

NOW: Pensions Stewardship Code 2024 Submission



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Executive summary and introduction

NOW: Pensions manages the pensions savings of millions of members on behalf of tens of thousands of employers in the United Kingdom. Our mission is to help everyone save for a more financially secure future. We believe in a pension system that benefits everyone. By highlighting inequalities and campaigning for change, we're helping people who save get the retirement and financial outcomes they deserve. In this way we contribute to creating a more sustainable society.

The UK Stewardship Code defines stewardship as 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.

We are pleased to submit NOW: Pensions application to the Financial Reporting Council to become a signatory to the UK Stewardship Code. The UK stewardship Code is widely recognised as the leading stewardship framework globally and we believe that UK Stewardship Code signatory status will validate the emphasis that NOW: Pensions places on stewardship activities in driving our member outcomes.

NOW: Pensions has a commitment to strong investment governance informed by a deep of understanding our members. The Trustee believes that effective stewardship includes the integration of material environmental, social and governance risks, and the assessment of the real-world impact of our investments on the environment and society. We believe incorporating these sustainability perspectives mitigates risks, enhance returns and improves real-world outcomes, thereby reducing long-term systemic risks (risks that affect the whole economy), and therefore serves the long-term interests of members.

To provide focus, the Trustee has set three priority sustainability themes that act as guiding principles for its stewardship activities:

- **Gender equality:** all individuals should have equal rights, responsibilities and opportunities
- **Living wages:** all companies should pay their employees a living wage
- **Climate action:** a speedy and fair transition to a low-carbon economy is the only way to address the climate crisis.

The Trustee believes that effective stewardship can improve member outcomes. Effective stewardship involves a consistent stewardship process, executed by our investment manager, Cardano, and by third-party managers employed by the scheme, that includes:

- engaging with the underlying companies
- exercising our rights as owners and shareholders such as voting at AGMs
- escalating engagement where concerns are not being addressed through a variety of tools
- and consistent consequences in our portfolios. For example where engagement and escalation have not been effective, this may lead to exclusions.

We believe that our investment manager and appointed third-party managers should demonstrate an approach aligned with our beliefs that results in consistency between company engagement, voting, escalation and portfolio management activities.

We believe engagement is often more effective when it is done in collaboration with other like-minded investors, though our investment managers will always exercise their own independent judgement when it comes to voting and portfolio decisions. Engagement also extends beyond the individual companies we are exposed, to regulators, policy makers, third-party asset managers and other stakeholders all of whom have the potential to impact long-term economic outcomes and hence our members' financial outcomes.

This submission covers all aspects of our approach to stewardship including where we have made progress in recent years. The report covers the financial year period from 1 April 2023 to 31 March 2024 (where we refer to 2023, we mean the 2023 financial year ending March 2024).

Over 2023 the Trustee conducted a review of our default investment strategy. This resulted in several significant changes to the strategy that we believe will contribute to even stronger alignment with the Trustee stewardship objectives going forward. These changes were implemented in the first quarter of 2024. The most significant decisions made as a result of this review are:

- the minimum for investments in the default strategy with a responsible investment objective increasing from 50% up to 75% of the assets;
- that the majority of equity assets previously allocated to third-party asset managers, will be managed inhouse by Cardano, our investment manager;
- and that the majority of equity assets will be managed in the form of direct equity exposure, more than doubling the previous direct equity holdings giving us larger influence when voting and engaging.

All three of these changes will allow greater alignment of the stewardship and engagement process going forward with the Trustee priorities and investment beliefs. Because the transition occurred during the 2023 financial year, this year's submission includes detailed examples of both third-party and our investment manager's stewardship processes.

As we demonstrate in this submission, we take our role in engaging with companies, policy makers, regulators and the industry seriously, and we hope that these contributions will further our vision of reduced social inequalities, an improving climate outlook and a pension system that benefits everyone.

We look forward to your feedback.

Sincerely,

Joanne Segars

Chair of the Trustee Board
NOW: Pensions Trustee Limited



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Principle 1:

Purpose and beliefs



1

Purpose and beliefs

The purpose of NOW: Pensions Trustee Limited (hereafter, ‘NOW: Pensions’) is to manage the pensions savings of millions of members on behalf of tens of thousands of employers, and to prioritise the needs of these members. The mission is to help everyone save for a more financially secure future. We believe in a pension system that benefits everyone. By highlighting inequalities and campaigning for change, we’re helping people who save get the retirement and financial outcomes they deserve.

NOW: Pensions has a commitment to strong investment governance and responsibility to meet members’ needs, informed by deep understanding and analysis of member profiles.

Our priority sustainability themes

As stated in the [Statement of Investment Principles](#), the Trustee believes that effective stewardship includes the integration of material environmental, social and governance risks, and the assessment of the real-world impact of our investments on the environment and society. We believe incorporating these sustainability perspectives mitigates risks, enhance returns and improves real-world outcomes, thereby reducing long-term systemic risks (risks that affect the whole economy), and therefore serves the long-term interests of members.

As stated under the Trustee’s investment beliefs below, the Trustee believes that investors are expected to be rewarded for taking investment risk by earning a return, and that this risk and return will depend upon what has been invested in. To provide focus, the Trustee has set three priority sustainability themes that act as guiding principles for its stewardship activities:

- **Gender equality:** all individuals regardless of gender should have equal rights, responsibilities and opportunities

- **Living wages:** all companies should pay their employees a living wage
- **Climate action:** a speedy and fair transition to a low-carbon economy is the only way to address the climate crisis.

The Trustee believes that companies that act towards gender equality, living wages, and climate action are more resilient and will outperform companies that do not. By tackling these systemically important sustainability issues, long term systemic risks are reduced and member outcomes will be enhanced.

The Trustee refers to the actions taken to make progress on its three priority sustainability themes throughout this stewardship code report.

Context: Our evolving investment approach and strategy

NOW: Pensions offers members a default investment strategy designed to meet the needs of the typical member profile. The default investment strategy integrates a lifecycle investment approach to grow member assets and to de-risk as members progress towards retirement. At the present time no alternative member choices are generally available, though this is under consideration for the future.

The default investment strategy begins by investing assets in a diversified multi-asset growth portfolio (the Diversified Growth Fund) and de-risks by shifting towards a lump sum focused portfolio of cash and bonds (the Retirement Countdown Fund). A responsible investing approach and strong stewardship practices are implemented throughout these portfolios.

The Trustee conducts a triennial investment review of its investment strategy and all portfolios. The Diversified Growth Fund portfolio strategy has evolved over time as the Trustee continues to refine their approach. The most recent review in 2023 has resulted in several significant changes to the strategy which will be implemented over a transition period spanning from Q3 2023 to Q4 2024. This submission as of 31 March 2024 therefore includes some of these changes.

From a stewardship perspective, the most significant changes to the strategy include:

- 1 A significant increase in investments with a specific responsible investing objective, increasing from a minimum of 50% to a new minimum of 75%. This is accompanied by a very significant increase in physical equity investments (previously implemented for efficient portfolio management purposes through derivatives). This will allow for, amongst other benefits, greater stewardship impact through engagement and voting.
- 2 A shift of physical equity investments from third-party investment managers to a dedicated mandate run by Cardano, the Investment manager (see Principle 2) and the shift of a portion of the Retirement Countdown Fund into a short dated credit mandate managed by Cardano.

Both changes give the Trustee more direct control over the investment strategy and ensure alignment between their stewardship and investment priorities and the execution of the strategy.

As a result, this stewardship code submission covers both the previous and the new approaches to illustrate how the stewardship approach will evolve.

Our investment beliefs

The Trustee considers the following factors as important to achieving desired investment outcomes, as articulated in the Statement of Investment Principles (SIP).

Default

The Trustee believes that for the vast majority of members, the default will be the right choice and they will stay invested in it. It is therefore the Trustee's responsibility to ensure that the default plan reflects the requirements of the membership group it is designed for. The Trustee undertakes continuous development of the default investment strategy.

Prioritising members

The Trustee believes that investment solutions should be built around members' needs, informed by analysis of their profiles and their requirements.

Strong investment governance

The Trustee believes that strong and robust investment governance improves investment performance, wider member outcomes and protects member interests. This should include clear articulation of the governance in place with oversight of key investment suppliers, including the investment manager.

Whole of life savings journey

The Trustee believes that better member outcomes can be achieved by taking a whole of life approach to members' savings journeys.

Value for money

The Trustee believes that delivering value for money is best assessed net of costs and charges. The Trustee believes there must be a healthy balance between costs and charges incurred, and the value delivered for members. To deliver better net member benefits, the Trustee focuses on value rather than just low cost.

Operational robustness

The Trustee believes that well-governed systems and processes, accompanied by accurate member data, are necessary for delivering good member outcomes.

Lifecycle investing

The Trustee believes that a default plan should reflect a member's ability to take appropriate investment risk over their savings journey to and through retirement. This is achieved with a lifecycle investment profile. The default plan, and any other plans introduced, should be appropriately structured to incorporate a member's perceived ability to take investment risk throughout their investment lifecycle. This allows for taking more investment risk during the majority of a member's lifecycle transitioning to a lower level of risk as the member gets closer to retirement.

Time horizon

The Trustee believes that how much investment risk a member can take depends on how long they have to go until they can start to take their pension savings. This means the Trustee is mindful of a member's investment time horizon, which is expected to be long-term in the savings phase, decreasing in the glidepath phase, and shorter at the retirement phase.

Member choice

Some members may choose to move away from the default plan for varying reasons. The Trustee therefore believes it may be appropriate to offer a considered range of investment solutions to meet their needs and beliefs in due course.

Communication

The Trustee believes that to help members make an informed choice, the options and consequences of changing investments need to be clearly explained.

Investment risk and return

The Trustee believes that to earn an investment return commensurate with investment objectives, members must take considered investment risk. This means investing a member's pension savings and managing risk in a robust way. The Trustee also believes that not taking enough, or taking too much, investment risk can be a material risk for members.

Financial risks

The Trustee believes that not all financial risks are rewarded equally. Over time, investors are expected to be rewarded for taking investment risk by earning a return. The risk and return will differ depending on what has been invested in, such as traditional and alternative assets, as well as a potential risk premium for illiquidity. There are also financial risks that investors are not rewarded for taking – those risks should be considered, and potentially mitigated.

Asset allocation

The Trustee believes that asset allocation is the key strategic investment decision for long-term investment outcomes. By allocating to a range of different sources of investment returns, the combined investment risks can be reduced. In the long-term, a well-diversified portfolio will be more robust and deliver a higher risk-adjusted investment return.

Financial markets

Although financial markets are largely efficient, the world is volatile, uncertain, complex, and ambiguous. The Trustee believes this means that passive management should be the starting point, but the Trustee recognises that active management and alternative investments can, under certain circumstances, add value after cost and charges, and improve member outcomes.

Responsible investment

Incorporating environmental, social and governance (ESG) factors, as well as real-world sustainability impact, and stewardship, into the investment process is necessary as a long-term investor. The Trustee believes it mitigates risks, enhances returns and is in members' best long-term interests.

Stewardship

The Trustee believes that effective stewardship can improve member outcomes, and so the Trustee, its investment manager, and its advisors, should engage with companies, regulators, and stakeholder groups. Where applicable, the Trustee's investment manager, and appointed third-party managers, should use their voting power to engage investee companies to address sustainability risks, and make progress towards the Trustee's priority sustainability themes - living wage, gender equality and climate action, and act on the Trustee's categorisation of 'most significant votes'.

Climate crisis

The Trustee believes that a speedy, fair, and just transition to a low-carbon economy is the only feasible way to address the climate crisis. Therefore, the Trustee believes that investment solutions should be constructed to make progress towards net zero greenhouse gas (GHG) emissions by 2050, with 50% emissions reduction by 2030 based on 2019 levels, consistent with the Paris Climate Agreement goal of limiting global warming to 1.5°C.


Beliefs about effective stewardship

The Trustee believes that effective stewardship in line with their responsible investment beliefs requires an alignment in approach between the investment manager and the Trustee. This means that there needs to be consistency between an appointed investment manager's investment beliefs, their identification of the key material risks and objectives, their engagement with companies or third-party managers around these risks, their approach to voting, their approach to escalation if companies fail to engage (voting against board members, in favour of shareholder resolutions, and co-filing of shareholder resolutions if necessary), all of which should ultimately tie back to the portfolio through for example exclusions if engagements fail to make progress. This process as a whole is delegated to the investment managers employed by the Trust.

In addition the Trustee believes that effective stewardship is best achieved through effective collaboration with like-minded investors. This is both efficient for us as asset owners, creating a more credible voice in discussions with companies and creating economies of scale when engaging; and it is more effective for companies who can conduct fewer conversations with more experienced, thoughtful investors. While the ultimate decision on voting or ownership will always lie with us as the asset owner (or our delegated investment managers), effective collaboration with others is more likely to drive effective engagement on behalf of our members.

In line with these beliefs, the Trustee has elected (at this time) not to adopt its own voting policy. Instead the Trustee has reviewed the stewardship and voting policy of the investment manager, and has focused on the alignment of the investment manager (and of any third-party managers) with the Trustee's own responsible investment beliefs. Consistency across the various parts of the investment manager's investment process is an important part of the criteria in appointing the investment manager and in monitoring the managers on an ongoing basis. This is explained under Principle 12 in more detail.

As a result of these beliefs the Trustee has rejected the approach of 'split voting' being followed by some market participants. The Trustee believes that such an approach necessarily divorces the engagement activity of an investment manager from voting, escalation and portfolio actions and this will lead to suboptimal outcomes for members and is inconsistent with our beliefs.



While the ultimate decision on voting or ownership will always lie with us as the asset owner (or our delegated investment managers), effective collaboration with others is more likely to drive effective engagement on behalf of our members.

How we ensure our investment beliefs, strategy and culture enable effective stewardship

There are several ways NOW: Pensions implements its investment beliefs, strategy and culture, and enables effective stewardship.

