



DHL Group Retirement Plan

Defined Benefit Sections

IMPLEMENTATION STATEMENT

PLAN YEAR ENDING 31 MARCH 2025

This Implementation Statement is a legally required document, prepared by the Trustee in relation to the DB Sections of the DHL Group Retirement Plan ('the Plan'), and forms part of the Trustee's annual report. It covers the Plan Year ending 31 March 2025. It sets out the policies and principles for how investments are governed and any changes over the year (including the rationale for these changes), as well as details of voting activity from the investment managers.

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SECTION 1: INTRODUCTION

This Implementation Statement has been prepared by the Trustee in relation to the DB Sections of the DHL Group Retirement Plan ('the Plan'). It covers the Plan Year ending 31 March 2025. A separate Annual Implementation Statement in relation to the Defined Contribution ('DC') Section of the Plan is available.

The purpose of this Implementation Statement is to:

- ✓ summarise how the Statement of Investment Principles ('SIP') for the DB Sections has been followed during the year;
- ✓ outline any changes that have been made to the SIP and the reasons for the changes; and
- ✓ provide a description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of a proxy voter during the year.

Key highlights from an Environmental, Social and Governance ('ESG') perspective are shown in Section 3, and engagement case studies are set out in Section 7.

The latest version of the DB Sections' SIP, dated December 2024, can be found online [here](#).

This Statement has been produced in accordance with the regulatory requirements currently in force and the guidance published by the Department for Work and Pensions ('DWP') and the Pensions Regulator. In summary, the Trustee believes that:

- a) the policies outlined in the DB Sections' SIP in force have been adhered to over the Plan Year;
- b) the investment managers' activities aligned with the Trustee's policies on Environmental, Social and Corporate Governance ('ESG') issues, engagement and voting; and
- c) the implementation of the policies outlined in the DB Sections' SIP in force over the Plan Year has been consistent with the overarching aim to achieve the primary objective to invest each DB Section's assets in the best financial interests of its members and beneficiaries, which is expected to drive long term value. This is demonstrated by, for example, the engagements undertaken by the investment managers on behalf of the Trustee over the Plan Year, as set out in this Statement.

SECTION 2: INVESTMENT OBJECTIVES AND INVESTMENT STRATEGY

The Trustee's primary objective is to invest each DB Section's assets in the best financial interests of its members and beneficiaries. To try and achieve this, each Section is invested in a range of different types of investment. When combined, this 'diverse portfolio' of investments helps reduce exposure to risk while still trying to grow the value of each DB Section's assets in line with its 'investment beliefs' (see Section 5 on investment decisions for more information).

The investment objective for each of the DB Sections aims to have a 50% (or better) chance of being 100% funded on a gilts +0.5% pa basis for each of the DB Sections in 2030. At this point, it is assumed that the assets will be mainly invested in low risk, low return investments such as gilts (effectively lending money to the UK Government) and high quality corporate bonds (effectively lending to high quality companies).

Each DB Section's assets are highly diversified across a range of asset classes, in both public and private markets, and use a number of investment managers. This is what provides the potential to increase the value of the assets above the returns on gilts.

A formal review of the investment objective was undertaken during the Plan Year, to reflect the results of the 2024 actuarial valuation, and the amended objective was incorporated in the SIP in December 2024.

SECTION 3: ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

The Trustee believes that ESG issues, including climate change risks, can be financially material to security prices and should therefore be considered when reviewing how the DB Sections' assets are invested, the agreements it has in place with asset managers, and the principles and policies which help govern both.

During the Plan Year, the Trustee agreed to retain the following stewardship priorities within E, S and G:

- **E – Climate Change:** For example, investment managers engaging with companies on their climate change policies and/or voting on resolutions requiring publication of a business strategy that is aligned with the Paris Agreement on climate change;
- **S – Modern Slavery:** For example, investment managers engaging with companies on their modern slavery policies especially with regards to their supply chains; and
- **G – Diversity & Inclusion:** For example, investment managers voting against a director appointment where the board is not sufficiently gender diverse.

Case studies provided by the investment managers (anonymised) for each of these stewardship priorities are included in Section 7.

On the following pages, you can see extracts from the DB Sections' Statement of Investment Principles ('SIP').

