within the portfolio.

Beyond the engagements selected by the managers and EOS CPTI has also asked relevant managers to consider engaging on microplastics and public health and have had some success in getting greater consideration of these issues as discussed in Principle 10.

Principle 10
Policy on Collaborative Engagement

The Scheme collaborates with other investors through a number of forums and relationships.

A key example is the relationship with EOS where engagement with companies is conducted based on assets aggregated across multiple asset owners. Beyond this EOS and the Scheme's investment managers are involved in a number of regional and industry initiatives for collaborative engagement including the UNPRI, Climate Action 100+, Institutional Investors Group on Climate Change, International Corporate Governance Network, Council of Institutional Investors and Corporate Governance Forum.

"CPTI participates in quarterly meetings of the UK Pension Scheme Responsible Investment Roundtable to share ideas and best practice across UK pension schemes. This covers a range of topics including stewardship, climate change and diversity."

CPTI is also a member of the Asset Owners Council, previously the Occupational Pensions Stewardship Council (OPSC). The Asset Management Taskforce which brings together government, senior representatives from asset management, regulators and key stakeholders recommended in their 2020 report that a dedicated council of UK pension schemes should be established to promote and facilitate high standards of stewardship of pension assets. In response to that recommendation the Department for Work and Pensions (DWP) created the OPSC as a forum for sharing experience, best practice and research and providing practical support which later merged with the UK Pension Scheme Responsible Investment roundtable to form the AOC. The council will develop a stronger overall voice of trustees within the market, especially in relation to service providers. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics.

As discussed in both Principle 1 and Principle 8, during 2021, CPTI signed up to the Asset Owner Diversity Charter, which includes commitments to incorporate diversity questions into manager selection and ongoing manager monitoring. During 2022 and 2023, CPTI has been using the diversity charter questionnaire for new manager selections as well as to review the approach to diversity of existing managers. Additionally, CPTI has worked with the investment managers to ensure diversity disclosures are incorporated into the Scheme's IMAs and side letters. Following the initial exercise, the questionnaire is now being sent to managers on an annual basis so that CPTI can track progress toward diversity and inclusion.

Three examples of collaborative engagements from EOS and Ninety One are set out below and on the following page.

Case study

EOS and Climate Action 100+

The value of strong emissions reduction targets will only be realised if company strategies can effectively transform businesses into something fit for the future. Increased scrutiny of decarbonisation strategies during collaborative engagements was therefore a key trend for 2023. This included encouraging the CA100+ focus companies' own value chain engagements, such as at Hon Hai, which has kicked off a supplier engagement programme to encourage progress on Scope 3 emissions reduction. In April 2023, EOS was invited to visit the Hon Hai production campus in Zhengzhou. As a CA100+ engagement lead, the visit provided EOS with significant insights into Hon Hai's net-zero commitment versus the on-site implementation, including via an exclusive presentation of the company's decarbonisation strategy.

For many focus companies, decarbonisation will not be linear and no single technology offers a complete solution. For example, the chemicals sector requires myriad solutions to decarbonise hundreds of different products, many of which remain nascent. This means that investors and their representatives must employ a holistic lens when engaging with companies, as the desired outcome may not be immediately obvious.

EOS have emphasised the importance of well-articulated and comprehensive transition plans across the chemicals sector. These go beyond serving investors assessing alignment with the Paris Agreement, because developing a comprehensive transition plan requires companies to confront abatement challenges and develop business models that capture the system transformation expected.

Case study

Ninety One and Vestas Wind Systems

Ninety One engaged with Vestas, a leading wind-turbine manufacturer, recognizing the importance of biodiversity in its operations. They emphasized that biodiversity management could mitigate future financial, legal, and reputational risks, while also enhancing Vestas' license to operate and supporting global wind turbine deployment. Ninety One's goals for 2023 included monitoring Vestas' progress on various fronts such as the Science-Based Target initiative, disclosure of gender pay gap, gender diversity targets, initiating a biodiversity policy, and improving health and safety in manufacturing. During Q2 2023, Ninety One conducted a joint engagement with other asset owners, communicating expectations to Vestas regarding formalizing a biodiversity policy. They emphasized the importance of managing biodiversity as a future risk and opportunity, prompting Vestas to consider biodiversity impacts in project assessments. Dialogue with Vestas' head of IR led to insights being acknowledged, with Vestas detailing ongoing efforts and plans, including a biodiversity impact assessment and policy formulation.