- Incorporating the UK Financial Reporting Council (FRC) definition of stewardship into its policy documents. Both the FRC's and the UN Brundtland's definitions of sustainability inform the investment approach.
- Organising focus groups to gather members' views on sustainability and investment, and sharing the results with the Department for Work and Pensions' (DWP) Occupational Pensions Stewardship Council (OPSC).
- Publishing its stewardship policy, and incorporating its member focus group research in stewardship decision-making.
- Publishing its priority sustainability themes: gender equality, living wages, and climate action.
- Appointing the investment manager and third-party managers on the basis of the consistency of their voting and stewardship policies and collaborative approach with the Trustee beliefs.
- Engaging governments, key stakeholders, and companies on its priority sustainability themes both proactively and responsively. This is evidenced throughout this report and includes:
 - engaging directly with companies
 - engaging indirectly with companies through the investment manager and third-party managers
 - engaging in policy activities such as Transition Plans Taskforce and publishing gender pensions gap reports
 - participating and supporting a range of sustainability and stewardship initiatives.
- Engaging in advance, and monitoring in arrears (and if necessary, taking action) on the voting activities of the investment manager and third-party managers. This is evidenced in Principle 12. The Trustee believes its approach ensures that the investment manager conforms closely to standards consistent with its beliefs and priority sustainability themes.
- Being a signatory of the UN PRI and member of the UN Principles for Responsible Investment (PRI) and member of the Institutional Investors Group on Climate Change (IIGCC), both of which organisations support effective responsible investment implementation.
- Participating in or supporting the investment manager's participation in collaborative, investor-led groups, or initiatives such as Climate Action 100+, ShareAction's Good Work Coalition, and PRI's stewardship initiative for nature: Spring.
- Appointing Sustainalytics as the Trustee's stewardship provider and working with the investment manager to apply an enhanced stewardship programme to investments. This partnership is explained in detail in Principle 9.

The Trustee believes that it has effectively aligned its investment strategy and stewardship activities with its investment beliefs, prioritising long-term value creation and active engagement to service the best interests of members. This is evidenced throughout this report and other reports, such as the Task Force on Climate-related Financial Disclosures (TCFD) report, published to the [NOW: Pensions website](#).



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Principle 2:

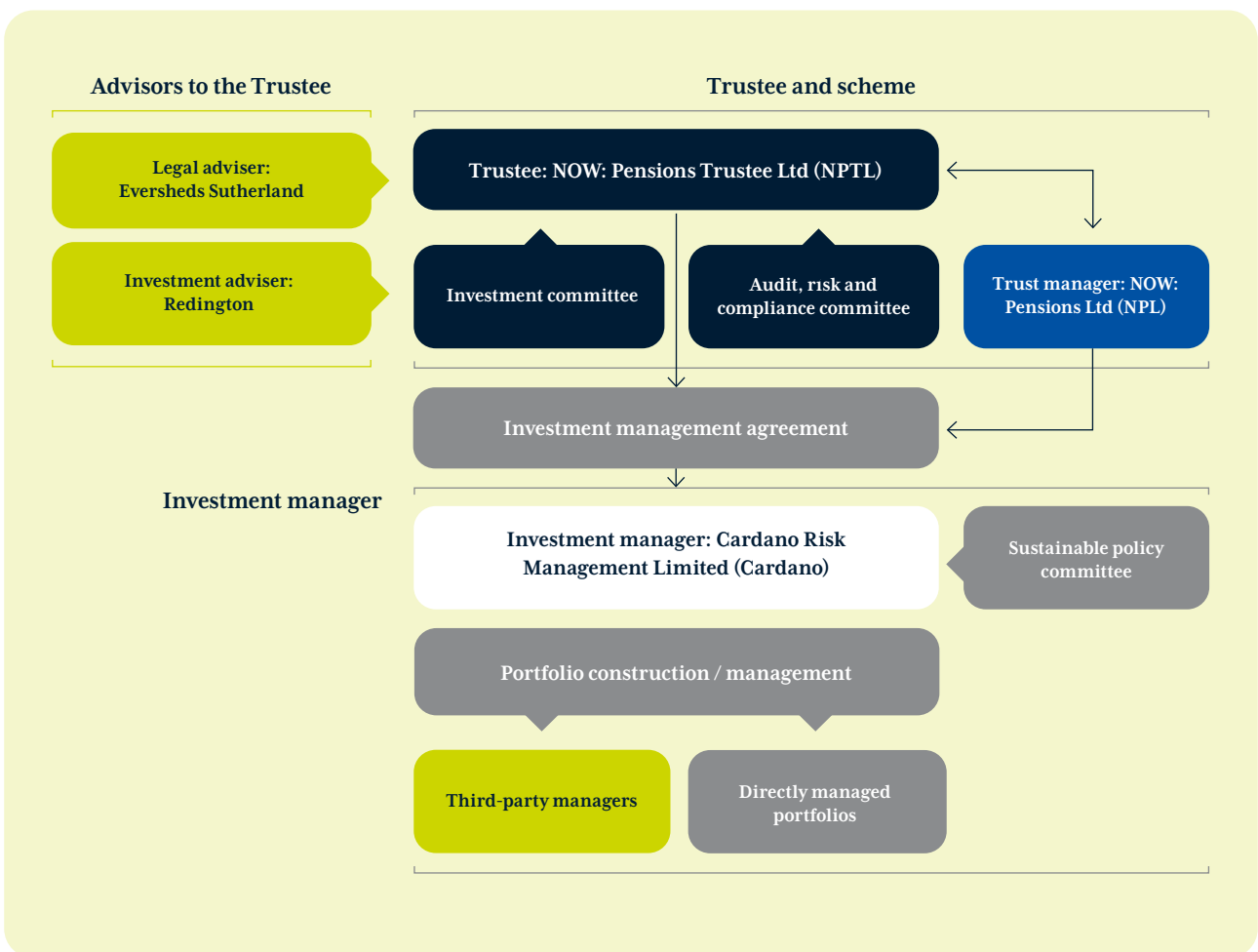
Governance

2

Governance

Our governance structure

The investment governance structure is summarised in the following figure:



The Trustee: NOW: Pensions Trustee Ltd

Our independent Trustee directors ensure our Scheme meets independent governance standards and is run in the best interests of our members. The Trustee directors of NOW: Pensions Trustee Ltd ('the Trustee') oversees the Trust's governance structure and subsequent governance activities to ensure that all decisions are in the members' best interests.

The Trustee board meet six times a year. The Trustee operates a formal governance agenda with a regular annual cycle monitoring regular activity.

The Trustee has several roles to ensure effective governance of the Scheme.

With regards to development of investment strategy:

- considering membership and developing Trustee investment beliefs & statement of investment principles accordingly
- setting investment strategy, including the approach to responsible investment and stewardship, on the advice of the investment adviser Redington and delegating implementation of the investment strategy to suppliers, including Cardano as investment manager.

With regards to the provision of choice of fund selection to members:

- approves/does not approve and delegates implementation/management to suppliers.

Appointment and monitoring of suppliers, including advisers which covers:

- appointing suppliers
- the Supplier Management Board (SMB) (consisting of both Trustee and NPL members) reviews suppliers annually including the investment manager. This review includes assessing the supplier ESG policies
- suppliers are tested for Value For Money
- The Trust manager, NOW: Pensions Limited (NPL), is reviewed annually by the Trustee.

In practice, with regards to stewardship, this means:

- deciding how to invest the assets of the Trust including setting the overall investment strategy, the lifecycle asset allocation, setting investment objectives
- setting the responsible investment strategy, including the stewardship objectives and determining the priority sustainability themes
- monitoring and challenging the investment manager to ensure the strategy is executed in accordance with these objectives and beliefs. This includes:
 - oversight of investment decision-making
 - ensuring, through Trustee investment committee meetings, progress on sustainability themes
 - overseeing stewardship activities, and preparing this stewardship code report.
- participating in regular (at least annually) sustainability training
- preparing all regulatory disclosure requirements, including an annual implementation statement and TCFD report.

A formal triennial strategic investment review is conducted to reassess the investment strategy over the prior period and to make any required changes to the overall strategy going forward. Ad hoc reviews will be conducted as a result of the normal monitoring process whenever required.

The Trustee has appointed two sub-committees to which it has delegated responsibility for detailed monitoring of certain functions pertinent to stewardship activities. These committees report back to the Trustee who are responsible for all decision making.

Audit, risk and compliance committee (ARCC)

The ARCC assesses performance of the climate change risk and opportunities governance policy and reports to the Trustee on material issues, overseeing the Scheme's internal controls, risk management processes and compliance with legal and regulatory requirements, ensuring the Scheme operates effectively and within set governance frameworks.

Investment committee (IC)

The IC considers ideas, investment strategy proposals and sustainability ideas and makes recommendations to the Trustee on default investment strategies, lifecycles, the investment fund range, sustainability beliefs and policies.

The IC monitors the day-to-day decision-making by the investment manager and ensures this reflects the Trustee's investment beliefs, policies and objectives, and is responsible for reporting back to the Trustee.

In addition the Trustee has two other subcommittees the operations committee and the communications committee, but these are not involved in the stewardship activities.

The Trustee is supported by NOW: Pensions Limited's (NPL) staff (see page 16) including investment and sustainability professionals.

The Trustee has entered into an investment management agreement (IMA) with Cardano Risk Management Limited (Cardano, see page 17) as its investment manager, and has delegated to them all day-to-day investment functions, subject to regular monitoring and review.

The investment manager has a detailed stewardship policy and voting policy that articulates its approach to stewardship and voting on directly owned stocks that is aligned with delivering the Trustee's investment beliefs and priority sustainability themes.

The Trustee holds the investment manager accountable to apply the Trustee's investment beliefs as articulated in the statement of investment principles (SIP) and there are processes in place for the investment manager to notify the Trustee when this is not the case. This includes oversight of the sustainability and stewardship activities, including assessing investment manager's performance on sustainability and stewardship activities.

The investment manager is responsible for selecting and appointing third-party investment managers in consultation with the Trustee. An important part of the appointment criteria is the stewardship and voting approach of the third-party manager.

- The investment manager is responsible for monitoring and reporting that all third-party investments are done in a way that is consistent with the investment objectives of the Trustee including their approach to stewardship.
- In addition to the stewardship exercised by the third-party managers, The Trustee has agreed with the investment manager, Cardano, to implement an additional layer of engagement with underlying companies that are owned by the Trust. This is conducted through Cardano and NPL staff with additional support of Sustainalytics, a third-party engagement provider. This is detailed with examples under Principle 9.

Appointed investment adviser: Redington

Redington is a certified B-Corp (a verification of social and environmental performance, transparency and accountability) and a member of a range of responsible investment-related industry groups, supporting the Trustee with independent advice with regard to the investment strategy, in addition to climate change expertise.

Redington are responsible for advising the Trustee regarding the suitability of recommended investment strategies recommended by NPL or Cardano, including the SIP and section 36 advice, including the suitability and competency of the investment manager Cardano in relation to the various functions delegated to it under the IMA. Redington prepare the annual implementation statement.

Appointed legal adviser: Eversheds Sutherland

Eversheds Sutherland is a global law firm that provides legal services across a wide range of areas, including corporate, dispute resolution, employment, and finance. Eversheds Sutherland supports the Trustee in providing legal advice, ensuring member's best interests.

Trust manager: NOW: Pensions Limited (NPL)

NOW: Pensions Limited (NPL) is responsible for the day to day administration of the master trust including collecting contributions from employers in respect of members, keeping track of individual member information and accounts, reporting etc. NPL is part of the tri-party IMA agreement with the investment manager and monitors the investment manager on behalf of the Trustee on a day-to-day basis.

As the Trust manager, NPL fulfils several roles to support the Trustee; these roles include:

Supporting the Trustee on investments and stewardship:

- supporting in the development of Trustee investment beliefs and the statement of investment principles
- supports the investment committee (IC) in the development and delivery of its sustainability beliefs, policies and member engagement
- NPL will advocate the agreed sustainability beliefs and strategy within the industry (leveraging group resource as desired)
- proposing investment strategy ideas to the IC, with consideration of member demographic
- challenging Cardano's proposed investment strategy and sustainability ideas
- supports the Trustee in monitoring Cardano's delivery, both in terms of investments and stewardship
- prepares regulatory reporting, with input/support from suppliers, as agreed with the IC, for Trustee approval
- developing the commercial proposition
- supports on member and industry communication

Support is provided by amongst others:

- A head of investment responsible for supporting the Trustee with regards to investment decision making
- A head of sustainability responsible for supporting the Trustee with regards to decision making around the responsible investment approach and sustainability themes.

Activities include:

1. Acting as an employer representative
2. Supporting the Trustee with regular (at least annual) sustainability and stewardship training
3. Supplementing the stewardship of the investment manager and third-party managers through additional engagement on the Trustee's behalf, with support from the investment manager and Sustanalytics.

Investment manager: Cardano

Cardano Risk Management Limited (Cardano) is responsible for all day-to-day investment functions in line with the investment management agreement. This includes the appointment of third-party managers, as well as the stewardship of both directly managed and third-party assets.

Cardano will propose investment strategy and sustainability ideas, share relevant industry information and support the IC and NPL with analysis and views.

At Cardano, the approach to sustainability is overseen by the sustainability policy committee, chaired by the CEO of Cardano Risk Management Limited, and includes senior commercial, investment and sustainability professionals. Cardano operate in line with a Group [sustainable investment policy](#). This outlines the approach to exclusions, stock selection and stewardship. The policy includes a comprehensive [stewardship policy](#) and a [voting policy](#) linked here which are both integral to the appointment of Cardano to manage direct portfolios on behalf of the Trustee.

The investment manager provides the Trustee with regular reports (at least quarterly), detailing performance and progress against return and risk objectives, as well as sustainability and stewardship issues, and Shariah objectives (where applicable).

The investment manager supports the Trustee for engaging with the companies in the portfolio, as well as with regulators, policymakers, governments, and stakeholders, with the aim of enhancing sustainability activities, focusing on the Trustee's priority sustainability themes.

Third-party investment managers

The investment manager is also responsible for the third-party investment managers they outsource to which includes engaging if necessary to ensure their alignment with the Trustee's beliefs and priority sustainability themes. This includes overseeing and ensuring the third-party managers' stewardship of investee companies, for example through relevant voting and engagement. Further details can be found in Principle 12.

Third-party managers have been selected on the basis that they align (and are expected to continue to) with the Trustee's beliefs and priority sustainability themes. The Trustee oversees and monitors the investment manager's selection and appointment of third-party managers.