Here are some highlights:



10 out of 10

managers are signatories to the **United Nations Principles of Responsible Investment**



7 out of 10

managers are signatories of the **UK Stewardship Code**



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entities were engaged with over the 2024 calendar year (an interaction between an investment manager and a company they invest in, regarding an ESG issue)¹

¹By the investment managers which were able to provide data.



SECTION 4: REVIEW AND CHANGES TO THE STATEMENT OF INVESTMENT PRINCIPLES ('SIP')

The DB Sections' SIP was reviewed and updated in December 2024 to reflect:



- The addition of an ESG Committee ('ESGC') to the governing structure of the Plan, with details of the responsibilities of the ESGC.
- The Trustee's latest DB investment beliefs, which were agreed by the Trustee in September 2024.
- The Investment Objectives agreed under the 2024 actuarial valuation.
- Changes to the ESG risks section to reflect the Trustee's net zero ambition.

SECTION 5: THE DB SECTIONS' STATEMENT OF INVESTMENT PRINCIPLES ('SIP')



The table outlines the policies in the SIP for the DB Sections of the Plan and explains how these have been implemented for the Plan Year to 31 March 2025.

Where the policy changed during the year, the policy shown is the one in place at the end of the year.

	Policy	In the Plan Year to 31 March 2025
<p>Governance</p> 	<p>The Trustee delegates the responsibilities of running the Plan to several committees. The relevant committees from a DB investment perspective are:</p> <ul style="list-style-type: none"> a. the Funding and Investment Strategy Committee ('FISC'); b. the DB Investment Implementation Committee ('IIC') and the Sub-Committee of the IIC; and c. the Environment, Social and Governance Committee ('ESGC'). 	<p>Over the Plan Year, the FISC and IIC have performed their duties in line with the activities set out in their respective terms of reference.</p> <p>A new ESGC was established during the Plan Year and terms of reference agreed for it. The Plan Governance Structure was updated to reflect the ability of the Trustee to delegate certain matters to the ESGC.</p> <p>The terms of reference for the IIC were reviewed and updated in March 2025 to align with the SIP (which was updated in December 2024) and to reference the new ESGC.</p>
<p>Investment decisions</p> 	<p>The Trustee has adopted a set of 'investment beliefs' when considering the expected return, risk and diversification within the investment policy for the DB Sections. These beliefs are intended to guide decisions relating to the investment of the assets of the DB Sections of the DHL Pension Investment Fund ('the Fund').</p>	<p>The investment decisions that have been made over the Plan Year are consistent with those investment beliefs.</p> <p>The investment beliefs were reviewed over the Plan Year and updated to better reflect the Trustee's evolving views and policies. This included updating the beliefs around the best way to measure and monitor collateral sufficiency risk of the LDI portfolios and strengthening wording regarding climate risk in light of the Trustee's decision to adopt a net zero ambition.</p>

Policy

In the Plan Year to 31 March 2025

Risk management and measurement



There are various risks to which the DB Sections are exposed. The Trustee has set out its approach to managing these risks in the SIP.

The IIC manages risks by setting an appropriate investment strategy, using suitably qualified and experienced providers, diversifying the investment portfolio of the Plan and regularly monitoring these.

For example, the IIC monitored some risks (e.g. value at risk, funding level at risk, interest rate and inflation risk) and the key sources of risk in the quarterly investment reports over the Plan Year.

The liability hedging mandate helps reduce the overall risk that arises from uncertainty in future interest rates, one of the largest sources of risk for a pension plan. The collateral to support the liability hedging mandate consists of gilts and cash.

The IIC updated the ESG risks section of the SIP to reflect the Trustee's decision to adopt a net zero ambition.

A deep dive into ESG risks and opportunities was completed at the ESGC meeting on 10 February 2025 and the key insights were shared with the full Trustee Board to help inform future decisions. This covered ESG risks the Plan is exposed to over the short, medium and long-term, with a focus on climate change, biodiversity loss, income and wealth inequality and misinformation and disinformation.

Existing and potential mechanisms to mitigate these risks were also covered. Opportunities were also discussed, such as incorporating sustainability factors into mandates explicitly. More training on sustainability opportunities was scheduled for after the Plan Year end.

Following the Plan Year end, the Plan advisers proposed more detailed ESG risks for inclusion in the Plan's risk register in place of the existing ESG entry, spanning DB funding, covenant and DC investment, with proposed controls and scores for each. They include 'Climate transition risk', 'Physical climate risk', 'Modern slavery', 'Diversity and Inclusion' and 'other ESG-related risks'. The risk register updates are expected to be agreed later in the year.