Vestas affirmed its commitment to addressing biodiversity concerns, outlining plans to complete a global biodiversity impact assessment and establish an environmental/biodiversity policy and data procedures by the end of 2023. By 2025, Vestas aims to have a fully developed biodiversity strategy, aligning with reporting guidelines such as CSRD and TNFD, showcasing progress in its Annual Report 2024.

Case study

EOS and ShareAction

As part of ShareAction's Good Work Coalition, EOS participated in a collaborative engagement with fast fashion retailer Boohoo. The company said that since the Levitt Review into Boohoo's Leicester supply chain, it had worked hard to implement changes, but that worker exploitation and modern slavery remained a challenge for the wider industry.

EOS asked about its pay review process and the company said that it considered a variety of factors including its competitors' pay practices and the UK's National Living Wage, which it aims to keep paying above. It underlined the importance of being a profitable business and said it was looking at other ways of rewarding employees, for example by granting additional holidays.

EOS encouraged the company to become an accredited Living Wage employer and to increase minimum pay in line with the new UK living wage of £12 per hour. The company acknowledged EOS' recommendation. It said that it had seen a positive movement in supply chain retention rates since its pay review last year, which we welcomed.

The engagement by CPTI with the LIPH initiative (Long-term investors in People's Health) and the Microfibre collaborative engagement, as referenced in Principle 4, are both examples of CPTI participating in collaborative engagement exercises. CPTI has also engaged with managers and EOS regarding these initiatives and is pleased to report that EOS, following this engagement, has become members of the engagement group and are actively including the topic in all relevant company engagement meetings. CPTI continues to seek opportunities to collaborate where appropriate.

Principle 11
Escalating stewardship activities

Escalation is a key component of stewardship. This can be in the escalation of concerns around individual asset managers, or the asset manager's own escalation on an engagement with an underlying asset.

Similarly, CPTI can encourage the escalation of a particular issue which managers can reinforce with assets or companies. CPTI has done this multiple times around climate, DE&I, ESG integration, sufficient stewardship and more recently around microplastics and public health. At times learnings from a particular position or engagement can inform thinking more broadly leading to an escalation beyond a single asset/manager into strategy and sector level decisions or policy changes.

CPTI expects the Scheme's investment managers and EOS to escalate engagements and investment themes according to the nature and severity of the concerns. Escalating engagements may be necessary where the company is not receptive to engagement, no progress is being made or progress is too slow. Escalations may include attempting engagement at a more senior level, letters to the board of directors, collaborating with investors or other stakeholders, questions or statements at annual meetings, recommending votes against annual meeting items, shareholder resolutions or open letters. Escalation may include divesting from a position or may impact investments or strategy more broadly. CPTI monitors escalations for public equities through regular reporting on engagement including voting and are actively working on how to expand this monitoring for other asset classes. CPTI also reviews EOS's and managers' escalation policies as part of reviews of stewardship approaches.

As mentioned in Principle 1, in terms of escalation of concerns around a manager CPTI will add the manager to its formal watchlist which is reported to the Trustee on a quarterly basis. Once on the watchlist a manager is subject to increased scrutiny. If issues are not adequately resolved the next step would be to replace the manager. One manager where CPTI had significant concerns around insufficient level of stewardship is now in the process of being terminated. Another example of such escalation occurred in 2023 when the Scheme opted to disinvest its holdings with an Onshore China Active Equity manager. This decision was executed over the course of Q3 2023 and early 2024. While considerations such as strategic realignment and operational efficiencies were pivotal, the manager's approach to climate-related risks and opportunities, alongside their stewardship practices, emerged as decisive factors. This action underscores the Trustee's commitment to escalating stewardship activities.

