Mineworkers’ Pension Scheme
2021 Stewardship Report

The Mineworkers’ Pension Scheme (the “Scheme”) has been a long-term signatory to the UK Stewardship Code. This report sets out how the Trustees of the Mineworkers’ Pension Scheme Ltd (the “Trustee”) has ensured the Scheme has fulfilled its stewardship responsibilities through 2021 and the outcomes of this activity. The UK Stewardship Code 2020 has 12 principles and this report has been presented according to those 12 principles.

Principle 1: Purpose, Beliefs, Strategy and Culture

The Mineworkers’ Pension Scheme is a UK based pension scheme providing benefits to 130,369 members as at 30 September 2021. The Scheme was established in 1952 and remained open to contributions until 1994 when the Coal industry was privatised. At this point the Government took over the role as Guarantor for the Scheme from British Coal. In 1994 a provision was included that 50% of any surplus in the fund at future valuations would be used to increase members’ benefits through “bonuses” with the other 50% being paid to the Government.

The Trustee has ultimate responsibility for decision-making on investment matters. Coal Pension Trustees Investment Limited (“CPTI”) is responsible for providing investment advice and investment management services to the Trustee. The Trustee delegates responsibility for the day to day management of the assets to appointed investment managers. The Trustee’s objective is to pay all member benefits from the Scheme’s assets whilst achieving the returns required in order to deliver future bonuses.

The culture of the Trustee and CPTI, driven by senior leadership and the nature of the Scheme, is one focussed on long-term investing, considering all relevant risks and opportunities. This includes a rigorous focus on stewardship.

The Trustee has agreed a set of investment beliefs, which align with its culture and cover return, risk, future expectations, illiquidity, complexity, sustainability and internal governance structure. The Trustee has a specific belief in relation to sustainable investment provided below:

“Long-term investment success should come from a focus on sustainability. In particular, environmental, social and governance (“ESG”) factors can have a material impact on long-term investment returns. They should be considered before any investment is made.

- *Investments with good or improving ESG characteristics are more likely to deliver long term sustainable returns*
- *The more long-term an investment, the more important ESG factors become*
- *Ignoring environmental and societal and regulatory issues can create investment and reputational risk, which ultimately reduce return*
- *Being a good steward of assets can lead to better risk adjusted returns"*

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

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

During 2021, a survey of Trustee views on various sustainability issues was conducted, one of the outcomes of which was a renewed focus on Human Rights issues. This has led to a policy to minimise the risk of investing in companies which were in breach, or at significant risk of breaching, UN Global Compact principles. Human Rights is a key focus within the Scheme's Stewardship approach across public equities and within CPTI's own engagement with both public and private markets fund managers. The Trustee has also spent time over the year focused on climate change, seeking to understand the risks and opportunities embedded across all areas of investment. Climate-related issues are also a focus for stewardship across asset classes. Several changes to managers and strategies have been made as a result of this focus. Finally in 2021, CPTI signed up to the asset owner's diversity charter and, as a result, has actively engaged across all the Scheme's large manager relationships and all new appointments on this topic.

Climate change considerations are actively embedded in the Trustee's investment strategy with ESG risks being built into a broader risk framework that is under development. Other areas of ESG, in particular diversity, human rights and quality of stewardship are a formal part of manager selection and mandate design. During the year the Scheme and CPTI agreed to work with four strategic partners who are expected to manage collectively a significant portion of the Scheme's assets across a number of areas as well as providing broader advice and input to CPTI. Assessment of firm culture, purpose and approach to responsible investment, climate and diversity was a key part of this selection process.

Through 2021 CPTI, on behalf of the Trustee, integrated responsible investment and stewardship considerations into its formal external investment manager oversight and monitoring process, to ensure the investment managers were aligned with the Trustee's responsible investment and stewardship policies. This included a range of considerations such as:

- Firm-wide responsible investment resources and capabilities;
- Firm-wide commitment to relevant responsible investment codes/principles/initiatives;
- Firm-wide commitment to diversity and inclusion;
- Level of active engagement including voting for equities;
- ESG integration into the investment process for Scheme specific investments;
- ESG reporting on Scheme specific investments.

CPTI continues to utilise an internal rating process to help highlight the 'leaders and laggards' in this area, and as a way to identify specific areas for improvement. Several points were followed up with external managers, especially where there was doubt that the Trustee's policy requirements were being met. Where there have been explicit action points identified, CPTI's policy is to engage further with external managers over the course of the year, and expect to either evidence that these action points have been adhered to, and/or, there have been significant improvements in terms of the direction of travel into 2022. ESG ratings for investment managers are kept under review as part of CPTI's formal monitoring process on behalf of the Trustee. One example in 2021 of a successful external manager engagement was with an Onshore China Manager where CPTI's engagement on behalf of the Scheme resulted in improvements in transparency of ESG reporting and disclosure as well as the creation of a distinct ESG working group to help formalise decision making in this area. CPTI continued to engage with this manager on other areas related to responsible investment in 2022.

CPTI utilises EOS at Federated Hermes ("EOS") to provide stewardship services across a large part of the Scheme's public markets holdings. CPTI also work closely with EOS and during 2021 also worked with specialist consultant Arkadiko to review the Trustee's Stewardship and Responsible Investment policies.

<u>Principle 2: Governance, Resources and Incentives</u>

The Mineworkers' Pension Scheme shares links with the British Coal Staff Superannuation Scheme through their joint and equal ownership of Coal Pension Trustees Services Limited (CPT), which provides support services to both Schemes. Coal Pension Trustees Investments

Limited (CPTI) is a subsidiary of CPT. CPTI is the primary investment advisor to the Scheme, providing strategic advice and other investment management services to the Trustee.

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

Committee Of Management (COM)

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

Investment Sub-Committee (ISC)

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

CPT

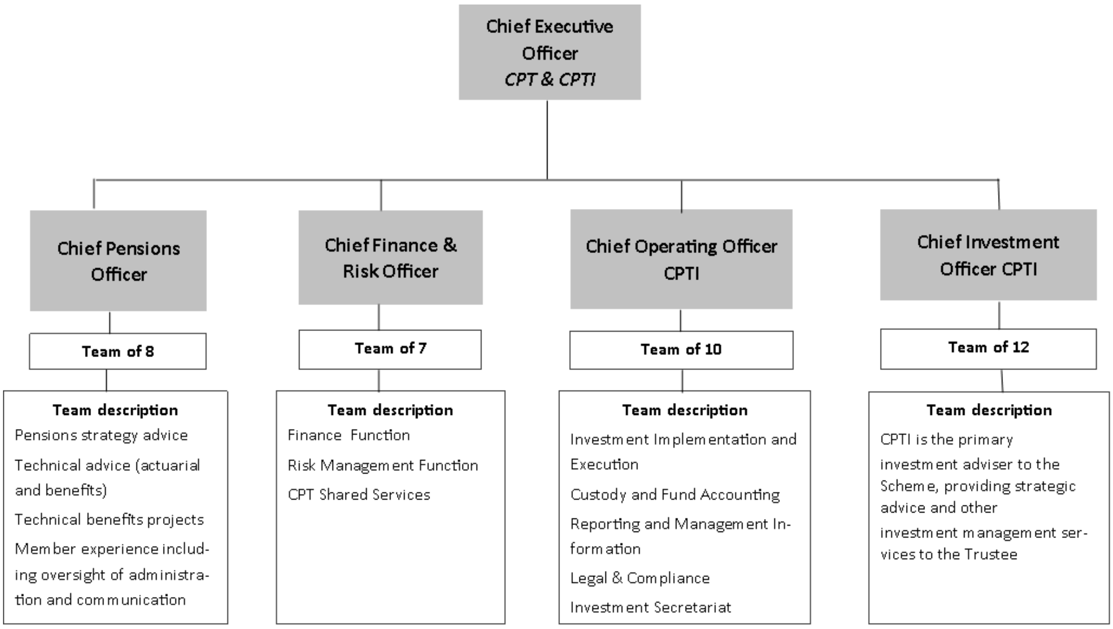
CPT has an established governance framework for delivering services to COM and ISC.

CPT Investment Team

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

Responsible Investment team

The RI team provides support, expertise and research, proposes key themes and oversees implementation of the RI and stewardship framework, working with and challenging the investment managers. The RI team is comprised of 4 members across investment and operations and is led by the Head of Responsible Investing.



The profiles and experience of the Trustees of the Mineworkers' Pension Scheme can be accessed via this link to the Scheme website. Five of the ten members of the Trustee body are elected from the membership. The five elected members represent geographical constituencies across the UK and any member is entitled to stand for election for five-year terms.

Specific Relevant Skillsets:

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

Resources

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

EOS has been appointed to provide engagement and voting services on a large proportion of the Scheme's public markets assets. EOS enables CPTI to access best in class resources and collaborate with other asset owners for the purpose of engagement. EOS has assets under advice of $1.6tn meaning it can have a meaningful voice with companies. EOS engagement is conducted on behalf of the Scheme by an experienced team with expertise across industries, professions, cultures and languages (including 17 nationalities and 15 languages). On average engagers have at least 11 years of professional experience. EOS have specially selected their team to include a diverse range of expertise and experience with background including industry, academia, law consultancy and sciences. This is to enable the team of engagers to engage most effectively in a variety of markets, sectors, and issue areas. The EOS engagement plan (see link) provides further detail on their approach to engagement and voting, and the influence that comes from combining the Scheme's assets with other institutional investors around the world.