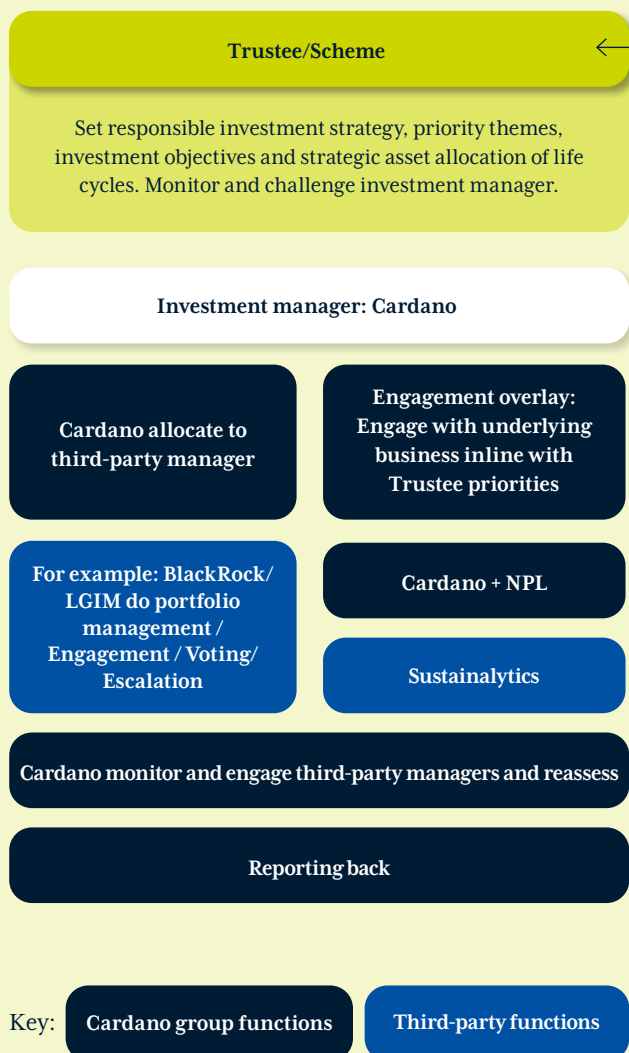
Third-party managers are expected to engage with investee companies, for example through voting and dialogue, in line with the Trustee's principles. Part of the investment manager's stewardship approach is to engage with third-party managers to raise the bar on stewardship practices, setting clear expectations for improvement in any areas of deficiency. The investment manager would exit a third-party manager if its sustainability and stewardship activities were not consistent with the Trustee's expectations, and the manager had not responded to concerns raised.

Our stewardship process following the 2023 strategy review

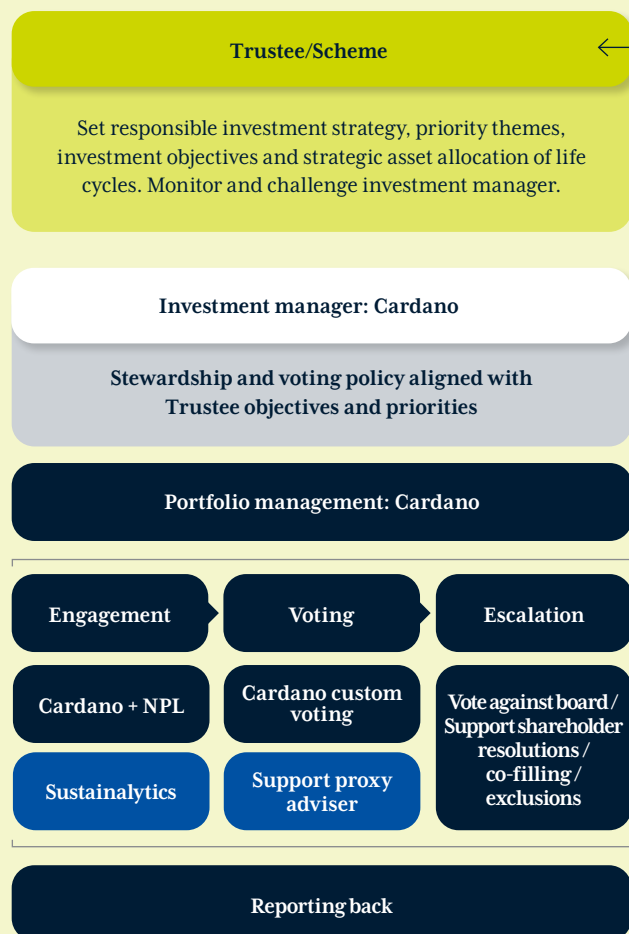
Following a 2023 triennial investment strategy review and moving into 2024, the physical equity portfolio was moved from being managed by third-party managers to being managed in-house by the investment manager in Q1 2024. The in-house investment approach allows a more joined up stewardship approach between engagement, voting and escalation in line with Trustee beliefs.

The diagram below illustrates the differences in the stewardship process when applied via third-party managers versus the direct portfolio managed by the investment manager.

Stewardship Model for third-party managers



Stewardship model for direct portfolios



As detailed in Principle 8, this decision will allow for stewardship that is more closely aligned with the Trustee's beliefs and priority sustainability themes.



Case-study: Our CCRO process

The Trustee has adopted a climate change-related risks and opportunities (CCRO)-specific governance policy, to assess, oversee, review, and manage climate change-related risks and opportunities within the Scheme, as detailed in the Trustee's TCFD reports. This is an example of the Trustee's governance in practice.

The CCRO details how the Trustee oversees climate change-related risks and opportunities, the role of parties other than the Trustee such as the investment manager and third-party managers, and the timelines associated with TCFD reporting, and progress on decarbonisation; for example:

- **IC** – meets quarterly to receive reports from the head of sustainability and from the investment manager to assess sustainability risks and opportunities, including stewardship activities and significant votes pertaining to the priority themes such as climate change. On an annual basis, it reviews climate change-related metrics such as greenhouse gas emissions, climate scenario analysis and progress towards net zero targets.
- **ARCC** – assesses the performance of the governance policy at least annually and reports to the Trustee on material issues in relation to the CCRO.
- **Investment manager** – offers the Trustee regular training on climate change-related topics, informing activities related to our CCRO policy. They also report on climate related risks and opportunities within the portfolio Reporting.
- **Investment adviser and legal adviser** – provide the Trustee with advisory services and provide the skills and experience necessary to support the Trustee's implementation of CCRO policy.

The governance structure ensures that the investment processes are consistent with CCRO, through regular reviews and reporting, and that the Trustee is sufficiently equipped with resources dedicated to understanding and acting to the materiality of climate change-related risks, both transition and physical. For further details on the Trustee's approach to climate action, and how this informs stewardship activities, see the Trustee's TCFD reports.

Our rationale

The Trustee believes the governance structure ensures that investment decisions and strategies are consistent with the NOW: Pensions' overarching sustainability and stewardship-related policies and objectives. The approach reflects the Trustee's focus on long-term rather than short-term performance and aligning the incentives of the investment manager with those of the members. The Trustee believes the frequent communication between the governance structure's stakeholders facilitates continuous learning and adaptation, necessary to address evolving sustainability issues, and staying informed on regulatory developments and best practices.

How we resourced our stewardship activities

Organisational and workforce structures

The organisational and workforce structures are detailed on page 18.

Experience, qualifications, training, and diversity

To ensure the Trustee is well-informed to support the engagement on stewardship and the priority sustainability themes, the Trustee receives regular updates and training from the Scheme's relevant committees.

In-house, the team at NOW: Pensions includes investment, sustainability, compliance, and communications professionals that collectively support stewardship activities. In particular, NOW: Pensions' head of sustainability has expertise in participating in stakeholder groups and in investment manager engagement. They are responsible for monitoring the stewardship activity of the investment manager on behalf of the Trustee.

The Trustee has selected Redington and Eversheds Sutherland to provide advisory services, to bring additional expertise. The Trustee continues to assess advisors on their sustainability competences on an (at least) annual basis.

To guide stewardship activities, the Trustee has decided to focus on three sustainability themes, that inform the Trustee's, and our investment manager's thematic engagement: gender equality, living wages, and climate action. These themes have been selected by Trustee for the Trust to engage on a diversity of interlinking sustainability issues of long-term systemic importance to the outcome for members.

The approach is communicated on the NOW: Pensions website, and the Trustee encourages feedback from members and stakeholders to inform and continue to enhance stewardship activities.

Our service providers: MSCI and Sustainalytics

MSCI is a global provider of investment decision-making support tools, including indexes, portfolio risk and performance analytics. The investment manager appointed MSCI for reliable external data coverage on climate change and to monitor gender equality risks and opportunities to ensure that the stewardship approach is holistic, and all-encompassing. MSCI provides NOW: Pensions with general ESG-related data sets covering 100% of the investment portfolio's sustainable equity investments. Using data collected by MSCI, the Trustee accesses data that is standardised and well-recognised across the industry, to track progress against the priority sustainability themes.

Sustainalytics provides stewardship services to investors, assisting them to improve on sustainability issues through constructive dialogue and collaboration. In Q1 2022, the investment manager applied an enhanced stewardship programme to the investment portfolios, in partnership with engagement provider, Sustainalytics. Sustainalytics is used by both the investment manager and NOW: Pensions for specialised engagement services. With Sustainalytics, NOW: Pensions can engage directly with companies in the portfolio, escalating when necessary and supporting engagements in line with the Trustee's priority sustainability themes. The Trustee and the investment manager also work with third-party managers to help assess whether their voting and stewardship activity reflect the Trustee's investment priorities.

Investment in systems, processes, research, and analysis

The governance structure and outsourcing of service providers ensure that the Trustee is well-informed on stewardship and with relevant expertise. The Trustee reviews the investment strategy on an annual basis, and completes a more extended investment strategy review every three years, to ensure effective stewardship and makes changes if necessary. Details on the changes made following the latest triennial review moving into 2024 can be found under Principle 8.

Performance management and reward programmes

NOW: Pensions manages performance and incentivises staff to integrate stewardship into investment decision-making through several steps, including:

- regular performance reviews, where the Trustee and the IC determines if investment, including the approach to stewardship, engagement, and voting, is providing value for members.
- assessment and monitoring of fees and expenses, including transaction costs, against expected levels, ensuring accountability for costs incurred in managing investments.
- quarterly meetings between the IC and the Investment manager that focus on fund performance (financial and non-financial) against objectives, with specific consideration of the investment strategy's implementation.
- everyone in the company has a sustainability objective as part of their annual appraisal. These are not directly linked to an award or a portion of the bonus.

Ensuring our governance structures and processes enable effective stewardship

The governance structures and processes have been effective in supporting stewardship goals, in particular in supporting the priority sustainability themes. The Trustee ensures effective stewardship through, for example:

- adoption of the CCRO governance policy, as detailed above
- regular reporting from the investment manager on climate change-related risks and opportunities, which are then reviewed during IC meetings
- the IC reports outcomes of assessments to the Trustee, ensuring accountability and alignment with the stewardship goals
- updates to the investment strategy as necessary to ensure effective stewardship and alignment with the Trustee's beliefs and priority sustainability themes.

How our governance structures and processes could be improved

The Trustee believes the governance structures and processes could be improved by addressing any gaps in relevant data that could affect the Trust's governance approach. For example, this could be addressing data gaps related to any of the Trustee's priority sustainability themes, and prioritising engagement on these gaps for material impact. The investment manager is responsible for flagging these gaps and prioritises engagement on behalf of the Trustee. One notable gap related to the priority sustainability theme of climate action is greenhouse gas emissions, where in some markets greenhouse gas emissions disclosures are not regulated, and not subject to audit, as detailed in the TCFD report. NOW: Pensions continues to engage with standard-setters, policymakers, data providers and other companies to improve data quality.

Additionally, the approach could be further enhanced with an increased integration of acquired expertise. The Trustee has benefitted from the integration of the investment manager's stewardship approach and knowledge and would like to continue to leverage new expertise to enhance investment decision-making processes.

Every three years (at least), the Trustee formally reviews the investment strategy. The 2023 strategy review resulted in several changes to the strategy moving into 2024 to ensure further alignment with the Trustee's beliefs and priority sustainability themes. Further details can be found under Principle 8.



3

Principle 3:

Conflicts of interest

3

Conflicts of interest

Our conflicts policy

The conflicts of interest policy sets out guidelines and procedures for identifying, monitoring, and managing actual, potential, and perceived conflicts of interest to enable conflicts to be identified and managed, and applies to all Trustee Directors. This policy has been reviewed by our external legal advisors.

In summary, the conflicts of interest policy contains the following elements:

- overview of Trustee director conflicts of interest
- understanding the importance of conflicts of interest
- identification and categorisation of conflicts
- monitoring conflicts
- process for declaring conflicts
- procedure for managing conflicts
- confidential information
- advisers, service providers and conflicts
- monitoring compliance and reviewing the policy.

Every meeting of the Trustee or sub-committee starts with a review and update of the conflicts-of-interest register.