In private markets, escalations are more direct given the direct ownership of assets – examples can include personnel changes, strategy changes, manager changes or litigation.

Examples of escalated engagements conducted on the Scheme's behalf by EOS and Baillie Gifford are set out below and on the following page.

Case study

Danone (EOS)

Danone is a French food and beverage company built around four businesses: essential dairy and plant-based products, early life nutrition, medical nutrition and waters. At the end of 2022 the company announced new climate targets, aligned with, and validated against a 1.5°C pathway, as part of the Danone impact journey.

During engagements with the lead independent director and the sustainable finance director, EOS urged the company to ensure that it was clear how these new targets and associated strategies were being reflected in the financial statements and the audit. However, in Danone's next annual report there was a lack of information as to how the company and its auditor had considered climate in the preparation of the accounts. This prompted EOS to recommend a vote against the financial report and accounts at the company's AGM in April 2023.

Case study

Illumina (Baillie Gifford)

Baillie Gifford had growing concerns about Illumina's leadership and strategic decisions, particularly regarding the repurchase of GRAIL and closing the deal before full regulatory approval. The company's position as a global leader in genome sequencing faced challenges from rising competition and decelerating growth due to lack of innovation and strategic missteps.

Baillie Gifford aimed to address concerns about Illumina's leadership, growth trajectory, and the GRAIL acquisition. They sought to engage with management to discuss strategic decisions, competitive pressures, and regulatory challenges, with a focus on preserving their long-term investment thesis.

After reducing their portfolio's holding in Illumina due to concerns, Baillie Gifford engaged with management when activist investor Carl Icahn took a stake in the company. They supported management while expressing concerns during discussions with directors and executives in May 2023. Following changes in management and the board, Baillie Gifford continued engagement to discuss new appointments, executive compensation, and regulatory issues related to GRAIL.

Despite management and board changes, Baillie Gifford remained concerned about Illumina's competitive position in the genome sequencing market. They ultimately decided to sell their holding from the portfolio in late 2023, indicating a loss of confidence in Illumina's ability to address their concerns and maintain its competitive edge in the market.

Case study

Deforestation (EOS)

As mentioned in Principle 2, over 2023, a key focus area within the biodiversity space for EOS was deforestation. Sector focuses for the team included food and beverage companies, commodity traders and fast fashion companies as many of the of the commodities used heavily by these sectors are linked to deforestation of the Amazon rainforest.

In terms of voting, EOS' policy has included a deforestation dimension for several years. In 2023, the team at EOS recommended voting against the election of directions at both food (WH Group and Toyo Suisan Kaisha) and financial companies (Charles Schwab and AIG), due to deforestation concerns.

Principle 12
Exercising rights and responsibilities

Voting

The Trustee believes that voting is an important investor right and responsibility. Similarly, where CPTI is able to have an LPAC seat in private markets investments CPTI will take this up and will attend the relevant meetings, vote and raise additional issues where necessary. Through EOS and certain investment managers, the Scheme seeks wherever practicable to vote responsibly on every resolution at all meetings of companies it is invested in. Voting is regarded as an important constituent of the Scheme's stewardship and as a means of achieving positive change. The use of voting rights attached to shares held by the Scheme are appropriately aligned to its overall responsible investment policies and objectives.

The Trustee expects EOS and the Scheme's investment managers to make voting recommendations based on the unique circumstances of each company taking into account local best practice and regulation. Voting should be undertaken pragmatically and in pursuit of positive change. The purpose of the vote is to achieve beneficial change in company behaviour or to register dissatisfaction. Whenever practicable, the Scheme, through EOS and the investment managers, seeks to communicate with portfolio companies in advance of casting a vote against management to explain the Scheme's rationale and to seek to change the company's position. Where a vote against management is cast, communication should be continued with the company to explain the voting action and to discuss possible solutions to avoid a recurrence.

The Trustee's stewardship policy details how the Scheme carries out its voting which is delegated to EOS and the investment managers. CPTI, on the Scheme's behalf, is also able to influence the voting policies of the investment managers and EOS through dialogue and other feedback channels. The stewardship policy is published on the Scheme's website at the following link: https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing/.