CPTI regularly reviews the investment managers that are conducting engagement and voting on the Scheme's behalf in public markets to decide whether this best rests with the investment manager or EOS. As a result of this review process several changes were made during 2021. Voting and engagement for the Scheme's public equity mandate with Baillie Gifford was moved from Baillie Gifford to EOS. The Scheme's passive public equities were transitioned from LGIM to a new BlackRock Low Carbon Transition Ready equity portfolio, with the voting and engagement rights on this account delegated to EOS. More detail on the rationale for this change is provided in principle 4. The Scheme continues to assess where voting and engagement for the Scheme's public equity investments best sits and for new public equity mandates implemented to date in 2022, coverage has been retained with the investment manager in one instance but with EOS in another. EOS began engaging on the Scheme's public credit investments in 2020 and this has continued throughout 2021. Within private markets assessing the approach to ESG and stewardship is a core focus of appointments and reviews and has been one important driver of changes currently being made across infrastructure and real estate assets.

Trustee Training and Trustee oversight role

Trustee training is undertaken at Trustee meetings, sub-committee meetings and through other external training as appropriate and is monitored on a training log. In addition to CPT keeping a recording of any formal training provided by CPTI or third-party providers, the Trustee Directors are also required to record any training sessions or seminars they attend independently. This combined log enables CPT to keep a watching brief of those subjects the Trustee Directors are voluntarily pursuing, with a view to providing supplementary training on matters of particular interest and to identify any gaps in the Trustee Directors' knowledge and arrange for this to be addressed. Examples of training provided to the Trustee Directors throughout 2021 are a general presentation on responsible investing, specific training on the UK Stewardship Code 2020, and a number of sessions on the Trustee's duties under the Task Force on Climate-Related Financial Disclosures (TCFD). The subjects to be covered this year are being finalised but will include training in relation to Paris Alignment and Net Zero. It is anticipated that training will be provided by subject matter experts within CPTI as well as external parties.

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

Private assets

Outside of core public assets the Trustee relies upon CPTI to undertake effective due diligence and ongoing monitoring to ensure that environmental, social and governance considerations are taken into account in the management of its private markets investments. In particular, investment managers must be able to demonstrate their consideration of ESG risks and return opportunities, and their consideration of wider stakeholders affected by the management of assets the Scheme is invested in. This is monitored and assessed through quarterly monitoring meetings and additional ESG-focused meetings where necessary. Outside of public equities direct carbon data has been sought (where possible) from private assets and proxies based on industry and region used where this is not available to improve understanding of exposures. CPTI are in the process of ensuring all managers, public and private, include in the Scheme's IMAs or side letters a commitment to TCFD, the diversity charter and the Scheme's exclusions policy. During 2022, company level transparency data is expected to be added to the private markets toolkit for greater transparency around controversies, climate risk and other areas of ESG.

EOS

The Trustee has appointed EOS at Federated Hermes (EOS) to assist in fulfilling its fiduciary responsibilities as a long-term investor in global equities and corporate bonds. EOS is a dedicated stewardship service provider whose purpose is to help long-term institutional investors be more active owners of their assets and to manage their risks by engaging with companies and policy-makers on environmental, social, governance, strategic and financial issues. Their approach is to engage in person and at board or executive level wherever possible, in order to effect positive change. EOS provide ongoing assistance to the Scheme and their involvement, as well as the scope of their services, is kept under regular review. For certain public equity mandates it is the Scheme's investment managers who vote and engage on the Scheme's behalf. The table below summarises the voting and engagement for the Scheme's public equity holdings by manager and how this has changed over the year with further information provided in principle 9.

Managers undertaking Voting & Engagement activity	**Public equity allocation based on value of assets at 31/12/2020**	**Public equity allocation based on value of assets at 31/12/2021**
EOS	50.1%	93.1%
LGIM	31.3%	0.0%
Baillie Gifford	10.8%	0.0%
Schroders	3.0%	2.7%
Green Court	2.7%	2.2%
AQR China	2.2%	1.9%

The engagement activities within public equity and corporate fixed income holdings by EOS and directly by some of the appointed investment managers, enables the Trustee to implement a high standard of stewardship on behalf of the beneficiaries of the Scheme, aligned with its Stewardship Policy.

Data, research and analysis:

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

- Holdings-based risk and exposure system, BlackRock Solutions, where it is now possible to assess and monitor ESG and climate related analytics using MSCI data for public equity and public credit.
- EOSi Client Portal – EOS online platform providing access to company level engagements, voting and other public policy activity and high-level engagement

topics including EOS' Controversial Company Reports (CCR) which the Scheme recently subscribed to.

- Engagement and voting reports from investment managers.
- ESG reports and data from investment managers.
- PRI research and collaborations
- Share Action reports and resolutions

In 2021, CPTI on behalf of the Scheme subscribed to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data has been used to challenge investment managers on specific holdings or understand overall exposures. The data available so far has been focused on public equity and corporate credit but through 2022, the availability of more comprehensive third-party data on other asset classes, particularly in private markets, will be considered.

In 2021 the Scheme also commissioned Mercer to conduct climate scenario analysis as part of the TCFD requirements.

Incentives

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

CPTI has been clear with investment managers that ESG integration is a critical part of the investment process across all asset classes and investment managers are appraised on that basis. If there are concerns around ESG integration in an investment manager's approach, then this manager will be placed on the investment manager watchlist for enhanced scrutiny and, unless concerns are addressed, the mandate could be removed from the investment manager.

Reflection – Principle 1 and 2

Having reviewed the Scheme's approach to stewardship during 2021, the Trustee believes the Scheme's purpose, beliefs, governance structure, and choice and use of service providers has enabled it to be a strong steward of assets. The updated responsible investment policy and new stewardship policy have clarified the Trustee's approach to being a good steward of the Scheme's assets. The effectiveness is demonstrated in the data and case studies provided in this report. That said, there are a number of areas where more work is required, and which are detailed throughout the report. In particular, the Scheme plans to accelerate the work to address climate risks and opportunities in 2022 including publishing the Scheme's first TCFD report.

Principle 3: Conflicts of Interest

The Trustee has developed policies to identify, manage and disclose any potential conflicts of interest that may arise, which includes in relation to stewardship activities. The Trustee's conflicts of interest policy covers the Trustee Directors themselves, key advisers to the Scheme and CPTI staff. The policy is posted on the Scheme website at the following link.

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

In terms of conflicts related to stewardship, it is believed that appointing a separate stewardship provider (EOS) who does not make active investment decisions reduces inherent conflicts. Additionally, CPTI ensures that all investment managers have robust conflicts of interest policies and actively investigates any conflicts it sees in the management of the Scheme's assets.

EOS has a group conflicts of interest policy and conflicts of interest register which requires that it identifies and manages actual or potential conflicts of interest between itself and its clients, or between different clients of EOS. In the event that a conflict occurs between EOS and its client then it is the clients' interests that are put first. As part of the policy, staff report any potential conflicts to the EOS compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by EOS senior management on a regular basis.

In addition to conflicts regarding clients and prospects, the EOS policy also addresses conflicts in relation to staff members involved in engagements and this is reviewed at Board level. An example of a potential conflict, which EOS identified and managed in 2021, arose as a result of client interests. The potential conflict was between the views of equity and credit holders with respect to a takeover offer for a company with which EOS were engaging. This was discussed with compliance and an action plan agreed and noted. A decision was made to separate the engagement into individuals representing the credit holders and others representing equity investors.

Some examples of actual conflicts previously identified, recorded and escalated by EOS are provided on the final page of their stewardship conflicts of interest policy, which can be found at the following link:
https://www.hermes-investment.com/wp-content/uploads/2021/04/fhi-corporate-stewardship-conflicts-of-interest-policy-04-2021.pdf

Principle 4: Identifying and responding to market-wide and systemic risks to promote a well-functioning financial system.

CPTI considers any market-wide and systemic risks at weekly team meetings and escalates these to the Trustee where appropriate. CPTI also receives regular questions and challenges from the Trustee on these issues. The Scheme has a customised asset liability modelling tool as well as cashflow forecasting technology. These models and tools are key inputs to look at different Scheme risks and stress test different downside scenarios. Two examples of significant market-wide risks are climate change and inflation. CPTI continually engages with the Trustee, advisors, asset managers and other asset owners to discuss market-wide and systemic risks.

Climate change

Addressing the systemic issue of climate change across all areas of governance, decision making, policy, investment and stewardship has been a key focus of the last 12 months for the Scheme across CPTI and the Trustee, with climate change featuring on the agenda of the majority of ISC and COM meetings during the year. CPTI and the Trustee as part of its sustainability investment belief believe climate risk could have a material impact on the long-term performance of the Scheme's assets. This is formally documented in the Scheme's Responsible Investment policy and Stewardship policy and the Scheme will be producing its first TCFD report later this year. A greater understanding of climate change risks and opportunities has led to changes in the asset allocation as the importance of stranded asset risk and areas of opportunity around climate solutions are increasingly recognised. In particular, an increase to investments in climate solutions (including infrastructure) has been targeted and certain assets with significant stranded asset risk, particularly in real assets, are being exited. Climate change has also led to changes in mandate design and has been a key factor in manager changes over the last 12 months. Examples include:

- the transition of the entirety of passive equities to a mandate focusing on climate transition-readiness
- Appointing a public equities manager to run a best-ideas climate and environmental solutions mandate
- The decision to sell a number of infrastructure assets
- Commitment to a UK hydrogen venture capital fund.