Portfolio construction



The Trustee has adopted a control framework in structuring the Fund's investments which is described in the SIP. The implementation of the framework is the responsibility of the IIC.

There were no changes to this policy over the period.

During the year, the Trustee has restructured the liability hedging, synthetic equities and currency hedging portfolios, which provided an opportunity to increase efficiencies in collateral management. This was completed in line with the SIP principle of using derivatives to facilitate efficient portfolio management.

Policy

In the Plan Year to 31 March 2025

Investment objectives and investment strategy



The investment objectives of the DB Sections are linked to the funding objectives and are set by the Trustee, based on recommendations from the FISC and advice from the Actuary and the investment consultant. The Trustee recognises that its primary objective is to invest each DB Section's assets in the best financial interests of the members and beneficiaries of that DB Section.

The funding and investment objective as agreed by the Trustee in consultation with the Founder is to target a 50% (or better) chance of being 100% funded, on a gilts +0.5% per annum basis, for each of the DB Sections in 2030. In order to meet the funding and investment objective, each DB Section is required to target an expected return in excess of the liabilities over the period to 31 March 2030.

The IIC reviews the ongoing appropriateness of the investment strategy on a regular basis through the quarterly reporting provided by the relevant advisers.

The Plan's investment objectives were updated during the Plan Year to reflect the results of the 2024 actuarial valuation. This has resulted in an increase in the target expected return for each of the Sections and corresponding changes to the investment strategy.

Longevity hedging



The Exel, Ocean and T&B Sections have entered into a longevity hedging arrangement which is designed to reduce the longevity risk exposures in respect of members who are covered by the arrangements. As part of this arrangement, collateral accounts were set up to hold the fee and experience collateral required by the arrangement.

The IIC monitors the levels of collateral in these accounts as part of its quarterly monitoring.

During the Plan Year the IIC reviewed the longevity swap collateral holdings, including how these could be used to generate additional return for the Plan by investing in credit. This was agreed in principle by the IIC but its implementation is dependent on market conditions.

Policy

Day-to-day management of the assets



The IIC delegates the day-to-day management of the DB Sections' assets to a number of investment managers, and regularly reviews the continuing suitability of investments, as well as the appointed managers.

The IIC seeks long-term, ongoing partnerships with the Fund's investment managers to incentivise medium to long-term financial and non-financial performance. The investment consultant provides advice on the guidelines that are agreed with each investment manager, which confirms the objectives are consistent with the Plan's SIP.

The IIC reviews the turnover and ongoing investment costs on an annual basis.

In the Plan Year to 31 March 2025

The IIC, or the Sub-Committee of the IIC, has met with each of the investment managers over the Plan Year, in accordance with the policies in the SIP, to assess the managers' performance and capabilities, and to review the turnover and ongoing investment costs in the portfolios. The IIC reaffirmed that it is comfortable with all of the manager appointments except for concerns raised in relation to the management of the Aviva infrastructure equity mandate, which the IIC and investment consultant continue to monitor. During the year, the IIC wrote to the fund's Portfolio Manager and Limited Partner Manager to communicate its expectations for the fund's wind-down and the oversight and governance of this.

A specialist provider prepares a report to the IIC on the transaction and ongoing investment costs of the Plan's managers, which is reviewed on a periodic basis.

The IIC is happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long-term financial and non-financial performance.

Performance expectations have been linked to the objectives of each investment portfolio. Where possible, investments have been structured with a longer-term objective or 'buy & maintain' approach to encourage 'investing' over 'trading' and are assessed as such.

Over the Plan Year, as part of the annual review of each of the Plan's managers, the investment consultant has provided advice on the guidelines that are agreed with each investment manager, and would communicate to the IIC if any inconsistencies with the SIP were identified.

Realisation of investments



The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The majority of the investments are held in segregated portfolios (where the investment objectives and guidelines are specific to the Plan) or pooled investment vehicles (where assets are co-invested with other investors and the IIC accept the guidelines of the pooled fund) with regular dealing cycles. Where investments have been made in less liquid or 'illiquid' assets (meaning investments that can't be sold or exchanged for cash quickly and easily, e.g. property), the IIC has considered the suitability of this based on advice from the investment consultant.