The Scheme will typically follow the voting recommendation made by EOS where this has been delegated to them although the Scheme retains the right to vote differently. This is facilitated through the ISS ProxyExchange voting platform, in accordance with the Scheme's own policy. The process differs for each investment manager. Where the Scheme has in the past invested through a pooled fund, the Scheme does not have the right to change the investment managers vote but CPTI, on the Trustee's behalf, engaged with the investment manager on their voting policy and decisions. There are currently no pooled investments held by the Scheme. CPTI monitors the voting done by EOS and the Scheme's investment managers by looking at how they have voted on specific resolutions particularly in relation to board diversity, remuneration and climate. As referenced in Principle 9, CPTI engaged with EOS and a number of the Scheme's investment managers in 2023 on their voting policies as well as covering the rationale for decisions on specific resolutions.

Voting responsibilities

Although CPTI delegates a significant portion of the Scheme's stewardship activities to EOS, CPTI has asked three of the Scheme's active equity managers to retain voting responsibilities. This is a deliberate decision made on each manager's voting approach. It is important for CPTI, on behalf of the Scheme, to understand how EOS (CPTI's third party voting and engagement provider) and the other three equity managers are exercising voting rights and if this aligned with the Trustee's policy.

During 2022 and 2023, CPTI engaged an investment consultancy, Redington, to help gain a better understanding of the Scheme's voting. This assessment was delivered in the form of annual voting activity reports that analysed all voting activity. CPTI worked with Redington to undertake a deep dive of the Scheme's voting agents' activities.

The areas CPTI asked Redington to review, and the corresponding expectations and insights are:

- Trends in voting behaviour
- Voting compared to proxy recommendations
- Substance of a manager's voting policy and how this has been implemented
- Outcome of policy referrals on particular resolutions
- Instances where votes were not placed and the corresponding rationale
- Votes at significant issuers
- Other significant votes

Through this assessment, CPTI worked with Redington to better understand where the Scheme's voting agent's activities were strong, and where there was room for improvement. CPTI has since used these insights to engage with the Scheme's voting agents to hold them to account for their practices and challenge them to improve where any deficiencies have been found. Example engagement topics so far have included where a voting agent has failed to exercise all voting rights, to understand the rationale for where the voting agent has voted differently to a large number of shareholders on high profile votes, and where a voting agent has appeared to overly rely on a proxy adviser's recommendation. The Scheme's voting agents have so far been receptive to CPTI's comments. The 2023 analysis has highlighted some improvements in voting activities since the first report following feedback provided to managers. During the 2023 analysis Redington additionally included voting analysis for two managers where the managers do not currently hold the voting rights. This was to enable CPTI to keep under assessment the existing voting arrangements.

In reaching voting recommendations, EOS takes account of its own regional voting guidelines which have been reviewed by CPTI and can be found at https://www.hermes-investment.com/stewardship/eos-library/.

Summarised historic voting information is publicly available at https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing/.

Information is disclosed quarterly in arrears to avoid compromising dialogue with companies in the portfolios, whilst being fully transparent and accountable.

The table below summarises the Scheme's voting record in 2023 from EOS and the investment managers who vote on the Scheme's behalf.

Investment manager	Resolutions eligible to vote	Percentage of resolutions voted	Percentage of voted resolutions against management	Percentage of resolutions abstained
EOS	13,349	99%	18%	2%
Genesis	1,055	100%	13%	2%
GreenCourt*	778	100%	9%	0%
Ninety One	434	100%	9%	1%
Schroders*	785	100%	4%	0%

*Portfolio now terminated

Summarised below are the votes where the Scheme has voted against management or abstained, split by resolution category, across the investment managers that continue to vote on behalf of the Scheme and also at the Scheme level.