The transition of passive equities was a major change and significantly improved the Scheme's carbon metrics as well as reducing exposure to controversies and environmental laggards according to MSCI data. This change was driven by an analysis of the equity portfolio which highlighted passive equities as a laggard in terms of carbon metrics, exposure to low ESG scores and to controversies. Initially, moving to a pooled passive climate focused fund was considered but the focus here was on backward looking data. As such, a solution was designed with BlackRock to provide a forward looking overlay for passive equities, focusing on multiple metrics to assess climate transition readiness. As part of this mandate shift, stewardship of passive equities was assigned to EOS – BlackRock's stewardship approach was assessed to have improved but EOS was still considered best in class.

The Scheme's climate strategy continues to be developed – in addition to targeting greater investment in climate solutions and reviewing stranded asset risk exposure, consideration is being given to how climate risks and opportunities can be embedded in the expected returns model in 2022. Further scenario analysis in line with TCFD recommendations will also be undertaken. This will allow CPTI to better identify and understand the risks to the Scheme's assets from climate change and the ways in which the Scheme could reposition assets to reduce risk as well as capture new opportunities.

Climate change is an explicit focus for stewardship as noted in the Trustee's policies. In line with this, EOS and a number of the Scheme's investment managers name climate change as a key focus in their stewardship priorities. A process of reviewing current and future IMAs is underway to include obligations on investment managers to take into account material ESG issues when making investment decisions, comply with Trustee policies including around UN Global Compact violations and provide reporting in relation to TCFD and diversity. The Trustee's responsible investment and stewardship policies will also be included as an appendix to IMAs.

Through EOS and certain investment managers, the Scheme participates in industry initiatives such as Climate Action 100+, which engages with the world's largest corporate greenhouse gas emitters to ensure they take necessary action on climate change. The effectiveness of this work is described in case studies such as the one on Lyondell-Basel in Principle 10.

As part of all manager appointments and regular manager reviews, the manager's approach to climate change both in terms of their investment decisions and their stewardship is discussed. This has been a key driver of some manager changes along with other factors and has also led a number of managers to improve their approach and resources in this area. In particular, following CPTI's engagement, several private markets managers have engaged consultants and begun reporting on climate change.

Inflation

Inflation has been identified as a key risk to the Trustee in delivering its objectives given the inflation linked pensioner benefits promised to members and the likely impact on markets and asset returns if inflation was higher than expected for longer. Inflation scenarios are considered as part of stress testing and looked at in the Scheme's asset liability modelling tool, which feeds into wider asset allocation decision making. Following the extraordinary monetary and fiscal policies seen in response to the COVID crisis, the Trustee had a heightened awareness of the risk of inflation as highlighted in last year's stewardship report. Over the course of 2021 and early 2022 inflation has risen significantly, and this has had asset specific impacts. The Scheme has significant allocations to real assets including real estate and infrastructure where there are often either direct inflation linked cashflows or the assets themselves provide some level of inflation protection. The Trustee expect these assets to continue to provide protection in a high inflation environment. The Scheme has also ensured public bonds are relatively short duration and therefore less impacted by rising interest rates, which are a direct result of central banks looking to address the inflationary backdrop. High inflation and rising interest rates can be a challenging environment for a range of asset classes and the Trustee constantly reviews ways of mitigating against such risks.

CPTI continually engages with external investment managers and service providers in discussions around market level risks and opportunities, and seeks to ensure the Scheme is resilient through a range of scenarios. Stewardship is one way to mitigate the risk that parts of the Scheme's portfolio are not prepared for various future scenarios. CPTI also actively engages with EOS on its stewardship priorities to ensure that these reflect the Trustee's own concerns.

EOS engagement

On behalf of the Scheme, EOS regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. Through EOS, the Scheme also promotes effective regulation in the markets in which it invests to encourage governance structures that facilitate the accountability of companies to their owners, to give companies the certainty they need to plan for the future and to promote a level competitive playing field, which enables companies to prioritise long-term profitability.

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

- Engagement on issues and written responses to consultations on behalf of the Scheme;

- Providing the Scheme with the opportunity to endorse or co-sign responses to consultations; and
- Providing the Scheme with written responses to consultations for use as a basis for their own communication.

One EOS engagement example in 2021 was that EOS co-signed a letter that was sent to the Big Four accountancy firms (Deloitte, EY, KPMG, and PWC) regarding net-zero aligned audits. The letter stated their desire for material climate risks to be included in audits where relevant, indicating to shareholders where company accounts fail to consider the financial implications of company decarbonisation pathways or a global transition on a 1.5°C pathway. The letter emphasised the accelerating impacts of physical climate change and the evolution of the policy environment and highlighted that these will affect the financial strength of a company. It confirmed EOS' belief that auditors that fail to test accounting assumptions against these factors would be failing in their duty to shareholders. The letter referred to existing standards and regulations that necessitate the inclusion of climate risks in the auditing of companies. Moreover, the fact that investors are expressly asking for accounting disclosures that align with a 1.5°C pathway necessarily makes such disclosures material and the responsibility of auditors to audit. EOS directed the companies to look at the Institutional Investors Group on Climate Change (IIGCC) 2020 paper on investor expectations for Paris-aligned accounts, which details their specific requests. While welcoming the progress made on some audits, EOS stressed the need for rapid action. They warned that from next voting season, investors and their representatives would increasingly vote against a firm's reappointment as auditor where their expectations were not met. The letter also encouraged further dialogue with investors and their representatives on this matter.

Reflection

The Trustee believes the dedicated in-house resource at CPTI has been effective in assessing and reviewing market wide and systemic risks. 2021 was a strong year for investment markets and the Scheme's assets delivered strong returns. However, the backdrop of rising inflation and tightening monetary policy mean a more challenging environment going forward. Through EOS and the Scheme's investment managers, CPTI has ensured the Scheme has been effective in promoting a well-functioning financial system.

Principle 5: policy review, process assurance and assessment of the effectiveness of activities.

The Scheme is continuously seeking to improve all policies and processes in relation to stewardship wherever possible and these are regularly under review. In 2021, the Trustee agreed a new Responsible Investment Policy, which included a dedicated section on climate change as a key area of focus for the Trustee. The Trustee also agreed a new Stewardship

Policy, which replaces the previous corporate governance policy and provides greater clarity on the Scheme's approach to stewardship. In particular, as the Scheme delegates the management of individual assets to its investment managers, the Scheme's key levers of control and influence in stewardship are:

(i) the appointment of aligned managers and stewardship providers; and
(ii) ongoing engagement, oversight and challenge of those managers and providers.

CPTI engaged with EOS and with specialist consultant Arkadiko in the production of these updated policies. The nature of stewardship varies across asset classes, from private markets where the investment managers have direct control over an asset or company, to public markets where the reliance is on engagement and voting.

The process for reviewing and updating the responsible investment policy and stewardship policy was started by undertaking a high-level survey of the Trustee Directors' views. Following this, CPTI discussed these views with the Trustee Directors and proposed policies that took account of the views expressed as well as the current governance structure. The policies were also reviewed by Arkadiko – a specialist responsible investment consultant – for their input. Finally, the policies were formally approved at a full Trustee meeting.

In line with TCFD requirements the Trustee has now also set metrics and a target for climate data which are part of the Responsible Investment Policy. These will be formally reviewed on an annual basis.

As part of ongoing challenge and oversight, CPTI completed a review of the public equity investment managers that engage and vote on the Scheme's behalf to ensure they remain consistent with the Scheme's own stewardship goals and priorities. As part of this review it was agreed to move voting and engagement on the Baillie Gifford public equity portfolio to EOS. The Scheme also transitioned its passive equity mandate with LGIM to a Low Carbon Transition Ready equity mandate managed by Blackrock, with the voting and engagement responsibilities delegated to EOS.

Every year CPT, on behalf of the Scheme, requests internal controls reports (AAF 01/06, SOC1, ISAE3402 or SSAE18) across all the Scheme's investment managers and reviews these. The Scheme has chosen this approach as these are comprehensive industry standard reports which are carried out by independent assurance providers who ensure the relevant controls are in place, tested and working effectively. Any exceptions noted by the independent auditor in the internal controls report, together with the management response, in relation to stewardship are documented by the CPT compliance team and discussed with CPTI where required.

EOS obtains an independent AAF 01/06 assurance report on an annual basis and makes this available each year to the Scheme. This report provides an independent review to the Scheme regarding EOS's provision of stewardship services to the Trustee.

EOS engagement case studies are reviewed by the named companies in advance of publication for fact checking. CPTI has a number of ways in which it reviews EOS's activities and provides feedback on behalf of the Scheme. These include regular reporting (client portal, quarterly and annual reporting), quarterly meetings and the bi-annual EOS client conference.

The Scheme is an active owner of a large value of private markets assets where investment managers may directly control the companies, assets and properties invested in. As such their ability to influence these is often significant. Investment managers are expected to actively manage the assets, maximising opportunities and minimising risks around material environmental, social and governance factors. Stewardship examples in private markets are included under principle 7, however, the impact of the Scheme's ownership in these areas is something where the intention is to provide greater visibility in future.