Two managers' mandates were terminated during the Plan Year – the credit mandates with Loomis Sayles & Co and Wellington Management – and a revised credit mandate was agreed with Legal & General – Asset Management ('L&G') (implementation of which was in progress at Plan Year end).

Cash requirements



The DB Sections have varying cashflow requirements. The IIC reviews the cashflow for the Fund and ensures each of the underlying Sections hold sufficient cash to meet the cashflow needs of that DB Section.

The liquidity requirements for the DB Sections are reviewed on an annual basis. The IIC monitors the liquidity requirements associated with the liability hedging mandate on a quarterly basis and seeks to maintain a prudent level of collateral to support this mandate.

The Fund has a cashflow generating portfolio which is a collection of assets which produce consistent income and maturity payments which are used to meet some of the cash outflow requirements, like paying benefits due to pensioner members.

Policy

Environmental,
Social and
Corporate
Governance
(‘ESG’) risks



The Trustee delegates responsibility for implementing the Plan’s policy on ESG risks to the IIC.

The Trustee believes that ESG issues, including climate change risks, can be financially material to security prices and should therefore be considered as part of the Fund’s investment process.

The IIC has given its investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The evaluation of how the IIC’s active managers have identified and managed material ESG risks forms part of the IIC’s ongoing appraisal of the manager’s appointment

The Trustee believes that climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long-term. In particular, the Trustee has set a net zero ambition and believes that companies should adjust their business strategies to align with the 2015 Paris Agreement and those that fail to do so can face significant downside, and stranded asset, risks. The IIC expects its investment managers to take into account how companies are adjusting their business strategies to align with the 2015 Paris Agreement and ensure that any exposure to stranded asset risk is considered in the selection of individual investments. The identification and integration of climate change risks form part of the IIC’s monitoring and ongoing assessment of the managers.

The Trustee believes that active stewardship can improve investment returns and should therefore be considered when appointing managers.

The Trustee believes that investments in businesses and corporate entities that are involved in the production of controversial weapons are not appropriate and may be at risk of financial loss, e.g. for reputational reasons. These investments are prohibited within the Plan’s segregated mandates. The Trustee understands that, given the nature of the Plan’s segregated mandates, this exclusion is unlikely to have a material impact on the financial outcomes of the investment portfolios.

The Trustee does not require its investment managers to take non-financial matters into account in its selection, retention and realisation of investments.

In the Plan Year to 31 March 2025

The evaluation of how the Plan’s active investment managers identify and manage material ESG risks including climate change, along with the quality of their stewardship activities, form part of the IIC’s and the investment consultant’s ongoing appraisal of a manager’s appointment.

The performance reporting prepared on a quarterly basis by the custodian includes several ESG-related metrics in relation to total assets of the DB Sections which the IIC reviews and uses to support its discussions with the investment managers.

During the Plan Year, the Trustee updated the Plan’s Climate Risk Policy (a standalone policy which is maintained separately from the SIP) to include updated information on the scenario analysis carried out during the Plan Year, details of the Plan’s net zero ambition and changes to the Plan’s climate-related metrics and targets. After the year end, the Trustee agreed to replace the Climate Risk Policy with an ESG Policy. You can read the ESG Policy [here](#).

The Trustee continued its work in relation to legislation concerning the risks and opportunities associated with climate change. This has included:

- Publishing its third DB Climate Report in September 2024, outlining the Trustee’s policies for identifying, measuring and monitoring climate-related risks and opportunities, and the potential impact of climate change on the DB sections.
- Monitoring of key climate-related metrics for the Fund’s assets.
- Reviewing scenario analysis showing the potential impact of different climate pathways on the DB sections’ assets and liabilities.

The Trustee’s DB Climate Report is available on the Plan website. The next DB Climate Report is due to be published in September 2025.

As outlined above, during the Plan Year, the Trustee worked with its investment consultant to agree guidelines for a new credit mandate with L&G.

As part of agreeing these guidelines, consideration was given to how to integrate ESG factors into this mandate. As a result, the new mandate includes a target to align the portfolio to a global average temperature increase of 1.5°C (as measured by L&G’s proprietary temperature alignment tool) by 31 December 2030.

The ESGC also worked with the investment consultant and L&G to consider how it could improve the portfolio’s alignment with the UN Sustainable Development Goals. Work on this was ongoing at Plan Year end.

None of the managers reported a breach of the restriction on controversial weapons over the Plan Year.