How our conflicts policy applies to stewardship

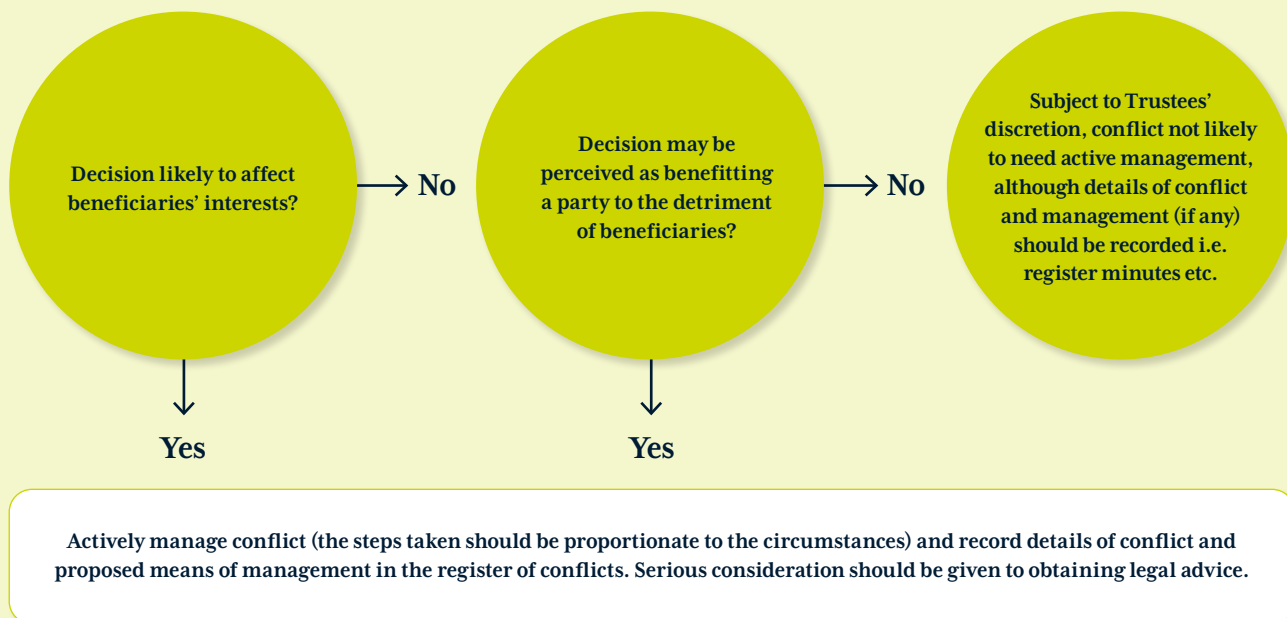
The conflicts of interest policy applies to stewardship as the management of conflicts of interest is key to good scheme governance, and to acting in a manner that serves members' best interests. The conflicts of interest policy allows the Trustee to identify, monitor, and manage potential conflicts of interest to ensure members' needs are met and prioritised.

Identifying and managing stewardship-related conflicts

As detailed in our conflicts of interest policy, each Trustee director should, to identify stewardship-related conflicts:

- identify and consider any conflicts that may arise in the future and notify the other Trustee directors as soon as practically possible
- identify and consider any conflicts that have arisen and notify the other Trustee directors as soon as practically possible
- be appointed under procedures that require them to disclose any conflicts of interest
- confirm that they are not aware of any further conflicts that have not been disclosed to the other Trustee directors
- maintain an up to date register of each Trustee director's interests, for example financial interests and other appointments
- have a means of recording conflicts that have arisen or are likely to arise, by using the register of interests.

The actions that proceed after the identification of stewardship-related conflicts are described in detail in the conflicts of interest policy. The following diagram, taken from our conflicts of interest policy, details the Trustee's process to determine whether a conflict of interest should be actively managed:



Examples of conflicts

Whilst there have not been cases of conflict of interest during the reporting period, to mitigate potential conflicts of interest between NOW: Pensions and the investment manager, the conflicts-of-interest register states that any investment manager partners will not participate in any related decisions.

This policy was created in response to three board directors of NPL that are simultaneously partners of the investment manager. The involved board directors may have a conflict of interest involving decisions made related to the investment manager. Therefore, as stated, to avoid cases of conflict of interest, the register of potential conflicts states that they will not participate in any related decisions.

An example of such a potential conflict that was mitigated by the governance structure is the decision to appoint Cardano to manage two new portfolios of equities and credit for the Trust over the course of 2023 as a result of the investment strategy review. To mitigate this risk of any conflict of interest the Trustee employed their independent investment advisor Redington to advise them on Cardano's suitability in managing these new portfolios for the Trustee and the investment manager directors were not involved in this decision.

4

Principle 4:

Identification and response to risks



4

Identification and response to risks

How we identify and respond to risks

Market-wide risks

The Trustee has identified the following market-wide risks, which the Trustee assesses on (at least) an annual basis with support from the investment manager:

- **currency risk** – the potential for financial loss due to changes in exchange rates
- **interest rates risk** – the risk of investment value changes due to variations in the level of interest rates
- **inflation risk** – the threat of asset or currency value erosion as a result of rising prices
- **geopolitical issues** – the risk of political events or instability affecting markets and investment valuations
- **commodity price fluctuations** – the uncertainty of investment returns caused by changes in the market prices of commodities.

Market-wide risks are overseen by the Trustee and consequently managed by the investment manager.

Systemic risks

The Trustee has identified the following system-wide risks which the Trustee assesses on (at least) an annual basis with support from their investment manager:

- **climate change** – the risk of economic and social disruption due to long-term shifts in temperatures and weather patterns
- **environmental issues** – the economic and social risks of environmental issues other than climate change, such as those related to biodiversity loss, water usage, and materials sourcing

- **inequality** – the risk of destabilising social and economic systems due to growing disparities in income
- **human rights issues** – the potential for social and economic impact due to the violation of human rights
- **failure of a business/a group of businesses** – the risk of widespread economic consequences resulting from the collapse of key companies or sectors
- **cybersecurity threats** – the risk of damage or disruption to systems, data, or operations through digital attacks
- **systemic liquidity shortages** – the danger of a widespread crisis in financial markets due to a sudden lack of available funding.

Major regulatory changes or failures – the risk of market instability or legal breaches due to significant alterations in, or the breakdown of, regulatory frameworks

System-wide risks are overseen by the Trustee and consequently managed by the investment manager.

Systemic risks by definition can affect the entire economy and hence the long-term outcomes for members regardless of portfolio diversification. This is a key reason why the Trustee believes in engaging on the three identified priority areas of climate change, and living wages and gender equality both of which address the risks that arise from inequality.

By way of example we illustrate how the systemic risk of climate change is approached.

Our identification and response to climate change

The Trustee has a specific policy and response to climate change. The approach includes the following steps:

- overseeing the investment manager's and third-party managers' voting and engagement of portfolio companies
- undertaking TCFD reporting
- using scenario analysis as a starting point to forecast the systemic financial risk associated with varying degrees of warming from climate change. The Trustee undertakes three scenarios but does not simply rely upon financial model outcomes. The Trustee explores more holistically the nature and impact of potential extreme scenarios
- considering the impact of physical and transitional, including operational risks
- considering related risks which interact with climate risk such of biodiversity and deforestation
- publishing an annual implementation statement
- investing in UK green gilts and other green bonds
- increasing investment in sustainable equity strategies that include management of climate change risks
- adopting a CCRO governance policy.



Case study: Our investment in UK green gilts

NOW: Pensions invests in UK green gilts, a component of the green financing program created by the UK Debt Management Office (DMO) to facilitate a sustainable transition to a green economy. The green gilts will enable the financing of projects in line with the government's climate objectives. Projects include electric rail and sustainable agricultural and land management practices.

NOW: Pensions' participation in the financing of the program targets the systemic risk of climate change, therefore promoting the well-functioning of financial markets, and supports the climate action priority sustainability theme.

In terms of stewardship and engagement, the investment manager has engaged on the Trustee's behalf with the DMO to understand whether the framework that is applied to the use of proceeds from green gilts is consistent with the manager's sustainable bond policies and to ensure green gilts proceeds are used as consistent with the prospectus.

Working with stakeholders to promote well-functioning markets

NOW: Pensions has supported and collaborated with a variety of stakeholders directly, and through the investment manager's active participation in industry initiatives.

In the case of climate change, the Trustee recognises the uncertainties around government policies and the potential economic impacts, and therefore the need for collaborative actions to address these risks.

The Trustee also recognises the power of an industry's collaborative effort to build a resilient market, and to enact real change in the other two priority sustainability areas: gender equality and living wages.

As a standard, the Trustee expects the investment manager and third-party managers to engage on initiatives that NOW: Pensions supports, as detailed in Principle 10.

The Trustee is in addition supported in direct engagements by NPL staff who work together with the investment manager and Sustainalytics. This includes in initiatives targeting a range of stakeholders, from relevant companies to policymakers, to address risks at a market and system-wide level. Specific engagements with stakeholders are detailed in Principle 9.

Participation in industry initiatives

Examples of NOW: Pensions' participation in initiatives are below.

Initiative	About	Rationale and participation
Pensions for Purpose – NOW: Pensions is a member	Pensions for Purpose is an initiative focused on promoting the flow of capital towards impact investments to generate positive social and environmental outcomes, leveraging a collaborative online platform to share best practices, case studies, and innovative solutions within the investment community.	NOW: Pensions can collaborate on initiatives that aim to influence policy and market standards, such as advocating for transparency in how pension funds address climate risks, to amplify impact and drive systemic change in the industry. NOW: Pensions can align investment strategies and priority sustainability themes with broader social and environmental objectives, benefiting from shared knowledge on impactful investing. The Trustee believes that as a member of Pensions for Purpose, NOW: Pensions can better address the priority sustainability and drive systemic change in the industry.
IIGCC – NOW: Pensions is a member	The IIGCC is a leading European investor membership organisation dedicated to promoting investor action on climate change, with a focus on creating a net-zero and climate-resilient future. IIGCC pushes for transparency and better corporate disclosure on ESG, engages with policymakers and regulators to advocate for long-term stability of financial markets (e.g. through mitigation of the systemic risk of climate change), and promotes investor collaboration and best practice.	Through engagement with IIGCC, NOW: Pensions can amplify policy engagement activities, have European influence, and address priority sustainability theme of climate action. The collaboration with IIGCC is one way NOW: Pensions can promote the well-functioning of financial markets.
PRI – NOW: Pensions is a signatory	The PRI is a UN-supported initiative that encourages investors to incorporate ESG factors into investment decision-making and ownership to foster a sustainable global financial system.	Through collaboration with PRI, NOW: Pensions can address the key issues of climate action, gender equality and living wages at a global level of influence. Additionally, the investment manager participates in PRI's stewardship initiative for nature: Spring, an action that supports our priority sustainability theme of climate action.
Occupational Pensions Stewardship Council – NOW: Pensions is a member	The Occupational Pensions Stewardship Council (OPSC) is a UK council of pension schemes focused on promoting and facilitating high standards of asset stewardship to support thoughtful and responsible investment practices. (The OPSC was rolled into the Asset Owners Roundtable in 2024 which NOW: Pensions will participate in going forward)	Participation facilitates the Trustee's engagement in industry-wide sustainability and stewardship activities related to our priority sustainability themes. For example, NOW: Pensions conducted focus groups whereby NOW: Pensions interviewed pension scheme members to learn their views on sustainability and responsible investment topics and shared the results with DWP's Occupational Pensions Stewardship Council. Participation includes regular discussions with policymakers and regulators, including the DWP, TPR, FCA and FRC.

NOW: Pensions is supportive of the investment manager's involvement in industry initiatives and encourages collaborative efforts of engagement with other investors to contribute to the well-functioning of financial markets. Given the importance of the Trustee's relationship with the investment manager, the investment manager's involvement in initiatives have also been included in this report. Examples of the participation in initiatives overseen by the Trustee and participated in by the investment manager are below.

Initiative	About	Rationale and Participation
Climate Action 100+ – the investment manager is a lead investor	Climate Action 100+ is an investor-led initiative aimed at ensuring the world's largest corporate greenhouse gas emitters take necessary climate change action, coordinating engagement with companies and pushing for governance reform, enhanced disclosure, and concrete actions to reduce greenhouse gas emissions in line with the Paris Agreement.	Through the Trustee's support for Climate Action 100+, and the investment manager's involvement as a lead investor in Climate Action 100+, NOW: Pensions supports collaborative engagements on portfolio companies to address the priority sustainability theme of climate action.
Dutch Climate Coalition – the investment manager is a member	The Dutch Climate Coalition (DCC), led by the Dutch climate minister and involving Dutch institutional investors, advocates for phasing out fossil fuel subsidies, urging oil and gas companies to align with the Paris Agreement, and emphasises the collective responsibility of various stakeholders in combating climate change towards a sustainable and climate-resilient future.	Participation extends the investment manager's involvement in Climate Action 100+. Involvement allows for collaboration with other high conviction sustainable asset managers so that the industry have more powerful engagements with high-emitting companies.
Platform Living Wage Financials – the investment manager is a member	PLWF is a coalition of financial institutions working together to promote and ensure the implementation of living wages and incomes within the supply chains of their investee companies.	The Trustee supports the investment manager's active participation in PLWF to address the priority sustainability themes of gender equality and living wages at an industry-wide level.
ShareAction's Good Work Coalition – NOW: Pensions and the investment manager are members	The ShareAction's Good Work Coalition is a collaborative effort focused on improving work conditions and corporate accountability.	The Trustee supports the investment manager's active membership with the Good Work Coalition. Their participation enables NOW: Pensions to expand its level of engagement and influence. For example, through the Good Work Coalition, the investment manager co-filed a resolution for Sainsbury's on living wages, in alignment with the priority sustainability theme.
Partnership for Carbon Accounting and Financials – the investment manager is a member	PCAF is a global collaboration of financial institutions focused on measuring and disclosing greenhouse gas emissions associated with their loans and investments, promoting transparency and accountability in alignment with the Paris Agreement.	The investment manager participates in PCAF to help create robust greenhouse gas measurement methodologies that the Trustee can use to improve climate risk and opportunity assessments, and consequently promote the resilience of financial markets.
Net Zero Asset Managers initiative – the investment manager is a signatory	The Net Zero Asset Managers Initiative is a global coalition of asset managers committed to achieving net zero greenhouse gas emissions by 2050 or sooner, supporting efforts to limit global warming to 1.5°C consistent with their fiduciary duty to clients and beneficiaries.	The Trustee expects the investment manager and third-party managers to engage collaboratively in this initiative, in alignment with the priority sustainability theme of climate action.