Principle 6: Taking account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

The Scheme is a UK based pension scheme with 130,369 members as at 30 September 2021. The Scheme's members are mostly pensioners (92.4%) but also include deferred members (7.6%). At the most recent Actuarial Valuation (30 September 2020) the Scheme's weighted average age by total pension was 71 years for pensioners and 56 years for deferred members.

The Scheme has a fiduciary duty to meet the liabilities of the members benefits both long term and short term. The Scheme's cash flows continue for around 50 years so understanding and responding to long term systemic risks such as climate change are a key part of the Trustee's fiduciary duty, ensuring that the ability to meet long term liabilities is not compromised by short term actions.

Five members of the ten-person Trustee body are elected from the membership. The five elected members represent geographical constituencies across the UK and any member is entitled to stand for election for five-year terms. The role of the Trustee is to represent the views and interests of the members. As part of their role the elected Trustee Directors meet and correspond regularly with members, inputting questions and their understanding of member views. The Scheme also has a website and active social media page.

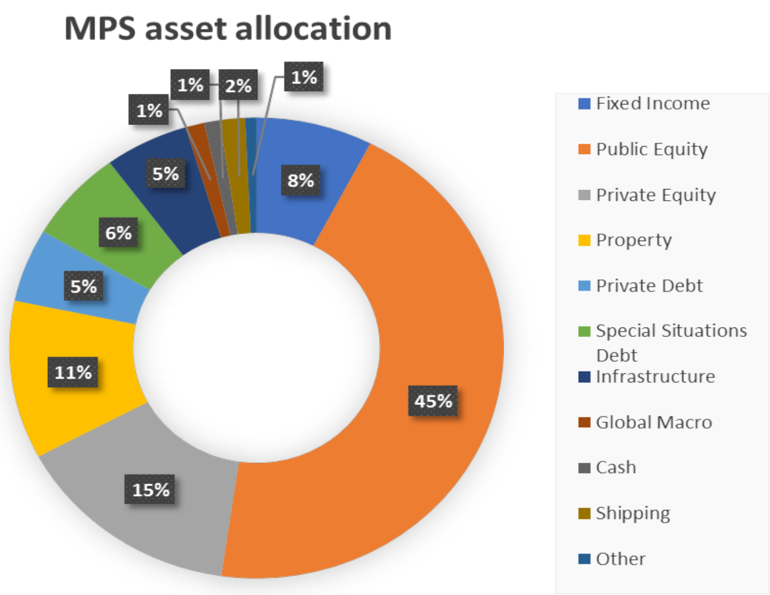
Communication to members

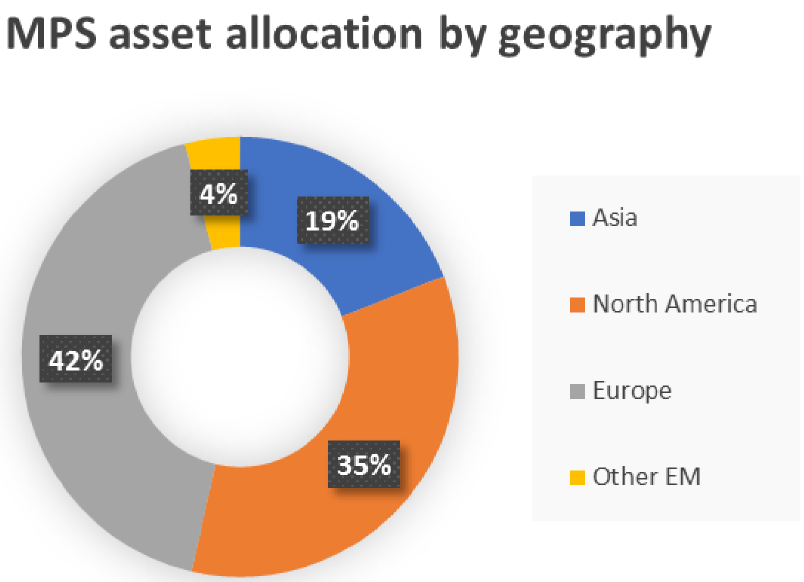
The Scheme discloses, on a quarterly basis, summary details of its voting and engagement on public equities as undertaken by EOS and the Scheme's investment managers. Summary statistics show the key issues on which EOS and the investment managers have engaged with the companies the Scheme is invested in. The Scheme also discloses Public Policy highlights reported by EOS, including key activities and achievements in discussions and consultations with regulators during the quarter. Reporting is publicly available to members on the Scheme's website (https://www.mps-pension.org.uk/about-mps/responsible-investing). Stewardship across the Scheme's other assets is reported to and discussed with the Trustee at quarterly Trustee meetings.

Members have contact details for the Scheme secretariat and any queries or views that may be communicated are passed from the secretariat onto CPTI to consider and respond. In addition, the Scheme publishes a yearly newsletter and sends out letters to members on important topics of relevance.

Assets under management

The Scheme's audited net assets as at 30 September 2021 totalled £12.41 billion and the asset value totalled c. £12.47 billion as at 31 December 2021. A summary of the Scheme's assets by asset class and geography as at 31 December 2021 are provided below:





Time horizon

The primary responsibility of the Trustee is to administer the Scheme in accordance with the rules and for the benefit of all beneficiaries over the whole life of the Scheme. Given the specific context of the Scheme, the Trustee has considered its own objectives carefully. The provisions of the Scheme lead the Trustee to adopt a long-term time horizon when considering investment strategy. By careful management of short-term risks and the Scheme's very high cash flows, the Trustee can accept some degree of volatility in asset values, within carefully defined parameters. As a long-term holder of assets, stewardship is a significant tool in the Scheme's investment approach.

<u>Principle 7: systematically integrating stewardship and investment, including material environmental, social and governance issues, and climate change</u>.

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

As highlighted in principle 2, in 2021 CPTI on behalf of the Scheme subscribed to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data has been used to challenge investment managers on specific holdings or understand overall exposures. Greater private markets data is being sought in 2022 although carbon data for much of the private markets portfolio is already received and there is a physical risk assessment for property. All of this data is used to produce a responsible investment Management Information pack which is reviewed regularly by both CPTI and the Trustee (through its Investment Sub-Committee). The pack serves to highlight areas of particular risk and drive challenging questions of the CPTI team and of service providers. A Trustee Risk Dashboard is also being developed which will include several areas of ESG risk.

The Scheme holds its investment managers to account on their management of ESG risks and opportunities. As mentioned in principle 2, CPTI are in the process of amending the Scheme's current and future IMAs to include obligations on managers to take into account material ESG issues when making investment decisions, comply with the Scheme's exclusion policy and provide reporting in relation to TCFD and diversity. During 2021 CPTI also engaged the EOS CCR service to highlight and engage laggards in the portfolio. The CCR identifies companies that violate or are at risk of violating commonly accepted international norms and standards, including: United Nations Global Compact Principles; Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises; UN Guiding Principles on Business and Human Rights; as well as relevant involvement in controversial weapons.

All public markets managers have been assigned a rating in relation to ESG integration and during 2021 coverage was expanded to private market managers. In addition, for all recommendations there is an explicit section in documentation around ESG and one for diversity. ESG, climate and stewardship are regular topics in manager meetings, and separate dedicated sessions are often held with manager in this area. During 2021, four Strategic Partners were appointed to work with the Scheme across asset classes and to be used for advice and as sounding boards. Assessing culture, purpose, ESG and specifically the approach to climate change was a key part of these appointments. Climate change is a specific risk that is focussed on given the large potential market impact and investment managers are expected to integrate climate risk guidelines, such as TCFD, into their decision making and reporting. Managers have been challenged across all asset classes on this throughout the year and these issues are formally part of all new appointments and manager devil's advocate reviews. Managers are challenged in meetings based on a qualitative understanding of their approach and quantitative data is also used on the managers' holdings and voting activity.

For public equity, the Scheme primarily uses EOS as the formal voting and engagement mechanism, which enables the Scheme to implement stewardship goals, particularly around company engagement and voting, to a high standard. As referenced in principle 5, CPTI expanded the engagement by EOS to cover the Scheme's passive public equity investments and one additional active public equity mandate in 2021. EOS's research and engagement insights provide useful information for CPTI on the Scheme's holdings across a number of investment managers, which can be used to challenge and scrutinise their investment decisions. For each manager in this asset class CPTI makes a formal assessment of whether the asset manager or EOS will be able to deliver better engagement and voting, which is based on comparing stewardship approaches and on coverage. All public equity managers have a clear understanding that ESG, climate change, diversity and stewardship are important areas. Following the Trustee Director survey in 2021 and additional research around Human Rights we expect this to be a key area of focus for 2022 and 2023.

As discussed in principle 4, climate change is systematically integrated across all areas of policy, monitoring, review and investment decision making. CPTI's commitment to the diversity charter, discussed further in principle 10, has also meant this is a formal consideration in all appointments and reviews. The Trustee commitment to the Stewardship Code ensures a focus on being active stewards of assets, engaging with managers, service providers and the broader market to ensure goals are met.

CPTI's manager selection process considers investment managers' ability to integrate stewardship and investment including considering ESG factors. This is both a key input to the research and tendering process for new managers and the oversight of existing managers.