Consistent with the Trustee’s policy, no actions were taken during the year in relation to the selection, retention and realisation of the Fund’s investments as a result of member and beneficiary views.

Policy

In the Plan Year to 31 March 2024

Stewardship:
Exercise
of voting
rights and
engagement
activities



The Trustee delegates responsibility for implementing the Plan's policy on stewardship, including the exercise of voting rights and engagement activities, for the DB Sections to the IIC. The IIC believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

The IIC expects all its investment managers to monitor investee companies and engage with management on all relevant stewardship matters including performance, strategy, capital structure, risks, management of actual or potential conflicts of interest, social and environmental impact and corporate governance. Furthermore, the IIC encourages its investment managers to work collectively with other investors when practical.

The IIC requires all appointed investment managers to report regularly to the IIC and disclose all voting and engagement activity undertaken on its behalf (where appropriate). The IIC monitors the approach of each investment manager.

The DB Sections of the Plan are a signatory to the UK Stewardship Code ('the Code') and the IIC expects the Fund's managers to comply with the Code. Investment managers are required to report on the extent of their adherence to the Code on an annual basis.

The IIC expects its investment managers to have effective policies addressing potential conflicts of interest in matters of stewardship. Information about these policies is reviewed periodically.

The investment consultant provides an annual Stewardship & Engagement Report to the IIC with a review and assessment of the investment managers' engagement and voting activities over the year.

During the year, the Fund only had exposure to physical equities via its holdings in an absolute return mandate, and voting rights elsewhere in the Plan's holdings were limited. Information on voting opportunities is summarised in Section 6 below and examples of engagement activities are provided in Section 7.

The Trustee has not set an expression of wish on voting.

During the Plan Year, the Trustee retained its stewardship priorities in relation to climate change, modern slavery and diversity and inclusion. The priorities are areas that managers were already focusing their engagement strategy on and can pose a material financial and/or reputational risk.

The IIC considered the engagement undertaken by its LDI manager in relation to UK climate policy. The investment consultant had developed a set of best practice principles on this topic and assessed five major LDI managers against them. The IIC reviewed the results of this assessment, noting that its LDI manager generally scored better than peers, although had some areas for improvement. The IIC agreed that policy engagement should be an area of increasing focus in its discussions with its investment managers.

The DB Sections of the Plan have been a signatory of the UK Stewardship Code since March 2022, a high set of standards for investment managers, asset owners and service providers that encourages active and engaged ownership in the interests of members and beneficiaries. Seven out of ten DB Section investment managers are also signatories of the Code. The Trustee asks managers who are not signatories to explain why they have not signed up to the Code and if they have plans to become a signatory.

The investment consultant reviewed the managers' conflicts of interest policies during the Plan Year and did not identify any material concerns. Areas for improvement were highlighted to the Sub-Committee of the IIC.

Monitoring
and reporting



The appointment of the investment managers is reviewed by the IIC from time to time, based on the results of its monitoring of performance and process, and diversification and suitability, where relevant.

The custodian is used as an external independent performance monitoring agency to consider the Fund's and investment managers' performance against their benchmarks.

The IIC, or the Sub-Committee of the IIC, has met with each of the investment managers over the Plan Year, in accordance with the policies in the SIP to satisfy themselves that the managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the DB Sections.

Investment manager performance is assessed on investment returns after their fees have been subtracted.

SECTION 6: VOTING INFORMATION AND SIGNIFICANT VOTES

The voting information from the investment managers for the DB Sections over the period is summarised in the table below. Voting information for the individual managers, including significant votes, has been reviewed by the Trustee. The Trustee views any vote where the investment manager voted against company management as potentially significant.

The investment consultant asked the Fund's investment managers to provide details of any direct equity holdings and any voting opportunities over the year to 31 December 2024. All of the Fund's investment managers responded with the information requested. As expected, given the nature of the assets held, with the exception of one manager, the managers had limited voting activity over the year, with the majority of managers stating that voting was not relevant for the mandate.

Most of the voting opportunities related to a single manager with an allocation to equities, whose mandate comprised less than 5% of the Plan's assets. That manager, who asked not to be named, uses Glass, Lewis & Co ('Glass Lewis') to vote proxies on behalf of its clients and generally subscribes to Glass Lewis' proxy voting policy but reserves the right to direct Glass Lewis to vote differently where appropriate. Its voting activities are summarised below.