Additionally, NOW: Pensions is engaged and involved in policy, submitting and responding to policy submissions relevant to mitigating market and system-wide risks; responses include:

Submission	About	Explanation
Taskforce on Climate-related Financial Disclosures (TCFD)	The aim of TCFD is to standardise climate disclosures and help financial markets understand and price the financial risks and opportunities posed by climate change.	The Trustee submitted reports following TCFD disclosure requirements in line with the Trustee's regulatory obligations.
Taskforce on Nature-related Financial Disclosures (TNFD)	The aim of TNFD is to integrate nature into business decision-making processes, providing science-based recommendations consistent with global policy goals and sustainability reporting standards to guide organisations in disclosing their nature-related dependencies, impacts, risks, and strategic planning.	The Trustee expects the engagements and voting decisions conducted on its behalf by the investment manager and third-party managers to reference and follow TNFD where relevant, in addition to other international codes and standards. Addressing and identifying nature-related risks and opportunities is in line with the priority sustainability theme of climate action, as nature and climate-related risks are interrelated and reinforcing.
DWP's Social Factors Taskforce	The Social Factors Taskforce, established by the UK's Department for Work and Pensions, aims to guide pension schemes on incorporating social factors, such as workforce conditions, community engagement, and consumer protection, into their investment decisions and stewardship policies.	Both the Trustee and the investment manager responded to the recommendations for asset owners, asset manager and investment consultants. The aim was to help facilitate effective practice of stewardship on social factors across the industry and promote the well-functioning of markets. The Trustee welcomed the draft guidance which supports its priority themes of living wage and gender equality.
Transition Plan Taskforce Disclosure	The Transition Plan Taskforce Disclosure Framework is a set of guidelines for companies to develop credible and robust climate transition plans, with the aim of reaching net-zero emissions and supporting the UK's goal for a net-zero economy by 2050.	The Trustee responded to the Transition Plan Taskforce consultation to maximise its usability for pension funds and ensure its applicability to the UK's decarbonisation objectives. The Trustee welcomed the taskforce recommendations that recognised the interconnections of climate with other environmental issues like biodiversity and social factors.

Assessment of initiative involvement effectiveness

NOW: Pensions and the investment manager are involved in a variety of initiatives that promote resilience in financial markets, with a strong emphasis on climate action. Collective engagement in these initiatives reflects a strategic approach to sustainability that aligns with fiduciary duties and supports the long-term stability of the markets in which the Trustee invests. The investment manager assesses the efficacy of initiative involvement and may extend participation and engagement where possible. For example, the investment manager joined the Dutch Climate Coalition as an extension of Climate Action 100+ to accelerate progress towards the Trustee's priority sustainability theme of climate action. The Trustee works closely with the investment manager, critiquing and supporting initiative participation, decision-making, and approaches, to promote effective and impactful initiative involvement.

Aligning investments with the Trustee's sustainability beliefs

NOW: Pensions has set sustainability and stewardship objectives for both the Diversified Growth Fund and the Retirement Countdown Fund (see Principle 1 context for how these strategies fit into the overall strategy) to align investment to mitigate climate change-related risks:

- net zero greenhouse gas emissions by 2050, with a 50% emissions reduction by 2030, based on 2019 levels
- for the Diversified Growth Fund, to have at least 75% of the portfolio's net asset value in investments with specific sustainability commitments, such as green bonds or low carbon physical equity.

In addition the Trustee identifies the three priority themes of climate action, living wage and gender equality which contribute to systemic risks.

The Trustee has aligned and adjusted the investment strategy to achieve these goals; steps taken include:

- discussing whether these risks should result in shifts in asset allocation between asset classes or on sector or geographic basis
- working with the investment manager, the Trustee has identified that these systemic sustainability issues do give rise to greater risks of future inflation because the transition to a sustainable economy will result in increased demand for certain commodities. As a result the investment manager has implemented a c5% allocation to a basket of commodities selected for their role in diversification or a climate transition
- for other asset classes the Trustee has concluded at this stage that these risks should not alter the strategic asset allocation strategy but that the risks are best mitigated and incorporated at the asset class level.
- at the asset class level, allocating to low carbon equity strategies with third-party managers that limit climate transition risks at a stock level. The new equity and credit strategy implement in 2024 extends this climate focus to a wide range of additional systemic sustainability risks including biodiversity, deforestation, water, materials use and social issues
- improving internal processes and data quality to better manage climate risks and align investments accordingly
- investing in uk green gilts and other green bonds (bonds with specific 'use of proceeds' that go towards having an impact on climate and sometimes social issues)
- in most cases, remaining invested and engaging portfolio companies (driving the transition towards a more sustainable society) rather than disinvesting
- disinvesting when an investment appears to be too detrimental a real-world impact despite performance e.g. Thermal coal.

Assessment of our effectiveness in identifying and responding to risks and promoting well-functioning markets

The Trustee believes that it has taken a proactive approach to understanding and managing risks integral to promoting the stability and efficiency of financial markets. NOW: Pensions has implemented processes to mitigate known limitations in data quality and coverage, and supports and influences the investment manager's engagement in initiatives, with policymakers, data providers, and companies to improve data quality and the well-functioning of financial markets so that NOW: Pensions and the industry can continue to improve risk identification and mitigation processes.

Looking forward, the Trustee would like to further address systemic risks to continue to promote a well-functioning market and mitigate longer term financial risks to our members.

5

Principle 5:

Policies



5

Policies

How we review our policies to ensure effective stewardship

The Trustee continually assesses its policies to ensure they enable effective stewardship, in line with the priority sustainability themes: gender equality, living wages, and climate action. Examples of the steps taken to review the policies include:

- annual review of the investment manager's stewardship policies and their oversight of third-party managers' voting records, with qualitative and quantitative information collated to enable the Trustee to conduct yearly reviews. The Trustee ensures that the investment manager's stewardship practices and their management of third-party managers are aligned with its sustainability and stewardship approaches, and challenge any misalignments
- the Trustee's challenging of the investment manager in their monitoring of third-party managers to ensure activities aligned with its sustainability and stewardship beliefs and approach, including scrutinising stewardship, voting and engagement policies before initial investment.

Stewardship assurance

Internal assurance

The Trustee performs internal assurance through a variety of means.

- Integrating the priority sustainability themes and real-world impact into Trustee investment decisions, to enhance risk-adjusted returns and identify new opportunities.
- Integrating an assessment of manager alignment around stewardship beliefs, engagement, voting and escalation into the criteria applied by the investment manager when appointing new third-party managers.
- Receiving regular updates on stewardship activities from the investment manager and third-party managers, scrutinising stewardship activity to ensure consistency with the priority sustainability themes, and conducting Trustee stewardship training.
- Reviewing the investment advisers and the Investment manager on their sustainability-and stewardship-related capabilities, ensuring processes were comprehensive and aligned with the priority sustainability themes.
- NPL on behalf of the Trustee monitors the investment manager in terms of investment and sustainability execution.
- NPL internal audit review certain functions as necessary.

External assurance

NOW: Pensions has undertaken external assurance in addition to internal assurance, to ensure that stewardship activities of third-party managers are in line with our stewardship approach and our priority sustainability themes. For example, through the Investment manager, the Trustee engages the services of sustainalytics for engagement overlay activities and applies an enhanced stewardship program, aligning with its stewardship approach. This allows NPL staff on behalf of the Trustee to engage companies directly, in addition to the engagement activities undertaken by the investment manager, and third-party managers.

Rationale

The Trustee believes its internal assurance process, enhanced with external assurance provided by Cardano, NPL and Sustainalytics, allows it to effectively practise stewardship aligned with its priority sustainability beliefs.

Ensuring stewardship reporting is fair, balanced, and understandable

The Trustee ensures that its stewardship reporting is fair, balanced, and understandable through the following steps.

- Reviewing the investment manager's and third-party managers' stewardship activities and reporting, including assessing key votes and engagements.
- Seeking external advice.
- Acknowledging gaps in data and assumptions. For example, in the data limitations in climate change disclosures, particularly in markets where greenhouse gas emissions disclosures are not regulated.
- Engaging with policymakers, data providers, and companies to facilitate data quality and coverage improvements.

The Trustee attempts to address and minimise data gaps to improve the quality of stewardship reporting through several means, including:

- participating in, and supporting the investment manager's participation in, industry groups developing and enhancing greenhouse gas emissions methodologies, such as IIGCC and PCAF
- assessing the investment manager's oversight of third-party managers' sustainability-related data, flagging potential gaps and prioritising data of importance
- reviewing the investment manager's appointment of MSCI to provide external data coverage on the priority sustainability themes. For example, for the priority sustainability theme of gender equality, MSCI provides the following standardised, industry-respected data sets: board diversity, workforce diversity, gender pay gap, minimum wage, overtime, a proprietary human capital score and a MSCI proprietary SDG 5 (gender equality) alignment score.

How our review and assurance have led to the continuous improvement of stewardship policies and processes

The review and assurance processes have led to the continuous improvement of stewardship policies processes, for example:

- the Trustee receives regular updates and training on stewardship, ensuring that the Trustee is well-informed to support the engagement on stewardship and the priority sustainability themes. This process includes developing sustainability belief cycles, to inform the stewardship activities, and integrating the priority sustainability themes into investment decisions
- the Trustee has developed and published a stewardship policy, available on the NOW: Pensions' website, in response to the Trustee's reviews of its stewardship processes and stakeholder feedback
- the Trustee scrutinises the investment manager's engagement on a quarterly basis to ensure its activities continue to align with the priority sustainability themes
- the Trustee continues to engage with various stakeholders to improve data quality and coverage in areas identified in response to an internal audit and external legal advice
- the review of the experience with third-party managers has led to the development of the new in-house investment strategy managed by Cardano that provides greater alignment with the Trustee policies.

6

Principle 6:

Meeting member needs



6

Meeting member needs

Our scheme structure

NOW: Pensions is a master trust defined contribution pension scheme used by multiple employers. The Trust is managed by the Trust manager, NOW: Pensions Limited (NPL) and overseen by the Trustee, NOW: Pensions Trustee Limited. The role of the Trustee is to look after the best interests of members of the master trust.

The size and profile of our membership

NOW: Pensions is the third largest master trust in the UK (by number of members) and serves over two million members, and tens of thousands of employers. Whilst there is not an exact demographic breakdown of the membership, the Scheme does cater to a wide range of employees from different companies, with all members working in pounds (GBP) and saving in pounds (GBP).

Assets under management

NOW: Pensions operates three different investment funds (all managed by the investment manager), with different asset classes and allocations, including investments in international and UK government debt ('gilts', as well as the UK 'green gilt'), green and sustainable bonds, credit, physical equity, and derivative equity, as well as total return swaps.

Diversified Growth Fund

In the Diversified Growth Fund, the investments are managed across various asset classes to deliver return, risk and stewardship on the priority sustainability themes.

Asset Class	Allocation
Equities (including publicly-listed developed market equity and emerging market equity)	55%-85%
Global green and sustainable bonds, and sterling investment-grade corporate bonds	0%-30%
Private market investments (including debt and equity instruments not publicly listed)	0%-10%
Other (cash, government bonds, commodities, inflation swaps, high yield bonds and foreign currencies)	0%-20%

Retirement Countdown Fund

The Retirement Countdown Fund is typically invested in short-dated bonds, money markets and cash deposits.

Shariah Fund

For one particular client, for members with specific beliefs, a Shariah-compliant fund is made available. The Shariah Fund is invested, via a third-party manager, in Shariah-compliant investments. For the Shariah Fund, the responsible investment principles and goals, set out by the Trustee, are applied where it is reasonably practicable to do so, but still invest in line with the overarching principles of the Shariah Fund.

Our investment time horizon to meet the needs of our members

NOW: Pensions' investment time horizon is long-term by which we mean multiple decades (for example in our TCFD report we consider the time horizon out to 2050), considering the expected long-term return against investment risk. The investment manager's strategy is based on long-term risk and return assessments of different asset classes, diversification, economic conditions, sustainability, and stewardship factors, in alignment with our priority sustainability themes.

Rationale

Long-term investment is an integral component in the investment strategy, as detailed in Principle 1. The Trustee believes long-term investment is essential for managing risks associated with the priority sustainability themes and for enhancing returns over time, to meet the needs of members. The Trustee incorporates sustainability considerations in strategic asset allocation, which the Trustee believes to be the most significant driver of long-term investment performance, more than manager or security selection. For this reason, real-world progress in systemically important sustainability issues like gender equality, living wages and climate action are prioritised. Over the long-term time horizon, these systemic issues will drive member outcomes.

How we collect members' views

In Q1 2023, NOW: Pensions sought feedback from individual members regarding their views via focus groups. The Trustee captured relevant findings in the annual TCFD report and shared the results with the DWP's Occupational Pensions Stewardship Council (OPSC).

Participants first completed a questionnaire on their views on finance and specifically their pension. Then 75-minute focus group sessions were run to better understand members' views on sustainability topics, including climate change and responsible investment.

Focus groups were conducted with the following principles in mind, to engage, effectively communicate, and make content accessible to members: listen, short communication, simple everyday language, relevant, directive/instructive, channels of choice, effective engagement, make a difference, inclusive, and light and bright (as recommended in the OPSC member engagement guide).

Rationale

The focus groups were aimed to establish whether members understood their pension, the importance of various investment and sustainability topics, and to understand areas where they would like to see progress.

The focus groups were aimed to establish whether members understood their pension, the importance of various investment and sustainability topics, and to understand areas where they would like to see progress.

How members' needs are reflected in our stewardship and investment approaches

Investments are managed to deliver long-term returns, aligning with the investment risk trade-off, and reflecting the long-term interests of members. To achieve this, NOW: Pensions has two different funds for different life stages, with varying levels of calculated investment risk: the Diversified Growth Fund (the 'default') and the Retirement Countdown Fund (expected risk of 3% to 5%). The two funds are used at varying levels depending on the life stage of the member and consequent needs, to maximise positive outcomes.

NOW: Pensions considers non-financial factors (such as members' ethical or religious views and those relating to quality of life and social and environmental impact) if expressly requested by the employer in deciding whether to offer any self-select funds to members, for example, the Shariah Fund.

NOW: Pensions publishes an annual implementation Statement and [TCFD report](#) that consider members' needs and communicate engagement activities and outcomes. Progress on stewardship and priority sustainability themes are monitored regularly and reported to members annually. A members' summary alongside the publication of our TCFD report is produced to increase the accessibility.

Evaluating the effectiveness of our methods to understand members' needs

The Trustee believes the findings of the focus group activity were helpful and have helped to reinforce the approach to sustainability and stewardship. The focus groups allowed us to obtain primary data on members' understanding and attitudes towards pensions, responsible investing, and what matters to members and employers in terms of investment and sustainability topics.

How we have taken account of members' views

NOW: Pensions works to understand members' views to ensure that, as far as legally permitted, these are reflected in investment decisions and service delivery.

The focus groups activity revealed that members need help to understand their pensions and investment strategies. There is a lack of clarity among members and employers about what constitutes a good investment and whether and how the Trustee influences pension investment decisions. While the focus groups represented a small subset of the membership, the Trustee found the exercise useful and have considered the results in detail.