Private equity

In private equity, investments in funds and co-investments are regularly evaluated. Consideration of ESG factors for both fund and co-investment opportunities is a critical input to the decision-making process when deciding where to commit assets for the long-term and in what size as well as in the ongoing stewardship and challenge of managers. In order to ensure a strong voice with managers, CPTI will push for Limited Partner Advisory Committee (LPAC) seats where possible and push for agendas to include ESG priorities. MPS has LPAC seats with 16 funds currently. Several examples of the ESG approach in this area are detailed below:

- As part of its thematic focus on climate, the Scheme identified, undertook due diligence and committed to a fund in 2021 that focuses on companies involved in the growing hydrogen sector. This was an institutional offering but as this was a first time fund, CPTI was consulted on governance issues, especially relating to refining the conflicts of interest policy. The Scheme has also taken an LPAC seat which enables deeper engagement with the manager and enhanced oversight of the Scheme's investment. One of the first investments of the fund is a bus company based in Northern Ireland which under the manager's ownership is transforming from a diesel bus manufacturer to a global zero emissions mobility provider. It is developing and manufacturing both battery and hydrogen powered models and aims to fully decarbonise its bus sales in the next three years.

- CPTI has engaged extensively with Cambridge Associates (CA), the Trustee's advisor for private equity and special situations debt investments, with regard to producing carbon emissions reporting for these diverse portfolios. CA has a thorough process in which it analyses the sector exposures for each underlying fund and a proxy is applied to provide aggregate carbon emissions and intensity metrics. CA's reporting includes detailed portfolio level information on the larger exposures and commentary on the managers' commitments to ESG. Underlying portfolio company carbon reporting from the Schemes' managers is not yet available but the Scheme is encouraging its managers to collate this data. CPTI also continues to push CA to expand its own questions to managers on ESG data and its engagement and education of clients on these issues. As part of this effort, the Scheme now includes specific text relating to TCFD reporting in all side letters pertaining to new fund commitments.
- During 2021 the Scheme committed capital to a diverse selection of managers that have previously delivered strong returns to the Scheme and that are also increasingly articulating and quantifying their approach to stewardship and ESG. There are many examples throughout the portfolio, ranging from early stage disruptive companies such as a low carbon footprint vertical farming company, a marketplace focused on the circular economy, an electric scooter manufacturer and a minimal packaging household cleaning products company to more mature healthcare investments that increase access, improve patient outcomes, reduce costs and increase efficiency through innovative technologies. Other managers are focused on bringing discrete ESG initiatives and KPIs to value creation plans, thereby generating value whilst also having a positive environmental impact. One example is an elevator company investment made in 2021 that has developed an energy efficient elevator that reduces energy consumption by up to 27%. Another example is the installation of a new catalytic converter at a pharmaceutical manufacturer that will reduce nitrous oxide emissions by at least 98% and overall emissions by 70%. This has enabled the firm to reduce its financing costs as it has a sustainability linked bond.
- As part of private equity manager Cinven's value creation approach, the Deal and Portfolio teams make a TCFD-aligned assessment as well as put carbon footprinting in place. Portfolio companies are required to report on a quarterly basis on KPIs related to the carbon intensity of their revenues (as well as diversity, work-related injuries, employee grievances and anti-bribery and corruption incidents). In Q4 2021, Cinven engaged climate change advisors to develop a clear strategy to better understand its Scope 1, 2, and 3 emissions across the firm and portfolio, reduce its own operational emissions where possible and to support its portfolio companies in reducing their own emissions. This work is currently ongoing and by the second half

of 2022, all Cinven portfolio companies will have a carbon footprint for Scope 1 and 2 emissions, and Scope 3 where this is material and possible to collect. The firm plans to publish its first TCFD report in 2022.

- All due diligence processes now include the Scheme's diversity questionnaire which managers are required to complete. This has led to the Scheme's engagement in productive D&I discussions with managers, impressing on those that are less diverse our wish to see more gender and ethnic balance / representation in investment teams, not least as diversity is expected to improve the quality of decision-making and challenge.
- CPTI has had numerous conversations throughout the year with private equity managers, particularly those based in the US, around carbon reporting and considering net zero. Many had not previously begun this initiative. CPTI outline the requirements to produce the relevant information, the value of it and help identify ways for the managers to deliver.

Real estate

For Property, a new manager is being appointed and one part of the reason behind this change was insufficient focus on systemic market changes with the incumbent provider. A key part of the new appointment has been a focus on the costs and opportunities associated with the necessary building upgrades required to meet climate regulation. As part of the hiring process there was active engagement with the new manager on D&I policies which were found to be lacking. Following discussions with CPTI, the incoming manager independently carried out an internal staff survey on D&I and job satisfaction and have now incorporated D&I more explicitly and formally into their staff development program. The manager also agreed to add additional resource focused on environmental concerns and will be ensuring that tenant engagement and data sharing is viewed as a central part of the process.

UK Infrastructure

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

During 2021, a full review of stranded asset risk was conducted including likely capital expenditure for the Scheme's assets and what this might mean for future returns. CPTI engaged with managers in this area, reviewing whether their plans were sufficiently robust and forward looking. As a result, it was decided to exit and replace a number of the existing infrastructure assets. There is also a plan to add a new manager focused specifically on the storage and transport infrastructure required to support grid electrification.

CPTI also engaged with the infrastructure managers during this year around delivering TCFD reporting. Whilst one manager was already delivering this, for two others they have not historically produced any carbon reporting. As such, CPTI are engaging with the managers to produce the reporting as well as associated information not readily available to clients around energy generation from the underlying investments and carbon savings impact, to showcase how the investments are performing with regards to emissions.

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

CPTI applies its formal monitoring framework across all the Scheme's external managers to make sure they align with the Scheme's expectations for responsible investing including stewardship. All external managers are encouraged to have formal policies covering stewardship and engagement. If external managers do not have a formal policy, engagement occurs to understand why, then where possible work is undertaken with external managers to help create formal policies. During the year, the Scheme's real estate manager and two private equity managers were successfully encouraged to develop policies in this area. As mentioned in the Principles above, CPTI has formally rated all of the public markets managers according to ESG integration and is in the process of completing ratings for private markets managers. Changes to engagement and voting coverage have also been made during the year and ESG integration and particularly climate change have been key drivers of a number of appointments and terminations. Managers note that the Scheme is an engaged client in this area, asking challenging questions and providing useful feedback.

When conducting formal manager monitoring updates, CPTI will discuss with external managers portfolio activity, and how stewardship including ESG considerations were factored into the decision-making process at the individual security level. CPTI has developed a rating and view for each manager across asset classes, based on multiple factors which include:

- firm-wide responsible investing resources and capabilities;
- firm-wide commitment to relevant responsible investment codes/principles/initiatives;
- firm-wide commitment to diversity and inclusion;
- level of active engagement including voting for equities;
- ESG integration into the investment process for Scheme specific investments; and
- ESG reporting on Scheme specific investments.

The Scheme continues to evolve its climate and ESG monitoring of managers with significant progress achieved through 2021. In particular, CPTI on behalf of the Scheme, subscribed to MSCI ESG data which is currently available for public equity and public credit.

Additionally, CPTI has recently subscribed to a Controversial Company Reporting service (CCR) through EOS. This service utilises Sustainalytics as its' data source and highlights those companies which are considered as being in violation of internationally recognised guidelines. CCR provides insight into the nature of those violations and a view on engagement with the company. In 2022, CPTI on behalf of the Scheme plan to utilise this information to challenge incumbent and future managers on any equity holdings covered by these violations.

EOS is a key stewardship service provider for the Scheme and therefore CPTI regularly reviews their service on behalf of the Trustee including the scope of their engagement work for the Scheme. As referenced in principle 5, reviews of public equity engagement and voting resulted in more engagement being delegated to EOS during 2021. In early 2021 voting and engagement on the Baillie Gifford portfolio was transitioned to EOS. The Scheme also transitioned its passive equity pooled mandate with LGIM to a Low Carbon Transition Ready segregated equity portfolio managed by Blackrock, with the voting and engagement responsibilities delegated to EOS. Further changes to the public equity portfolio have been implemented during early 2022, with an allocation to a Global Environment strategy managed by Ninety One, who it has been agreed will retain voting and engagement responsibilities. Managers will continue to be assessed on a case by case basis to determine whether voting and engagement is best placed with the investment manager or EOS with this decision kept under review. Through regular communication with EOS, as outlined in principle 9, CPTI hold EOS accountable for the stewardship services they provide.

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

Whilst no single consultant is engaged for overall advice, input is often sought from a range of consultants on particular projects or asset classes. During the year, consultants have provided input across a range of areas including climate scenario analysis, private market carbon emissions data, new mandate selection and TCFD reporting. In each case, CPTI has delivered feedback around the quality and alignment of the services provided. One example was when working with a consultant around scenario analysis, the output appeared to significantly underestimate the impact of the 4 degrees scenario. Feedback was provided and the consultant is working on improved modelling in the next year.

CPTI engage with EOS multiple times a year including providing input on regular feedback calls, participating in client feedback sessions with the advisory board and participating in feedback of engagement priorities each year.