Summary of voting activity over 2024	
Equity votes	
How many meetings were you eligible to vote at?	2,523
How many resolutions were you eligible to vote on?	24,731
What % of resolutions did you vote on for which you were eligible?	99.19%
Of the resolutions on which you voted, what % did you vote with management?*	87.29%
Of the resolutions on which you voted, what % did you vote against management?*	12.71%
Of the resolutions on which you voted, what % did you abstain from voting?*	1.74%
In what % of meetings, for which you did vote, did you vote at least once against management?	47.30%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser?	2.16%

*The manager noted that these items may not sum to 100%, as it does not count these votes as mutually exclusive e.g. management does not always make a recommendation, or a vote to abstain may also be considered a vote against management's recommendation.

One other manager, CQS Investment Management, had a limited number of voting opportunities relating to a multi-asset credit mandate. The manager advised that there were 34 votes over the year. It voted 'for' and in line with management for all votes. CQS submits proxy votes via ProxyEdge (Broadridge) and advised that it does not delegate voting authority to proxy advisors.

Given the limited scope of voting in relation to the Fund's assets, the Trustee did not inform any managers of what it considered to be the most significant votes in advance of those votes being taken.



The following table outlines three examples of significant votes cast on behalf of the Trustee. These were deemed to be significant as they relate to the Trustee’s agreed priorities for stewardship, as outlined on page 3. Brief details of the key points about the votes are provided below, as summarised by the manager, along with the mandate’s net exposure to the company as at 31 December 2024 as a proportion of the total portfolio equity.

Examples of significant votes

Unilever PLC (equity holding, 0.01%) – Climate change

On 1 May 2024, the manager supported an advisory vote to approve Unilever’s climate action transition plan, on the advice of its proxy adviser and in line with management recommendation. The manager voted this way because it felt the disclosures were sufficient to understand and evaluate the company’s plan. This resolution passed and no further steps are planned. The Trustee considers this vote to be significant because it related to one of its stewardship priorities.

Tyson Foods, Inc. (equity holding, 0.01%) – Modern slavery

On 8 February 2024, the manager supported a shareholder proposal regarding the audit of policies preventing child labour, on the advice of its proxy adviser and against management recommendation. The intention to vote against management was not communicated to the company ahead of the vote. The manager voted this way because “an independent audit of child labour policies could help to protect shareholder interests”. This shareholder proposal did not pass. No escalation with the company is planned. The Trustee considers this vote to be significant because it related to one of its stewardship priorities.

Chipotle Mexican Grill (equity holding, 0.02%) – Diversity and Inclusion

On 6 June 2024, the manager supported a shareholder proposal regarding a report on harassment and discrimination, on the advice of its proxy adviser and against management recommendation. The intention to vote against management was not communicated to the company ahead of the vote. The manager voted this way because “additional reporting will better allow shareholders to understand how issues of discrimination and harassment are being managed”. The shareholder proposal did not pass. No escalation with the company is planned. The Trustee considers this vote to be significant because it related to one of its stewardship priorities.

SECTION 7: STEWARDSHIP PRIORITIES – CASE STUDIES

During the year, the IIC agreed to retain the three stewardship priorities set previously. These stewardship priorities were communicated to the investment managers. The IIC reviewed the managers' engagement activity in relation to the stewardship priorities through the annual Stewardship & Engagement Report prepared by the investment consultant.

Case studies for each of the stewardship priorities are set out below (companies have been anonymised in all cases and managers have been anonymised where they did not want to be named).

Climate Change

Investment grade credit – Legal & General – Asset Management ('L&G')

Rationale for the engagement:

As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, L&G believes this mining company has a key role to play in the energy transition. L&G's concerns regarding, and engagement with, the company in recent years has been focused on the company's thermal coal business.

The engagement:

In 2022, L&G pledged to increase pressure on companies that fail to put suitably ambitious and credible climate transition plans to a shareholder vote, by filing shareholder resolutions. Having voted against the company's transition plan in its 2022 AGM, L&G escalated engagement by co-filing a shareholder resolution at the company's 2023 AGM, requesting that the company disclose how its thermal coal production is aligned with the Paris Agreement objective of limiting the increase in global temperature to 1.5°C. Proxy advisors ISS and Glass Lewis recommended shareholders vote in favour of this proposal.

L&G has since met separately with the company's CEO and CFO, Chairman and lead independent director, to discuss the response to the proposal and in broader terms, corporate governance and community relations. L&G met with the company four times in 2024.