The focus groups activity did not lead to a change in investment strategy, although it was recognised that more could be done to explain responsible investment. The Trustee believes this is an issue relevant to the broader industry. It has informed the decision to join IIGCC, PRI and Pensions for Purpose and encourage their attention at addressing industry communication challenges. The findings of the focus groups were also shared with the Occupational Pensions Stewardship Council (OPSC) and will be considered further by the Trustee to enhance member understanding and engagement in responsible investment.

Where we have not followed stewardship and investment policies

There have been no instances where the Trustee has not followed the stewardship and investment policies, with exception of the Shariah Fund (see below). However, there have been instances where third-party managers appointed by the investment manager have acted in ways that the Trustee believes is not consistent with the priority sustainability themes. It is the investment manager's responsibility to assess and report to the Trustee the actions of third-party managers to ensure they are in line with priority sustainability themes. This is explained in the case-study below.

In the case of the Shariah Fund, the Trustee's priority sustainability themes have not been applied and considered in the selection of the investment strategy as the primary consideration is ensuring a Shariah-compliant fund is provided to members. The other parts of the responsible investment policy including the stewardship approach applied by the manager continue to be applied. This choice is made by members to reflect their Shariah beliefs and therefore it is in their best interests.

Case study: BP and Shell AGMs

At 2023 BP and Shell AGMs, NOW: Pensions engaged and expected third-party managers to vote in favour of a climate resolution, in line with the climate action priority sustainability theme. This was not the case for all the third-party managers, and so the investment manager followed up to understand the third-party manager's decision-making.

The instance of when a manager has not voted as expected informs the investment manager's ongoing assessment of that manager and is to be reported to the Trustee. In one case, the overall voting and engagement activity of one of the third-party managers assessed over several years, prompted a downgrading of their sustainability rating by the investment manager. The Trustee believes stewardship involves alignment on more than simply voting. The managers' engagement with the companies, voting, escalation, and portfolio actions should ideally be aligned with the Trustee's beliefs. This was one factor in the 2023 investment strategy review that led to disinvesting from this manager.



Principle 7:

Integration of stewardship, sustainability, and investment

7

Integration of stewardship, sustainability, and investment

Issues we have prioritised for investment assessment

The Trustee’s priority sustainability themes are considered at all stages of investment: gender equality, living wages, and climate action. Explanations for each priority sustainability theme are below, and set out in further detail on the NOW: Pensions website.

Theme	Explanation
Gender equality	NOW: Pensions believe in the equal rights, responsibilities and opportunities of individuals regardless of gender. We believe that gender equality is necessary for a prosperous and sustainable world, and as such is a moral and economic imperative. The contribution to reducing long term systemic risks that arise as a result of inequality will be to the financial benefit of our members. Furthermore, we believe that companies that take steps towards gender equality will, on average, outperform companies that ignore gender equality or exacerbate gender inequalities. We believe that companies that make improvements on gender equality will secure a more engaged and diverse workforce, be less exposed to reputational issues, and will help to reduce poverty.
Living wages	NOW: Pensions believe that companies should pay workers a living wage, as set out in the Universal Declaration of Human Rights. We believe that the provision of a living wage could have several knock-on effects such as reducing child labour, increased access to education and other positive social impacts. The contribution to reducing long term systemic risks that arise as a result of inequality will be to the financial benefit of our members. We believe that companies that pay a living wage will, on average, outperform companies that do not pay a living wage. We believe that companies that pay a living wage will secure a more engaged and diverse workforce, be less exposed to reputational issues, and be less exposed to regulatory intervention.
Climate action	NOW: Pensions believe that companies which take steps to address climate change will, on average, outperform companies that ignore or increase climate change. Climate change is now a widely established and socialised concept within financial markets, and is a real, systemic risk. In this way, climate action is one of our priority sustainability themes as we believe that a fast, fair and just transition to a low-carbon economy is the only way to address this crisis and risk. The contribution to reducing long term systemic risks that arise from climate change will be to the financial benefit of our members.

These themes inform the Trustee’s engagement activities, including the exercise of voting rights on behalf of the Trustee.

Before appointment

Before the investment manager appoints a new third-party manager, the investment manager assesses the third-party manager's alignment with the Trustee's priority sustainability themes and how the third-party manager engages investee companies and policymakers. The investment manager's manager research team completes detailed due diligence through questionnaires and onsite due diligence, rating the manager on policies, process integration, stewardship and reporting. An independent due diligence is conducted by the investment managers operational due diligence team. This includes an assessment of policies such as the diversity policies of the third party manager with staff diversity collected at this stage.

Sometimes, the Trustee may direct the investment manager to allocate to investments with specific sustainability objectives (such as net zero GHG emissions by 2050) to facilitate risk management and progress around one of the priority sustainability themes.

Case study:

A recent third-party manager appointment for the scheme involved appointing a manager deliver a Shariah-compliant fund to be made available to certain members in line with their religious beliefs. The third-party manager was assessed to have good stewardship policies but this appointment involved an active discussion by the Trustee regarding the priority themes in the case of this investment. It was decided that in this case it was in these members interests to provide an option compliant with their religious beliefs and this would take precedence over the priority themes that are applied more broadly to other investments. The third party manager is still expected to engage with the businesses to manage financial risks, climate risks and other ESG risks.

During holding

During holding, the Trustee, the investment manager and third-party managers engage with companies to address risks and make progress associated with the priority sustainability themes. For example, to meet objectives related to the climate action priority sustainability themes, NOW: Pensions may actively engage with investee companies to address climate change-related risks whilst maintaining investments in identified low carbon companies. Examples of such engagement can be found under Principle 9.

Exiting

Whilst the Trustee's preference is to engage, rather than divest, the Trustee may choose to exclude investments where the real-world impact is deemed too detrimental, especially regarding systemic issues like climate change or human rights. In relation to the climate action priority sustainability theme, the Trustee may deem an investment unfit for the investment portfolio, if it is inconsistent with the goal of net zero greenhouse gas emissions by 2050 and a 50% reduction by 2030 (based on 2019 levels), and the portfolio company has not demonstrated its ability to transition.

For example, in the new strategy implemented in equities in 2024, the investment manager excludes from the physical equity portfolio companies that it deems too harmful or in violation of international standards. For example, this includes companies in breach of the UN Global Compact, thermal coal producers (subject to various phase out dates), controversial weapons manufacturers, and tobacco companies. The investment manager will also disinvest from companies that it considers to be 'non-adapting' or 'at risk' of failing to transition on the required transition pathway having previously engaged with those businesses.

How integration of stewardship and investment has differed across funds, asset classes, and geographies

Up until the 2023 strategy review, certain equity investments have been managed by third-party managers. As part of their responsibilities, the investment manager ensured that stewardship, voting and engagement policies of the third-party managers were aligned with the Trustee's stewardship policy and priority sustainability themes prior to initial investment. During investment, third-party managers were expected to apply stewardship principles consistent with those of the Trustee and provide appropriate disclosures to show alignment. When allocating to third-party managers the emphasis for stewardship is on how the investment manager engages with the third-party asset managers following an ESG rating process.

Moving into 2024, as detailed in Principle 8, the new strategy moves away from certain third-party equity managers, in part due to a perceived misalignment of these managers actions with the Trustee's stewardship beliefs. The new strategy will see an increase to direct physical holdings managed in-house by the investment manager, allowing the Trustee to have a more closely aligned stewardship role compared to the previous strategy. This will be implemented using the stewardship and voting frameworks of the investment manager.

In contrast the bond holdings of the portfolio have been allocated to green bonds by the investment manager. Here the selection of the bonds follows the investment manager's sustainable bonds framework focused on whether the green bond in question meets the investment manager's standards for an appropriate green bond allocation.

Specific investment themes, such as low carbon equity with stewardship and sustainable bonds, support the climate action priority sustainable theme, and are prioritised. This reflects a differentiated approach to stewardship and investment integration based on asset class characteristics.

The Trustee believes that engagement with bond issuers is as important as equity though the mechanism of engagement is different. Bond issuers are most effectively engaged at the point of issuing a new bond whereas equity owners may be engaged through regular dialogue (often via collaborative initiatives) and the annual AGM process, voting and filing shareholder resolutions.

In addition different strategies within the master trust may have different priorities because of the differing funds' members' demographics and needs. Consequently, the integration of stewardship may be different. In the Diversified Growth Fund and Retirement Countdown Fund, allocation ranges are set for equities, bonds, and private markets, with the priority sustainability themes influencing investment decisions across these asset classes.

How we ensure that tenders have included a requirement to integrate stewardship and investment

The stewardship policy was prepared in alignment with the UK Stewardship Code, which emphasises the integration of ESG issues into the investment process as a crucial component to long-term success. The third-party managers' policies must comply and align with the Trustee's policies. The investment manager ensures that tenders include these requirements.

How we ensure the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of members

The investment mandates include requirements to integrate stewardship and investment to align with the investment time horizons of members. NOW: Pensions expects our investment manager to be a signatory to industry initiatives relevant to our priority sustainability themes, ensuring that awarded mandates meet the expectations for stewardship, engagement, voting, escalation, industry collaboration and ESG integration.

Processes we have used to integrate stewardship and investment to align with the investment time horizons of members

The Trustee delegates the responsibility for day-to-day investment decision making, including ESG integration, to the investment manager while retaining oversight and receiving regular reports, and determining priority sustainability themes, and stewardship activities. The Trustee monitors how the investment manager integrates priority sustainability themes into the investment process, ensuring alignment with the long-term interests of members.

How information gathered through stewardship has informed acquisition, monitoring and exit decisions to best serve members

Information gathered through stewardship activities has informed investment decisions in numerous ways, such as:

- stewardship engagement, including dialogue with key stakeholders, and companies on sustainability issues, influenced investment decisions to align with the priority sustainability themes
- the investment manager, guided by the stewardship policy, considered in detail the sustainability and stewardship policies of the third-party managers, to in turn apply ESG-screens to index construction and stewardship activities
- the investment manager's regular monitoring and ESG integration, to which the Trustee has direct access, influenced the balance of investments in response to market conditions and the Trustee's sustainability and stewardship objectives, affecting both monitoring and potential exit decisions.

Through the stewardship approach, the Trustee aims to create long-term value for members, with stewardship and engagement applied across all aspects of the Trust to enhance member outcomes. The investment manager's engagement and monitoring of third-party managers ensured that the managers' activities reflected the Trustee's investment priorities and policies, serving the best interests of the members. The integration to of the priority sustainability themes, is a way to add value after costs and charges, thereby serving members by improving long-term financial outcomes.



8

Principle 8:

Monitoring of managers and service providers



8

Monitoring of managers and service providers

Monitoring service providers to ensure services meet our needs

NOW: Pensions monitors service providers to ensure services meet the Trustee's needs through a variety of means.

- Due diligence before the appointment of any new service provider and undertaking an annual review of all key suppliers. This includes an assessment of sustainability-related expertise and the ESG policies of suppliers which are reported to the Trustee.
- Monitoring key suppliers with operational risk, including the trust custodian, fund administrator, and the master trust administrator, and the investment manager to ensure sustainability risks are managed appropriately.
- The Trustee receives quarterly reports and a monthly dashboard highlighting important changes, which includes material changes to the portfolio and any material issues impacting the portfolio, including sustainability issues.

Actions we have taken where our expectations have not been met

The Trustee expects the investment manager to ensure that all Scheme assets are managed in accordance with the policies.

Actions the investment manager has taken in the case where expectations have not been met include:

- challenged a third-party manager on their assessment of their own ESG performance
- challenged third-party managers on their voting and engagement activities with investee companies. This is supported by an understanding of engagement of these companies through Sustainalytics, contracted by the investment manager to provide engagement overlay services
- stressed the importance of participating in sustainability initiatives and of members' voting priorities, when necessary
- scrutinised third-party managers when expectations and performance on priority sustainability themes are not met, and continued to engage.

Examples of third-party manager engagements

Examples of the investment manager's recent engagements of its third-party managers across the value chain:

Engagement Area	Description of engagement	Conclusions and outcome of engagement
Resourcing	Discussed the manager's stewardship team changes, including the departure of two heads of stewardship in two years.	The shift to a head of stewardship with a track record in operating, organising, and managing teams rather than sustainability was symbolic of the challenges faced by the team as they continued to grow. The appointment is a divergence from the past two heads, and the manager was evaluating different methods to fill the gap in sustainability expertise in leadership to ensure continued contentment of the team.
Voting activity	Discussed the manager's voting record, collaborative engagement, escalation avenues, prioritisation and voting performance, with a focus on anti-ESG resolutions.	The third-party manager collaborated with their proxy advisor and the Corporate Governance Forum to understand how they and the industry can better identify anti-ESG proposals. The investment manager remained comfortable that the third-party manager's approach to collaborative engagement is that of a leader. They were provided with a live example of the third-party manager's escalation avenues.
Index construction	Reviewed the impact of updates to the ESG scoring framework and the Future World index constraints, and discussed what actions the third-party manager is taking to ensure that they stay leaders in the segment.	The investment manager was comfortable with the changes and the third-party manager's positioning. The manager implemented new factors when there was sufficient data coverage for material sectors and made constraint changes to address known issues around meeting decarbonisation targets in carbon intensive indices. The changes appeared to be well thought through and in line with actions to continue to be leaders in the segment.
Policy	The investment manager raised the importance of continuing to participate in sustainable initiatives, raising clients' voting priorities, challenging the manager's belief that they are an ESG leader, and requesting they become more prepared to stand behind more definitive views on the adequacy of forward-looking corporate transition plans, capex plans and holding management teams to account (voting against management; voting for shareholder proposals) on their commitments e.g. on the Trustee's priority sustainability themes.	After discussions with the CCO, the investment manager expected that the third-party manager would shift focus from ESG to transition activities, a trend they've started to observe. The move is a response to the increasing politicisation of ESG topics, particularly in the US, where the third-party manager has acknowledged the challenges of being an ESG leader. The Investment manager disagreed with the third-party manager's view of their current stance being that of a leader and have accordingly downgraded their ESG rating for them to 'Standard' from 'Good'. This new rating more accurately reflects the third-party manager's position relative to its peers and any discrepancies between the company's ESG policies and its actual activities.