Case study

Over the course of 2021 CPTI has been engaging with an external manager with a mandate that invests in Onshore Chinese public equities, in order to improve ESG transparency, reporting, and formalise stewardship related activities. CPTI has been encouraged that a number of current initiatives and improvements are underway that show the manager recognises the importance of these issues and is also willing to engage further to improve. Recent changes include the creation of a distinct ESG working group to help formalise decision making in this area and formally tracking company level ESG metrics through the use of external data providers. The manager is now finalising their ESG policy, which CPTI plans to review with the manager over the course of 2022. Recent initiatives from a stewardship perspective include working towards incorporating specific ESG protocols into their voting policy. Following our engagement, the manager also plan to become a PRI signatory this year.

Principle 9: engagement with issuers to maintain or enhance the value of assets.

EOS and a number of the Scheme's investment managers have been appointed to undertake engagements on behalf of the Scheme with companies on issues that may impact their long-term sustainable value. The Trustee expects proposals for engagement to involve some breach of generally accepted financial, strategic, operational, legal, social, environmental, ethical or governance best practice. Engagements may relate to longer-term strategic, environmental, social or governance issues, which may not have immediate stock-specific impacts, for example, where the company's shares or debt are already fully valued and the intent is to preserve that value.

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

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

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

Engagements may involve:

- Meetings with executive and non-executive directors;

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

EOS engage for all the Scheme's public credit investments and a large proportion of the Scheme's public equity investments. Summarised below is the breakdown of the Scheme's split of public equity voting and engagement activity across EOS and the other investment managers as at 31 December 2020 and as at 31 December 2021. This breakdown illustrates where voting and engagement coverage has shifted over the year as a result of reviews undertaken.

Managers undertaking Voting & Engagement activity	Public equity allocation based on value of assets at 31/12/2020	Public equity allocation based on value of assets at 31/12/2021
EOS	50.1%	93.1
LGIM	31.3%	0.0%
Baillie Gifford	10.8%	0.0%
Schroders	3.0%	2.7%
Green Court	2.7%	2.2%
AQR China	2.2%	1.9%

The Trustee's expectations in term of public market engagement, as summarised above, are met by CPTI through regular meetings with EOS and the Scheme's investment managers. CPTI, on behalf of the Trustee, keeps those currently delegated to engage and vote on the Scheme's behalf under review. As referenced in principle 5, the key outcomes from that review in 2021 were as follows:

- Voting and engagement on the Baillie Gifford account was transferred from the manager to EOS;
- The passive equity account with LGIM was transitioned to a segregated account with BlackRock, with the voting and engagement now delegated to EOS;
- Reaffirmed the decision to retain voting with Schroders following a review of their approach to engagement and voting.

CPTI, on behalf of the Scheme, is continuing to review the approach to engagement and voting in China through Green Court and AQR.

On behalf of the Scheme, EOS undertakes company-specific engagements with the objective of achieving beneficial and sustained change at the companies and in the societies where they operate. EOS analyses company performance, policies and practices based on corporate disclosures and research on Environmental, Social and Governance (ESG) factors.

During 2021 EOS engaged on the Scheme's behalf with 618 companies on 2,396 issues and objectives covering the following topics: environmental (27.3%); social and ethical (21.6%); governance (37.0%); and strategy, risk and communication (14.1%). More detailed disclosure on EOS's engagement on behalf of the Scheme through 2021 including objectives by sector/priority themes and outcomes of engagement are in the annual reporting available on the Scheme's website (link).

CPTI, on behalf of the Scheme, provides feedback to EOS on engagement priority areas and process as part of the annual refresh of the Engagement Plan (as referenced in principle 2). CPTI can also provide feedback through the bi-annual client advisory council events, client advisory board and the Scheme's relationship managers. In 2021, CPTI also had dedicated calls on the voting policy of EOS covering areas such as board independence, over-boarding, gender and ethnic diversity, climate change and executive pay. CPTI also covered these issues with other investment managers that vote and engage on the Scheme's behalf.

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

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

Case study: JD.com

EOS began engaging with JD.com on shareholder rights in December 2017. JD.com had not held an annual shareholder meeting since its initial public offering in 2014. This was partly because US-listed companies registered in the Cayman Islands were not legally required to do so. The lack of shareholder rights, the lack of diversity on a male-dominated board, and limited detailed ESG disclosure were key concerns for EOS.

Engagement was initially challenging due to the lack of wider market pressure in the region. However, following the scandal regarding alleged misconduct by JD.com's founder in 2018, EOS stepped up its engagement on governance, board composition and gender diversity. EOS explained that holding an annual shareholder meeting would allow minority shareholders to vote and elect independent directors aligned with their interests, in addition to voicing concerns and posing questions directly to the company. EOS also raised their concerns about board composition, diversity, the lack of a structured feedback process and the lack of ESG disclosures. Between 2018 and 2020, EOS had eight interactions with the company focusing on shareholder rights, diversity and ESG disclosure. EOS recommended that the company provide an explanation of how human capital management, plus diversity and inclusion (D&I), were linked to its core values and culture. EOS shared best practice examples of disclosure on governance and culture, D&I, and organisational health, safety and wellbeing.

The company acknowledged their concerns about the lack of diversity during a positive engagement in January 2019. The company informed EOS that prior to the IPO, it had looked for a female director, but the candidate had decided not to take up the opportunity. After their engagement with a senior executive in April 2021, the company published its first ESG report, covering the topics we had discussed. EOS welcomed disclosures on the company's corporate governance structure, data privacy, and cybersecurity management, and its commitment to decarbonisation. The reports met international standards, and EOS expect further disclosure on human capital management and employee turnover rates.

The company also confirmed its arrangements for its first annual shareholder meeting on 23 June, in line with EOS's request. EOS welcomed the appointment of JD.com's first female board director in 2021, a good step towards improving board diversity, in line with EOS's expectations. EOS continue to encourage further disclosure on ESG topics including plastic recycling, climate change, human capital management, D&I, and JD.com's dual share structure.

Case Study: Amazon

LGIM engaged with Amazon on human rights after the company had been accused of interfering with efforts by its workers to unionise, ahead of a vote by workers in an Alabama facility on unionisation. LGIM signed a letter to Amazon along with more than 70 other investors with collective assets under management (AUM) of $6.4 trillion, to emphasise the role that worker representation plays in supporting companies in identifying and managing operating risks. LGIM highlighted that Amazon should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that as an internationally recognised human right, workers should be free to exercise their freedom of association and right to collective bargaining. LGIM set out the expectation that Amazon should have in place policies and processes appropriate to its size and circumstances, including:

a) A policy commitment to meet their responsibility to respect human rights;
b) A due diligence process to identify, prevent, mitigate and account for how the company addresses its potential impacts on human rights;
c) Processes to enable the remediation of any adverse human rights impacts Amazon causes or to which it contributes.

It is against this background and with these expectations, that LGIM applauds the launch by Amazon of its Global Human Rights Principles. Through this policy, LGIM have taken note of the company's commitment to The UN Guiding Principles on Business and Human Rights, which in turn recognise the fundamental right of workers to exercise their right to organise, should they choose to do so. LGIM are also encouraged by the announcement that Amazon has commissioned a human rights impact assessment by an external consultant. However, in spite of these initiatives that have been announced and following discussions with Amazon's Head of ESG Engagement, LGIM remain concerned that the company has yet to demonstrate how it meets the commitments that it has set, not only with respect to human rights but also to transparency and stakeholder engagement. LGIM's engagement with the company continues.

Case study: Mitie

Mitie is a strategic outsourcing and energy services company, which the Scheme holds within the Schroders UK small cap mandate. In 2021, Schroders entered into detailed discussions with the members of the remuneration committee about an extra Long Term Incentive Plan (LTIP) for the senior management team based on the success of integrating the transformational acquisition on Interserve. The main achievement Schroders gained from this engagement was getting the remuneration committee to accept the introduction of a share price floor for the LTIP, which gave some protection for shareholders including the Scheme. This engagement involved lengthy discussions before the company agreed to Schroders suggestion.

Real assets and private equity

Engagement in real assets such as infrastructure and real estate has a focus on ensuring these assets retain value and resilience in the future. The examples under principle 7 show activity within the Scheme's real estate assets to focus on becoming more energy efficient and reducing the climate risk impact. In infrastructure, the Scheme is allocating capital to investment opportunities that are contributing towards the decarbonisation of the economy.

During 2021, a full review of stranded asset risk was conducted, considering the likely upgrade capital spend required for the Scheme's infrastructure assets and what this meant for future returns. CPTI engaged with the managers in this area, reviewing whether their plans were sufficiently robust and forward looking. As a result, it was decided to exit and replace a number of the existing infrastructure assets. There is also a plan to add a new manager focused specifically on the storage and transport infrastructure required to support grid electrification.

For Property, CPTI is in the process of appointing a new manager, part of the reason behind this change was insufficient focus on systemic market changes with the incumbent provider. A key part of the new appointment has been a focus on the costs and opportunities associated with the necessary building upgrades required to meet climate regulation.

CPTI has had numerous conversations throughout the year with private equity managers, particularly those based in the US, around carbon reporting and considering net zero. Many had not previously begun this initiative. CPTI outlined the requirements to produce the reporting, the value of it and helped identify ways to deliver.

Principle 10: Policy on Collaborative Engagement

The Scheme collaborates with other investors through the relationship with EOS where engagement with companies is conducted based on assets aggregated across multiple asset owners. The Trustee believes this allows the Scheme to pool resources and to increase leverage for influencing positive change at companies in order to protect and enhance shareholder value. On behalf of the Scheme, EOS's dedicated stewardship team of over 30 engagers were able to engage with 618 companies during 2021.