Resolution Category	EOS	Genesis	GreenCourt*	Ninety One	Schroders*	BCSSS total
Routine Business	15%	19%	3%	21%	10%	14%
Director Related	48%	37%	18%	37%	38%	45%
Capitalization	8%	10%	20%	12%	23%	10%
Company Articles	3%	5%	14%	5%	1%	3%
Compensation	14%	16%	5%	14%	10%	13%
Audit Related	5%	6%	29%	6%	12%	7%
Other	8%	8%	11%	6%	8%	8%

*Portfolio now terminated

The below case study is an example of EOS recommending a vote against management at Alphabet on the Scheme's behalf.

Case study

Alphabet annual shareholder meeting

EOS recommended voting against the advisory resolution at the Alphabet 2023 AGM, which was seeking to elect Ann Mather, the audit and compliance committee chair due to concerns about overcommitment to multiple corporate and investment boards, including serving as audit chair for prominent companies. The workload is deemed excessive, particularly considering the additional risks the committee faces with Sarbanes-Oxley requirements (US law enacted to protect investors by improving the accuracy and reliability of corporate disclosures) and the subject of historic fines and legal challenges that concern investors. While committee members have financial expertise, their ability to effectively oversee multiple complex risks, including those related to the company's business model, is questioned. As chair, EOS expect direct Mather to suggest creating a separate finance and risk committee that oversees risks, capital allocation policy and tax policy. Furthermore she has been on the board for 17 years.

Stocklending

The Scheme has an active stocklending programme. Towards the end of 2021 a stocklending recall service was implemented aiming to recall all stocks where possible on loan for voting. The solution has been active for two years and has been effective so far in allowing the Scheme to exercise the majority of its votes. Of the stocks on loan which were eligible for voting, 98% were successfully recalled and votes exercised during 2023.

Fixed income

Whilst EOS engage on the Scheme's behalf on public fixed income, the Scheme's public fixed income investment managers have an important stewardship role. Recently CPTI has been in discussions with the managers to understand some of the differences between credit and equity engagement in more detail. Whilst both do seek to achieve similar ESG goals there are significant differences in terms of escalation process. CPTI is working with the managers to identify best practices and what more they can do going forward as good stewards of the assets. Fixed income managers are expected to consider using escalation tools such as communicating unwillingness to purchase future debt issues or longer maturity debt issues, they may also be able to influence debt covenants including ESG covenants. Covenant engagement equally applies to private debt.

Over 2023, during a quarterly portfolio review with one of the fixed income managers, CPTI raised concerns relating to the manager's ability to engage due to a significant proportion of the manager's clients being based within the US. CPTI acknowledges that political tension in the US over the past 12 months has led to increased legal action from some US investors and that this has led to difficulties for managers working on a global scale. CPTI engaged with the manager and held follow up meetings and discussions to better understand how active engagement can still be effective, while remaining considerate of a range of client's needs.

CPTI is continuously engaging with third party providers to better understand best practice within the fixed income space.

Private Markets

In private markets, investment managers may directly control the companies, assets and properties invested in. As such their ability to influence these is often significant. The Trustee expects the Scheme's investment managers to actively manage the assets, maximising opportunities and minimising risks around material environmental, social and governance factors. CPTI, on behalf of the Scheme, is responsible for overseeing and engaging with the appointed investment managers both directly and through appointed consultants, encouraging best practice in relation to stewardship, and communicating expectations for reporting on progress and the outcomes of engagement and voting activities. CPTI seeks to exert influence through its ongoing dialogue with its investment managers, by taking active roles on advisory boards and through broader asset owner collaborations. Advisory boards provide a method of collaboration with other investors within the same private asset pool and we take up this role where it is offered and participate actively.

For private debt, whilst investing in debt does not give managers direct control or voting outside of distressed situations, debt holders still have significant opportunity and responsibility to engage. Debt investors have significant influence when deciding whether to participate in future debt issuances, both in relation to the cost and lending terms of loan agreements. Particularly in the case of new lending, managers also have the opportunity to introduce covenants in relation to material ESG risks. The examples for private equity, real estate and infrastructure in Principle 7 show how the Scheme has addressed stewardship in 2023 across private market assets.

Signed by the Chair of Coal Staff Superannuation Scheme Trustees Limited

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Staff Superannuation Scheme