Engagement Area	Description of engagement	Conclusions and outcome of engagement
Voting activity	Discussed how anti-ESG views of some of the manager's client base could alter their approach to Stewardship, tested their sustainability priorities and prior commitments, and discussed future ambitions and expectations for companies.	The third-party manager's approach to corporate engagement is built upon their principle of long-term value creation and the investment manager believes it would be unfair to characterise that their interpretation does not consider ESG factors. However, the investment manager believes that the third-party manager continues to have a level of consideration that falls short of expectations, evidenced by an observed decrease in voting support for E&S proposals. The investment manager continues to scrutinise the third-party manager's voting record and expects a decline in engagement activity.
Resourcing	Discussed an appointment to their board of directors, and how this appointment fits with their sustainability commitments.	The investment manager is satisfied with the third-party manager's response provided on reasons for appointment. However, the investment manager decided to continue to pay high attention to the third-party manager's sustainability priorities, especially related to net zero commitments and the additional conflicts of interest that arise from the new board member's industry. The investment manager does believe that the appointment upholds a commitment to a diverse board comprised of current and former CEOs, representing a breadth of regions and industries. Engagement with the third-party manager is still a work in progress.

The 2023 strategy review and outcomes

In 2023, the Trustee undertook the triennial strategy investment review. As a result the Trustee has agreed a revised investment strategy with the investment manager. Several significant decisions were taken as a result of the review in the context of experience over recent years.

- The new strategy will result in a higher allocation to directly held equities and corporate credit compared to the previous strategy.
- The new strategy has enabled an increase to direct physical holdings which increase the ability of the Trustee to have a more active stewardship role compared to the previous asset allocation.
- The investment manager took the decision to move away from certain third-party managers due in part to a perceived ongoing misalignment of their stewardship and voting action with the Trustee's beliefs.

The new strategy, implemented during the first quarter of 2024, will allow for a much closer alignment with the Trustee's priorities and beliefs in terms of engagement with companies, escalation when companies are not responding appropriately, voting actions and, if necessary, portfolio actions such as divestment.



9

Principle 9:

Engagement with issuers



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Engagement with issuers

Methods of engagement

The Trustee has structured an approach to maximise their ability to engage. The Trustee oversees and monitors the investment manager in their engagement but staff from NPL are also involved in supporting some of the engagement efforts directly on behalf of the Trustee.

There are three levels of engagement with individual issuers (of bonds or equities).

- NPL's head of sustainability and staff work on behalf of the Trustee, together with the investment manager, Cardano, and the engagement service provider Sustainalytics to engage issuers, policy makers and regulators directly and through collaborative initiatives, on behalf of the Trustee. For example, a letter to a company may involve NOW: Pensions as a signatory.
- The investment manager, Cardano's, engagement of issuers, policy makers and regulators directly and through collaborative initiatives. Cardano's stewardship team are supported by Sustainalytics on specific engagements. For example, a letter to the company will include Cardano as a signatory.
- Third-party managers, appointed by the investment manager conduct engagement and voting with underlying issuers, both directly and through collaborative initiatives. For example, a letter to the company may include the third party asset manager as a signatory.

In the first level of engagement NOW: Pensions plays a leading role and lends credibility directly to the engagement through its role as asset owner. See the example of engaging with Sainsbury's in the table later in this section.

In the second level of engagement the Investment manager, Cardano, plays the leading role. NPL staff may also choose to support some of these investment manager-led engagements directly. The investment manager's role in the engagement can also differ with four different potential roles.

- a) **Direct** – through collaborative engagement initiatives, where the investment manager plays a leading role in the engagement discussions with the company
- b) **Direct** – discussions undertaken individually with the issuer, without being part of a collaborative initiative (includes listed equity and fixed income, including for example the green gilt)
- c) **Indirect** – through collaborative engagement initiatives, where the investment manager is a supporting engager and another member of the initiative leads discussions
- d) **Indirect** – via the investment manager's third-party stewardship provider, Sustainalytics where the Sustainalytics team undertake the lead role in discussions with the company

In summary, the investment manager may engage by four different means (see examples later in the table later in this section):



The third level of engagement is indirect, where the investment manager oversees third-party managers' activities, on behalf of the Trustee. This includes:

- a) an annual ESG assessment of managers, including completion of a detailed questionnaire and calibration of their activities versus peers. During this assessment milestones for engagements with the third-party manager are set for the coming period, specific to their circumstances
- b) an annual assessment of third-party managers' stewardship and voting activities
- c) periodic meetings with third-party managers on their broader sustainability activities, including monitoring of any priority engagement objectives
- d) engagement during the proxy-season on individual votes.

See examples below in the section on manager engagement.

Our expectations for others that engage on our behalf

The Trustee expects the investment manager and third-party managers to apply stewardship principles consistent with the Trustee's beliefs and provide appropriate disclosures. The Trustee encourages engagements collaboratively through investor-led groups or initiatives, such as those mentioned in Principle 4, and expects the third-party managers to be signatories and active supporters of relevant industry sustainability initiatives.

How we select and prioritise engagement

NOW: Pensions focuses on proactive engagement on the priority sustainability themes: gender equality, living wages, and climate action, as well as responsive engagement following controversies or incidents.

NOW: Pensions also prioritise engagement on issues that will be subject to a vote at AGMs and encourages external managers to be involved in a wide range of sustainability topics relevant to investments.

How we developed our well-informed and precise engagement objectives

The engagement objectives are informed by the Trustee's core investment beliefs and priority sustainability themes, with the aim to enhance long-term portfolio risk-adjusted returns by managing investment risk through sustainability and stewardship approaches focused on systemic risks.

Examples

The Trustee went through a selection process to determine the engagements most appropriate for NOW: Pensions and NOW: Pensions' members. Factors considered include engagements undertaken through Sustainalytics, whether the investee company is likely to be known by members, and the level of influence in the investment portfolio.

Our engagement methods

The engagements are conducted directly, through the investment manager, and through their involvement in industry initiatives, as detailed in Principle 4. Engagements are both proactive, on specific themes or systemic risks, or responsive to controversies or incidents.

Our rationale for our approach

Where possible, NOW: Pensions encourages collaborative engagement as this is where the Trustee believes it can have the most impact and influence progress on the priority sustainability themes of gender equality, living wages, and climate action (as detailed in Principle 1). The Trustee believes that by addressing the priority sustainability themes through collaborative engagement, NOW: Pensions can maximise member outcomes (as detailed in Principle 6).

How our engagement has differed for funds, assets, or geographies

The investment manager's engagement is tailored based on the form of investment (direct or via a third-party fund), asset classes invested, geographies invested, and which of the priority sustainability themes is relevant to the investment.

The 2023 strategy review has led to a recent increase in direct exposure managed by the investment manager, but it is anticipated that in future there will continue to be a mix of direct exposures and indirect exposures held by third-party managers.

For example, the third-party funds' processes for engagement are different than those of direct investments held by the investment manager. For third-party funds, the objective of engagement with the manager is usually focused on improving their standards of stewardship and ESG integration.

For direct investments, the investment manager applies a common framework for all investments globally across debt and credit. This framework recognises that, for example, different sectors will be able to achieve decarbonisation at different paces. An area of active debate is whether engagement should vary between emerging market and developed market companies. This may lead to varying milestones set for companies specific to their geography and industry.

For direct holdings in sovereign bonds a different framework is applied when compared to credit and equity.

Outcomes of ongoing and recent engagement

Examples of outcomes of the investment manager's recent and ongoing engagement with direct investments, overseen by the Trustee, are below:

Investee company	Priority sustainability theme	Engagement Activity
PepsiCo	Climate action	The investment manager engaged PepsiCo by discussing deforestation mitigation in their supply chain. PepsiCo has been non-responsive and as a result engagement has been unsuccessful. Consequently, the investment manager escalated engagement and voted against the relevant board member re-elections.
Procter & Gamble	Climate action	The investment manager engaged Procter & Gamble by discussing deforestation mitigation in their supply chain. The investment manager recognised that P&G's deforestation policies and processes were insufficient due to a lack of firm commitments and sourcing from old growth forests and escalated their engagement activity against board members.
Nestle S.A	Climate action	The investment manager engaged Nestle on supply chain deforestation mitigation. The engagement has been successful in that Nestle have made progress on a more sustainable supply chain.
Hennes & Mauritz AB	Gender equality, living wages	The investment manager participated in engagement as part of the Platform for Living Wage engagement program.
Puma SE	Gender equality, living wages	The investment manager participated in engagement as part of the Platform for Living Wage engagement program.
McDonalds	Climate action	The investment manager engaged McDonald's through discussion on diversifying animal protein sources, in relation to expanding their strategy on tackling climate risk as part of their TCFD reporting alignment.
Unilever	Climate action	The investment manager engaged Unilever by discussing deforestation mitigation in their supply chain. Unilever is part of the deforestation program and have been making improvements.
Sainsbury's	Living wages	<p>The investment manager, as part of ShareAction's Good Work Coalition, co-filed a shareholder resolution for Sainsbury's' 2022 AGM, asking the company to become an accredited living wage provider. The engagement attempt has been partly successful in that the company is committed to making progress but did not commit to joining the Living Wage Foundation.</p> <p>In 2023 this engagement continued with the investment manager discussing expanding the living wage commitment to third-party contractors such as security staff.</p> <p>In this case the Trustee, via NPL staff have also participated directly in letters to the company requesting action on living wage.</p>

Please note that during 2023 while all of these positions above were held in the NOW: Pensions portfolio, many were held indirectly via third-party managers. The investment manager and NOW: Pensions via Sustainalytics were able to conduct these engagements as overlays. While the investment manager was able to vote as described for other clients, they were not able to directly vote on the shares owned by the NOW: Pensions master trust which were voted by the third-party managers.

The framing in this report reflects this. Following the 2023 strategy review, which has been implemented in Q1 2024, the investment manager will now be able to directly vote on these shares as described and undertake escalatory actions on behalf of the Trustee.

For an example where the third-party managers supported voting inline with the Trustee priorities please see the example of voting on Amazon on human rights under Principle 12.

For examples on engagement by the Trustee and investment manager with third-party investment managers please see Principle 8 and Principle 12.

A woman with long brown hair, wearing a yellow sweater, is looking down at a document on a table. A young girl with dark hair, wearing a black and white striped shirt, is also looking at the document. The woman's hands are visible, gesturing towards the document. The background is a bright, out-of-focus green wall.

10

Principle 10:

Collaborative engagement

10

Collaborative engagement

Our participation in collaborative engagement

In summary, the Trustee's collaborative engagement is as follows:

Initiative	Priority sustainability theme	Involvement
Pensions for Purpose	Gender equality, living wages, climate action	Member
IIGCC	Climate action	Member
PRI	Gender equality, living wages, climate action	Signatory
Occupational Pensions Stewardship Council	Gender equality, living wages, climate action	Member
PRI:Spring initiative	Climate action (deforestation)	Supporter
ShareAction's Good Work Coalition	Living wages	Member

Overseen by the Trustee, the investment manager's participation in collaborative engagement is as follows

Initiative	Priority sustainability theme	Involvement
Climate Action 100+	Climate action	Lead investor
Dutch Climate Coalition	Climate action	Lead investor
Platform Living Wage Financials	Gender equality, living wages	Lead investor, Member of the management committee
PRI:Spring Initiative	Climate action (deforestation)	Lead investor, member of the advisory committee
ShareAction's Good Work Coalition	Living wages	Active member
Partnership for Carbon Accounting and Financials	Climate action	Member
Net Zero Asset Managers Initiative	Climate action	Signatory

See Principle 4 for further details on the participation and rationale of the Trustee's and the investment manager's involvement in the initiatives.

The Trustee directly participated in industry initiatives such as PRI, IIGCC, Pensions for Purpose and Occupational Pensions Stewardship Council (OPSC) to engage policymakers and investee companies on the priority sustainability themes and stewardship. In addition, the investment manager conducted engagements with investor-led groups and initiatives such as PLWF and Climate Action 100+, focusing on proactive and responsive engagements on the priority sustainability themes.

In addition to the collaborative engagements through stakeholder groups and initiatives, the Trustee participated in and responded to government consultations such as the TPT Disclosure (further details in Principle 4) to influence policy and encouraged our third-party managers to participate in collaborative initiatives.



Case study: PRI

In support of PRI, NOW: Pensions addresses all three priority sustainability themes.

PRI supports and suggests investors to integrate the following stewardship principles:

- 1 Incorporate ESG issues into decision-making**
- 2 Practice active ownership**
- 3 Focus on human capital**

With PRI, NOW: Pensions can advocate for gender equality and living wages, two themes that the Trustee believes have not received sufficient attention by the responsible investment industry. NOW: Pensions' investment manager is also a supporter of Spring, PRI's collaborative engagement initiative, with the goal of halting and reversing biodiversity loss by 2030. Biodiversity loss and climate change are closely interlinked. Through tackling biodiversity loss, the Trustee can address and mitigate climate change-related risks.

Outcomes of collaborative engagement

Below are two examples of outcomes of collaborative engagement.



ShareAction's Good Work Coalition

The investment manager, as part of ShareAction's Good Work Coalition, co-filed a shareholder resolution for Sainsbury's' 2022 AGM, asking the company to become an accredited living wage provider. The engagement attempt has been successful in that Sainsbury's updated their lowest wages to align with Real Living Wage rates for 2022. In 2023, the coalition continued dialogue with Sainsbury's, including with the CEO. Sainsbury's revealed that their third-party security staff are now receiving Real Living Wage rates. In January 2024, the company increased base rates to follow the 2024 updated Real Living Wage rates. Dialogue with Sainsbury's is ongoing, and the Good Work Coalition maintains two open asks:

- to include other third-party staff in new rates (especially cleaners)
- to become accredited with the Living Wage Foundation to ensure maintenance of a living wage and provide employees with a certainty that they will continue to receive rates updated on a yearly basis.

NOW: Pensions was invested in Sainsbury's but indirectly via third-party managers in 2022 and 2023. NOW: Pensions supported the initiative via its engagement overlay approach in signing letters to the company drafted together with the investment manager and the company in support of the living wage requests. But it was unable to co-file on all of its shares due to a third-party manager stance on co-filing resolutions. From 2024 onwards the investment manager will be able to co-file such resolutions on behalf of NOW: Pensions shares.