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

The Scheme is also a signatory to the Principles for Responsible Investment (PRI), which works to promote the incorporation of ESG factors into investment decision-making. CPTI also expects to take part in PRI asset owner collaborations in future.

In 2021, CPTI signed up to the Asset Owner Diversity Charter, which includes commitments to incorporate diversity questions into manager selection and ongoing manager monitoring. CPTI has been using the diversity charter questionnaire for new manager selections and ensuring diversity disclosure is incorporated into new investment management agreements. CPTI is also reviewing existing managers focusing on the largest relationships first and is in the process of updating IMAs and side letters to reflect commitments.

EOS and the Scheme's investment managers are involved in a number of regional and industry initiatives including the PRI, Climate Action 100+, Institutional Investors Group on Climate Change, International Corporate Governance Network, Council of Institutional Investors and Corporate Governance Forum.

Two examples of collaborative engagements from EOS and LGIM are set out below.

Case study: EOS and Climate Action 100+

Since December 2017 the collaborative engagement initiative Climate Action 100+ (CA100+) has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5-degree world. EOS is a significant supporter of CA100+, leading or co-leading engagement at over 25 of the 167 focus companies across Europe, North America, and Asia. According to analysis by research company BNEF, 111 of the CA100+ focus companies have set a net-zero or equivalent target, compared with five prior to January 2018 when the initiative was launched. BNEF estimates that in 2030, the net zero targets set by these 111 focus companies will reduce greenhouse gas emissions by 3.7bn metric tons of carbon dioxide equivalent annually.

In March 2021, CA100+ published its first assessment of focus companies against the Net-Zero Company Benchmark, a standardised framework for evaluating company progress. EOS contributed to the benchmark through its collaboration with the Institutional Investors Group on Climate Change (IIGCC) – for example, on the inclusion of a test for capital expenditure alignment. The benchmark found that companies still had work to do, with alignment of value chain greenhouse gas emissions (Scope 3) often a blind spot. For example, while 83 of the focus companies assessed (52% of the total) had announced an ambition to achieve net zero by 2050 or sooner, 44 of these commitments did not cover the full scope of the companies' most material emissions.

In 2021 EOS stepped up engagement with notable laggards such as chemicals company LyondellBasell, leading a delegation of eight institutional investors who spoke at the annual shareholder meeting, in their role as CA100+ lead. While the other agenda items together took only 12 minutes to resolve, this was followed by over 45 minutes of debate on the company's climate change strategy. EOS had escalated this engagement by obtaining support from 27 institutional investors to use a legal mechanism under Dutch law to require a discussion on climate change at the shareholder meeting. Later in the year, the company made a commitment to net zero emissions by 2050 with interim steps set out towards achieving this goal. These included a 30% absolute reduction in emissions target, and a goal of sourcing at least 50% of its electricity from renewable energy by 2030.

EOS also attended the annual shareholder meeting of Air Liquide in their capacity as CA100+ co-lead to ask questions about the industrial gas company's energy transition plan. EOS asked about the absence of a target for Scope 3 emissions, which represent 40% of its total emissions, and when it would be communicating a climate action plan. EOS followed up with a letter to the CEO seeking confirmation that the company would fully align its disclosures with the CA100+ Net-Zero Company Benchmark by the end of 2023. EOS also co-signed a letter to the chair and CEO about a ShareAction collaborative engagement initiative focusing on the climate risks posed by the European chemicals sector. In response, the company said that Scope 3 emissions in the chemicals sector were not yet well defined, but it was planning to participate in a Science-Based Targets initiative (SBTi) working group to define the sector's decarbonisation approach.

On the other side of the Atlantic, EOS's North American engagement team co-led a CA100+ engagement with the US oil company ConocoPhillips asking for an enhanced assessment of its climate-related risk. CA100+ has a flagging mechanism to enhance the impact of investor voting on climate-related resolutions. Seeking more ambition from ConocoPhillips, EOS flagged and recommended a vote for a shareholder proposal at the company's 2021 annual shareholder meeting that asked for absolute emissions reduction targets across Scopes 1 to 3. The proposal gained 58% support and EOS continue to engage on the company's response to this request.

Case study: LGIM and Social Media Collaborative Engagement

In early 2019, the Social Media Collaborative Engagement of 104 global investors was established, representing approximately £7 trillion AUM, in response to the live streaming of the Christchurch terror attack on 15 March 2019 on Meta, Alphabet and Twitter. It was believed that these companies betrayed their users' trust, breached their duty of care and severely damaged their social licence to operate. The Collaboration has now closed, and the results and impact show how powerful working together can be, where speaking with a united voice on an important issue can yield positive change.

LGIM joined this collaboration as technology stocks are a significant part of many global indices and as ESG risks have developed, there have been consequences for global investment portfolios. There are many additional risks for the broader technology sector, for example the decline of consumer trust, litigation risk including anti-trust, regulatory risks, and reputational risks. The purpose of the collaboration was to engage these three social media companies with a single focus: to strengthen controls to prevent the livestreaming and dissemination of objectionable content.

The first action was to speak out publicly on the Collaboration's intention to engage the identified social media companies – Meta, Alphabet, Twitter – on this issue. This decision was taken to indicate clear dissatisfaction with the companies who showed a lack of accountability. Engagement letters were sent to the chairs of the boards of each of the three companies and engagement meetings were held to discuss their responses. The Collaboration also created and distributed a resource for shareholders outside the group who sought to engage on the same issue. This ensured the social media companies were hearing the same message from a wide range of investors, signalling the importance of the issue to the broader investor community. The identified companies assured the Collaboration that they were making changes to strengthen controls to avoid a similar situation in future. However, none of the companies agreed for a board member to meet the Collaboration, and it was felt that there wasn't enough commitment from the companies on the issue. Therefore, the Collaboration published an open letter distributed via global press, calling for:

- clear lines of governance and accountability to ensure social media platforms cannot be used to promote objectionable content; and
- sufficient resources dedicated to combatting the live-streaming and spread of objectionable material across the platforms.

Additionally, during 2020 and 2021, LGIM voted in favour of various shareholder proposals at all three companies that focused on human rights issues, such as expertise at board level and further disclosures.

All the company platforms have moved to strengthen controls to prevent the live streaming and distribution of objectionable content. In late 2020, Meta informed the Collaboration that it had strengthened its Audit & Risk Oversight Committee charter to explicitly include a focus on the sharing of content that violate its policies. Meta also made a commitment to prevent such abuse, not just to mitigate it.

Research commissioned by the Collaboration by an external think tank called Brainbox Institute reviewed the technology changes and concluded that:

- the measures introduced by the platforms have a high likelihood of significantly mitigating the scale of dissemination of future objectionable content;
- the platforms have made and continue to make reasonable efforts to reduce the spread of objectionable content;
- the platforms are well-placed to rapidly triage potential objectionable content and they have implemented mechanisms to quickly intervene in such cases and can do so much faster than a government body could;
- however, the platforms are highly unlikely to absolutely prevent the spread of objectionable content of another similar type of event because once new content has been uploaded, there is an unavoidable time delay before it can be accurately classified as objectionable and this time gap cannot be entirely eliminated.

Principle 11: Escalating stewardship activities

Escalation is a key component of stewardship. This can be in the escalation of concerns around asset managers, or the asset manager's own escalation on an engagement with an underlying asset. It can also include an escalation beyond a single asset into strategy and sector level decisions or policy changes.

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

On meeting EOS's rigorous criteria for escalation, companies are included in EOS's engagement programme based on a formal proposal approved internally by the Engagement Committee which oversees the process. The most recent engagement plan can be found at the following link:
https://www.hermes-investment.com/uki/wp-content/uploads/2022/03/eos-engagement-plan-2022-2024.pdf

An example of an escalated engagement conducted on the Scheme's behalf by EOS is set out below.

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

Case study: Intel

As part of EOS' ongoing engagement with Intel, the computer component manufacturer, EOS first raised concerns about the need to better align executive compensation with sustainable value creation and the interests of long-term shareholders in 2019, in a meeting with the director of executive compensation and chief governance counsel. EOS expressed their expectation that the company should increase the share ownership obligations of the CEO to 10 times base salary, from eight times, and prohibit the use of options. EOS believe compensation in shares better aligns management interests with those of shareholders, as options are intrinsically more geared to short-term changes in the share price than the issuance of shares, and can therefore more easily drive the wrong behaviour from management. Subsequently, EOS recommended voting against the say-on pay item at the annual meeting. EOS expressed their concerns again ahead of the 2020 annual meeting, also noting concerns about the high quantum of the CEO's pay, with insufficient justification of how such above-market pay enhanced long-term shareholder value.

Ahead of the 2021 annual meeting, EOS were pleased that the company implemented changes to executive compensation in line with the expectations they had articulated. Additionally, the company has demonstrated an openness and responsiveness to shareholder engagement. While EOS remain concerned about the ongoing practice of excessive quantum and above-market pay at the company, and still recommended a vote against executive pay in 2021, EOS have shared this feedback in an engagement with the board chair and will continue to engage with the company on this issue.