Platform for Living Wage Financials (PLWF)

Through PLWF, the investment manager engaged Hennes & Mauritz AB, and Puma SE on the Trustee's priority sustainability theme of living wages. Currently, the investment manager is not actively engaging with either company but continues to follow their progress.



11

Principle 11:

Escalation



Escalation

Our expectations of asset managers that escalate stewardship activities on our behalf

Asset managers are expected to be signatories of the UK Stewardship Code and exercise voting rights in alignment with the Trustee's beliefs, including priority sustainability themes. Where engagement fails to achieve meaningful impact, the Trustee expects the investment manager to engage, such as exercise voting rights, for example against specific directors, or consider other forms of escalation such as co-filing shareholder proposals, or consider reducing investment or divestment.

How we have selected and prioritised issues and developed well-informed objectives for escalation

The selection and prioritisation of issues for escalation are based upon the Trustee's engagement priorities, including the priority sustainability themes, as well as the size of the holding and the potential to influence. The third-party managers' engagement activities, including escalation, are expected to align with the Trustee's priorities.

When we have chosen to escalate our engagement, including the issue(s) and the reasons for approach

The chosen approach is designed to protect and enhance the value of assets in a meaningful way, consistent with the Trustee's priority sustainability themes and stewardship beliefs.

Examples

NOW: Pensions' investment manager engaged a third-party manager with a voting record that fell short of the Trustee's principles and expectations. As a result, the investment manager, Cardano, engaged with the third-party manager to determine whether the investment remained appropriate for NOW: Pensions. As part of the 2023 investment strategy review, as detailed in Principle 8, the decision was taken to disinvest from the third-party manager. This decision will be implemented over the course of Q1 2024.

How escalation has differed for funds, assets, or geographies

As illustrated, escalations with third-party managers may ultimately result in a change in manager where insufficient progress is seen.

For direct holdings, the methods of escalation employed by the investment manager differ depending upon geography. For example, the filing of shareholder proposals is not possible in all geographies and escalation may need to take the form of voting against certain directors instead.

Outcomes of escalation

Through NOW: Pensions and the investment manager's participation in working groups, the Trustee can escalate with greater influence when an identified priority is not receiving sufficient attention. Examples of the investment manager's escalation activities, which the Trustee influenced and supported, include:

Case study: PepsiCo

The investment manager engaged PepsiCo on the priority sustainability theme of climate action, by discussing practices to prevent deforestation from occurring within its supply chain. Initial engagements by the Investment manager were unsuccessful. Consequently, at the 2023 AGM the investment manager (for its other clients) voted against the relevant board member re-elections, communicating the vote by email. After a period of unresponsiveness, the company agreed to a call and the engagement dialogue has now started again. The investment manager will be able to vote the NOW: Pensions shares in line with this engagement under the newly implemented strategy.

Case study: Procter & Gamble

The investment manager engaged Procter & Gamble on the priority sustainability theme of climate action, by discussing practices to prevent deforestation from occurring within its supply chain. The investment manager escalated against board members at the 2023 AGM following an evaluation of their deforestation policy and processes, and a lack of commitments and targets concerning old-growth forests. NOW: Pensions and the investment manager are considering escalating further.

Where engagements have continued to be unsuccessful and the investment manager deems the company to be "At Risk" of failing to transition, or 'non-adapting', representing an unacceptable financial risk, the company will be disinvested from the direct holdings.

Third-party managers each apply their own approach to escalation. The assessment of their approach to escalation is part of the decision to appoint, retain, or fire the manager.



12

Principle 12:

Rights and responsibilities

12

Rights and responsibilities

Expectations we have set for asset managers that exercise rights and responsibilities on our behalf

The investment manager exercises the Trustee's rights and responsibilities directly in the case of directly managed portfolios and has oversight of third-party managers when it chooses to appoint such a manager.

The investment manager is responsible for the selection and appointment of third-party managers. The investment manager assesses and reports to the Trustee the voting policies of third-party managers to ensure they are in line with the priority sustainability themes. The investment manager is expected to achieve this through several steps, such as:

- engagement of managers on default voting positions
- engagement of managers on their voting policies, to maximise influence
- engagement of third-party managers ahead of key votes on our priority sustainability themes
- participating in working groups.



Case study: Our investment manager's engagements of third-party managers

The investment manager engaged a third-party manager's voting activity, by discussing voting record, collaborative engagement, escalation avenues, prioritisation and voting performance, with a focus on anti-ESG resolutions. It appeared that the manager missed several anti-ESG resolutions and mistakenly voted in favour of these. As a result, the third-party manager collaborated with their proxy advisor and the Corporate Governance Forum to understand how they and the industry can be better equipped to identify anti-ESG proposals.

The separate case where the third-party manager's voting and activities continued to not be consistent with the Trustee's priority sustainability themes contributed to the decision to exit the manager and for the Trustee to appoint the investment manager to invest directly, as informed by the investment strategy review. Further details on the Trustee's investment strategy review can be found under Principle 8.

Our voting policy

NOW: Pensions does not have a separate voting policy at this time, in line with the stewardship beliefs set out in Principle 1.

Instead, having reviewed the stewardship and voting policies of the investment manager, the Trustee has appointed the investment manager to act on the Trustee's behalf instructed it to apply its standard stewardship and voting policies. This is a deliberate decision, because

- 1 The Trustee has high conviction that the investment manager's sustainability beliefs, stewardship approach and voting and stewardship policies are comprehensive and are well aligned to the Trustee beliefs and policy.
- 2 The Trustee believes the engagement, voting and portfolio actions of the investment manager should be tightly aligned to support effective engagement. The Trustee intentionally chose the Investment manager's existing policies, rather than creating its own policy that may override the voting policy of the Investment manager in an ad hoc case by case basis, with no marginal benefit to doing so.
- 2 The Trustee is able to directly engage the investment manager on their stewardship voting and engagement policy for direct assets and seek ongoing effective alignment with our priority sustainability themes and stewardship objectives.

The Trustee will monitor the investment managers actions for consistency against its beliefs and keep this decision under review for ongoing alignment with our beliefs.

The Trustee's policies apply to all asset classes, including listed equity and fixed income

In this case, the fixed income investments the investment manager is expected to engage with issuers. See Principle 4, for the illustration of how the NOW: Pensions is invested in the UK green gilt, and that, the investment manager, acting on the Trustee's behalf, has engaged the UK DMO on its green gilt program and ongoing use of proceeds. This is an example of the application of the Trustee's policies and fixed income investments. (Please note that until recently the NOW: Pensions strategy had very limited exposure to credit related investments, with the majority of exposure through high quality green bond issuers or government bonds. That has changed recently and this will be a more prominent component of engagement and stewardship going forward).

In the appointment of third-party managers that the investment manager proposes to invest in, the Trustee likewise scrutinises their voting policies and stewardship approaches. The Trustee ensures continuous alignment with its beliefs through the monitoring and scrutinising of the voting activity of third-party managers and relies on the investment manager to escalate any issues by engaging with third-party managers on an on-going basis. This includes re-ratings, and potentially, reallocations and as examples above demonstrate the approach has resulted in active decisions as a result.

The Trustee expects the engagements and voting decisions conducted on its behalf to reference and follow international codes and standards where relevant. These include:

- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- International Labour Organization (ILO)
- Paris Climate Agreement
- Taskforce on Climate-related Financial Disclosures (TCFD)
- Taskforce on Nature-related Financial Disclosures (TNFD).

One of the third-party managers determines their engagement priorities based on their clients' priorities, objectives and investment principles, observation of market developments and emerging governance themes and evolve them year over year. The other third-party manager makes all voting decisions in accordance with its relevant corporate governance, responsible investment and conflict of interest policy documents.

Use of proxy advisers

For directly managed portfolios, the investment manager makes use of a third-party proxy advisor to execute their voting decisions consistently with their own custom voting policy. The stewardship team of the investment adviser will review specific votes, mainly for companies under engagement and take a closer look at the agenda. The proxy adviser's application of the voting process is closely monitored by the investment manager to ensure that the policy is executed as intended.

Under the third-party investment management arrangements: One of the third-party managers works with proxy research firms that apply their proxy voting guidelines to filter out routine or non-contentious proposals and refer to it any meetings where additional research and possibly engagement might be required to inform its voting decision. The other third-party manager makes all voting decisions themselves and does not outsource any part of the strategic decisions.

Extent to which clients may override a house policy

The investment manager has a high quality stewardship and voting policy. At present it is not envisaged that there would be circumstances where the Trustee would seek to override the investment manager voting policy.



Proportion of shares that were voted in the past year

All voting over the last year was performed by third-party investment managers. Third-party investment manager 1 opposite operates a single global fund. Third-party investment manager 2 operates four separate regional funds. Over the past year (2023 financial year) all voting was done by third-party managers as no direct equity investments were managed inhouse by Cardano, the scheme investment manager until the las month of the financial year. This will change from the financial year 2024 going forward with the implementation of the new strategy.

	Proportion of eligible resolutions voted
Investment manager 1 Fund A	96%
Investment manager 2 Fund A	100%
Investment manager 2 Fund B	100%
Investment manager 2 Fund C	100%
Investment manager 2 Fund D	100%

Our voting records

The Trustee's voting activity (third-party manager's voting activity) with regards to third-party managers over the financial year of 2023 can be found in the [Implementation Statement](#). During this period the investment manager delegated investments to third-party managers who voted according to their own voting policies.

This forms part of the investment manager's ongoing assessment of the third-party funds. The investment manager engages with the managers of these funds regarding their voting records and level of engagement with the underlying investments.

Going forward from financial year of 2024 the directly managed portfolio will be voted according to the investment manager's voting policy.

Rationale for voting decisions, particularly where there was a vote against the board, were votes against shareholder resolutions, a vote was withheld, the vote was not in line with voting policy

As there were no direct assets held until the end of the period there were no direct votes. However, third-party manager votes were monitored.

One of NOW: Pensions' third-party managers exercised voting rights at shareholder AGMs and co-filed shareholder resolutions on issues relevant to our beliefs, with a particular focus on the priority sustainability themes.

In the case of the second manager, the Trustee has monitored their voting record over time. Having initially increased its alignment with the Trustee stance on priority issues in the early years of their appointment, in recent two

years there has been a noticeable decrease in voting support for proposals that are relevant to the priority sustainability themes. While the manager did offer voting choice to the Trustee, the Trustee believed that this is ineffective as the manager is unlikely to engage the business in alignment with their priority themes if the manager fails to vote in alignment with those themes.

As part of the 2023 strategy review, the Trustee concluded that this manager's poor performance in relation to the priority sustainability themes required a change to be made. Further details on the consequent changes can be found under Principle 8.



Case study: Human Capital Management at Amazon

Human Capital Management can be defined as the activities related to labour and union rights, employee health & safety and labour practices, impacting on educational opportunities and on income and gender inequality. It represents legal and reputational risks to companies and affects their staff turnover and productivity rates. The decent and equal treatment of employees also contributes to addressing social stability and therefore the reduction of long-term systemic risk.

Amazon has been at the centre of several and ongoing controversies in the US and worldwide, relating to interference with the Principle of Freedom of Association.

Due to the persistence of the controversies, a group of shareholders (including the investment manager) co-filed a resolution asking Amazon to commission an independent report to assess how the company's practices fit with its commitments to protect Freedom of Association and collective bargaining as guaranteed by the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights.

Both third party managers voted to support this resolution, which is in line with the expectations of the investment manager and the Trustee's view on the importance of good Human Capital Management. This is a strong signal to Amazon that shareholders expect the company to look into and address the issues identified.

Extent to which voting decisions were executed by another entity, and how we have monitored any voting on our behalf

All the voting decisions to date have been executed by third-party managers but influenced by the Trustee's beliefs and scrutiny. The investment manager engages and monitors third-party managers on the Trustee's behalf to ensure that managers' engagement and voting activities (including their view of what constitutes the most significant votes) reflect the Trustee's investment priorities and policies as detailed in the SIP. The Trustee, via the investment manager, expresses its support for specific shareholder proposals. The Trustee does this both in advance of shareholder AGMs, and afterwards.

The three priority sustainability themes inform the Trustee's position on voting and identifying most significant votes. The Trustee's engagement activities are supported

by the investment manager and the investment manager's appointment of Sustainalytics. The Trustee receives reporting on a quarterly basis to show the most significant votes' alignment with those themes, from the third-party managers.

Voting records are reviewed at least annually by the investment manager, who in turn discusses with the third-party managers. Records are reviewed each year to ensure they align with the Trustee's expected stewardship approach. The Trustee, and the investment manager, scrutinise voting activities of the third-party managers to influence portfolio company corporate governance and sustainability practices.

How we have monitored what shares and voting rights we have

The Trustee received qualitative and quantitative information on the stewardship policies and voting records of third-party managers (and from Q1 2024 the investment manager) on a quarterly basis. Monitoring of the third-party managers is performed by the investment manager.

Examples of the outcomes of resolutions we have voted on over the past 12 months

The most significant votes, as determined by the Trustee, can be found in the Implementation Statement, [here](#).

Moving forward

Following the strategy review in 2023, the Trustee has decided to work more directly with the investment manager, to increase its direct investments, and as such, have more direct oversight of stewardship and voting activities. The investment manager has a comprehensive voting policy that aligns closely with the Trustee's beliefs. The Trustee will continue to challenge and monitor the investment manager in their stewardship and voting activities.

This will not stop the Trust from continuing to allocate to third-party managers in future where appropriate and the existing governance process around those allocations will continue.



Appendix 1

Glossary

CCRO

Climate Change-related Risks and Opportunities

DMO

Debt Management Office

DWP

Department for Work and Pensions

ESG

Environmental, Social, and Governance

FRC

Financial Reporting Council

IIGCC

Institutional Investors Group on Climate Change

IMA

Investment Management Agreement

MSCI

Morgan Stanley Capital International

NPL

NOW: Pensions Limited

OPSC

Occupational Pensions Stewardship Council

PCAF

Partnership for Carbon Accounting and Financials

PLWF

Platform Living Wage Financials

PRI

Principles for Responsible Investment

TCFD

Taskforce on Climate-related Financial Disclosures

TNFD

Taskforce on Nature-related Financial Disclosures

TPT

Transition Plan Taskforce

Trust

NOW: Pensions Trust

Trustee

NOW: Pensions Trustee Limited