Principle 12: Exercising rights and responsibilities

Voting

The Trustee believes that voting is an important investor right and responsibility. Through EOS and certain investment managers, the Scheme seeks wherever practicable to vote responsibly on every resolution at all meetings of companies it is invested in. Voting is regarded as an important constituent of the Scheme's stewardship and as a means of achieving positive change. The use of voting rights attached to shares held by the Scheme are appropriately aligned to its overall responsible investment policies and objectives.

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

The Trustee agreed a new stewardship policy for the Scheme during Q4 2021 and the policy details how the Scheme carries out its voting which is delegated to EOS and the investment managers. CPTI, on the Scheme's behalf, is also able to influence the voting policies of the investment managers and EOS through dialogue and other feedback channels. The stewardship policy is published on the Scheme's website at the following link: https://www.mps-pension.org.uk/about-mps/responsible-investing.

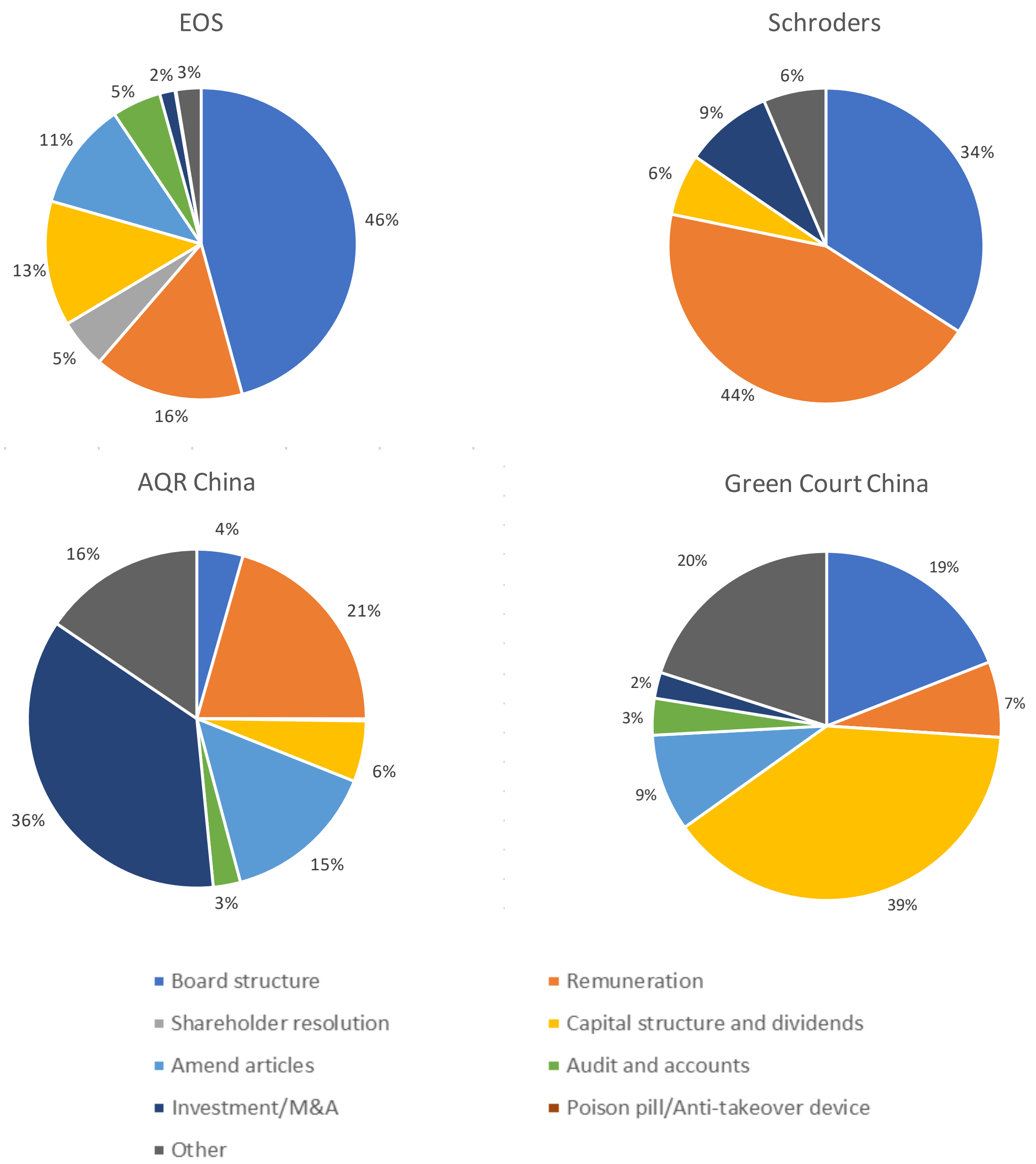
The Scheme will typically follow the voting recommendation made by EOS where this has been delegated to them although the Scheme retains the right to vote differently. This is facilitated through the ISS Governance Services voting platform, in accordance with the Scheme's own policy. The process differs for each investment manager. Where the Scheme is invested through a pooled fund, the Scheme does not have the right to change the investment managers vote but CPTI, on the Trustee's behalf, engages with the investment manager on their voting policy and decisions. CPTI monitors the voting done by EOS and the Scheme's investment managers by looking at how they have voted on specific resolutions particularly in relation to board diversity, remuneration and climate. As referenced in principle 9, CPTI held dedicated calls with EOS and a number of the Scheme's investment managers in 2021 on their voting policies as well as covering the rationale for decisions on specific resolutions.

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

Summarised historic voting information is publicly available at https://www.mps-pension.org.uk/about-mps/responsible-investing. Information is disclosed quarterly in arrears to avoid compromising dialogue with companies in the portfolios, whilst being fully transparent and accountable. The table below summarises the Scheme's voting record in 2021 from EOS and the investment managers who vote on the Scheme's behalf.

Investment manager	**Resolutions eligible to vote**	**Percentage of resolutions voted**	**Percentage of voted resolutions that were against management**	**Percentage of resolutions abstained**
EOS	38,015	99.9%	13.5%	4.2%
LGIM	37,635	100%	19.0%	0.1%
Schroders	1,124	99.6%	2.9%	0.3%
Green Court	880	98.4%	10.3%	1.7%
AQR China	3,397	100%	12.7%	0.0%

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



The below case study is an example of EOS filing a shareholder proposal at Berkshire Hathaway on the Scheme's behalf.

Case Study: Berkshire Hathaway shareholder resolution

In conjunction with California Public Employees' Retirement System (CalPERS) and Caisse de Dépôt Et Placement Du Québec (CDPQ), EOS filed a shareholder proposal at Berkshire Hathaway, hoping to trigger a dialogue with the company on climate change. EOS co-lead on Berkshire Hathaway for CA100+.

The proposal asked Berkshire Hathaway's board to publish an annual assessment addressing how the company manages physical and transitional climate related risks and opportunities. Tim Youmans, the EOS lead for North America, spoke at the 2021 shareholder meeting on behalf of the proposal. While the company has performed well historically, simply asking shareholders to “trust” the company on its capital deployment decisions without climate risk being adequately disclosed is concerning. For example, Berkshire Hathaway Energy is now the largest US power company without a net-zero goal. Berkshire Hathaway insiders, including the chair and CEO Warren Buffett, control 35% of the company’s voting power. With Berkshire Hathaway opposing the shareholder proposal, it was defeated, but when adjusted for non-insiders, the vote results were close to 60% in favour of the proposal.

Stocklending

The Scheme has an active stocklending programme but is always ready to recall stock from a loan where it appears that this would be an appropriate way to safeguard the Scheme’s financial interests. Over the course of 2021 the Scheme did not recall any stock for the purpose of voting. The Scheme has since reviewed its stocklending approach and concluded that a more active approach is needed to recall stock for voting. Towards the end of 2021 a stocklending recall service was implemented which will aim to recall all stocks where possible on loan for voting. The solution was active from the beginning of January 2022 and we plan to monitor this new approach through the course of 2022 and will provide greater detail on this in the Stewardship reporting next year.

Fixed income

Whilst EOS engage on the Scheme’s behalf on public fixed income, the Scheme’s public fixed income investment managers have an important stewardship role. As an example, details are provided below in terms of how one of the Scheme’s fixed income managers, addresses their stewardship role for the Scheme.

Fixed income credit analysts, in partnership with their syndicate desk and portfolio managers, regularly engage with companies and sell-side banks to discuss and provide feedback on prospectus documents and deal terms. Specifically, credit teams are focused on making sure that the credit covenants within a deal provide adequate protection to bondholders. For example, as bondholders lending to an investment-grade-rated company, change-of-control provisions in case of a downgrade to high yield should be included. Such provision are considered to be more supportive of a sustainable, long-term business model. Similarly, coupon step-ups for bonds that are rated at the lower end of the investment-grade range may be requested, again to protect in the case of downgrade. Finally, restricted payment covenants for issuing entities that are owned by a highly levered holding company are desirable, in order to preserve the sustainability of the issuer.

Private Markets

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

For private debt, whilst investing in debt does not give managers direct control or voting outside of distressed situations, debt holders still have significant opportunity and responsibility to engage. Debt investors have significant influence when deciding whether to participate in future debt issuances, both in relation to the cost and lending terms of loan agreements. Particularly in the case of new lending, managers also have the opportunity to introduce covenants in relation to material ESG risks.

The examples for private equity, real estate and infrastructure in principle 7 show how the Scheme has addressed stewardship in 2021 across private market assets.