Despite ongoing engagement, L&G has seen little progress from the company regarding its plans to increase thermal coal capacity, transparency relating to these, and consistency of these plans with a 1.5°C-aligned transition to net zero by 2050. In light of a lack of progress, in 2024, L&G took the decision under its Climate Impact Pledge to divest from the company (in applicable funds, including the Fund's new credit mandate) as a further escalation of its engagement.

Outcomes and next steps:

❑ L&G's objectives with regards to the company, as set out above, have not yet been achieved. L&G will continue to engage with the company to encourage it to meet minimum expectations, with the goal now being for it to be reinstated in funds, reversing the Climate Impact Pledge divestment decision. L&G assesses progress under the Climate Impact Pledge on an annual basis in June, and will monitor the company's progress in line with this schedule.

❑ Furthermore, L&G will be engaging with the company as it sets out its strategy for decarbonising its recently-acquired assets (four coal mines in British Columbia).

Multi-asset credit – CQS Investment Management

Rationale for the engagement:

In July 2024, CQS engaged with the CFO of a large Greek shipping company to get an update on the company's decarbonisation efforts and future strategy. The company has now submitted 1.5°C-aligned targets for validation by the Science-Based Targets initiative ('SBTi'). Talks are ongoing as the company is looking for the methodology to better reflect the characteristics of the business.

The engagement:

The main driver of decarbonisation in the shipping industry is the demands from companies using liners to get their goods transported across the globe: as pressure on them increases, liners demand vessels that are very fuel efficient and also environmentally friendly. However, CQS's analyst notes there are limits to the emissions reductions that can be achieved in the shipping industry. Alternative fuels such as methanol and ammonia are not currently available in sufficient quantity, and are 5x more expensive when they are available. Most of the existing global fleet is unable to run on alternative fuels and it would take more than 30 years for the shipping fleet to be retired and replaced with vessels able to run using such fuels. That is, assuming all shipyards capable of manufacturing such ships were to run continuously.

According to the company, there are currently no available slots for delivery of methanol-ready vessels before 2028-29. However, there are other technologies, currently at development stage, which could help. With the implementation of carbon taxes, more funds should be available from governments to support research and development on decarbonisation technologies.

The company believes it is doing everything in its power to reduce emissions. It is for example investing in developing a "CO₂ scrubber" which would capture carbon dioxide from the exhaust fumes produced when conventional fuels are burnt.

This engagement is an example of an escalation where management gave CQS an update only after it reached out to the company's bankers to intervene.

Outcomes and next steps:

❑ Overall, CQS was satisfied with the company's answers and actions – all new vessels being ordered are methanol-ready and adhere to the highest available environmental standards.

Modern Slavery

Private debt – Arcmont asset management

Rationale for the engagement:

The company is a manufacturer, wholesaler and retailer of protective clothing for motorcyclists and dynamic sports. Its supply chain, which currently consists of c.203 suppliers globally, exposes the company to environmental and social risks. Like other companies in the industry, the company contracts with suppliers in countries with the lowest costs, therefore its products are often manufactured in countries that have more relaxed regulations or enforcement in the areas of worker protection and environmental stewardship. This exposes the company to reputational risk stemming from controversies related to workers' rights and environmental degradation at the suppliers' sites.

A ratchet mechanism is used by Arcmont to incentivise portfolio companies by adjusting the interest rate payable on the debt in line with performance against agreed performance indicators.

The engagement:

A Key Performance Indicator ('KPI') was set to achieve a particular level of response rate to a supplier questionnaire. The baseline response rate for the questionnaire was 82% in 2022. The target to meet the KPI increases yearly as follows:

- Achieve a response rate of 85% in FY2023
- Achieve a response rate of 90% in FY2024
- Achieve a response rate of 95% in FY2025
- Achieve a response rate of 100% in FY2026

The KPI was set to promote better supply chain monitoring and standards. The questionnaire encompasses a comprehensive range of questions investigating a supplier's management practices on environmental and social topics including governance, environment, health and safety, code of ethics, conflict minerals and quality, working conditions, waste management, chemical use and compliance with relevant local and international regulations. The suppliers will be required to complete the questionnaires and their responses will then be scored. The results will be used to engage with suppliers in a more targeted and informed manner.

This KPI has been set in conjunction with another relating to emissions targets, and this comprises a combination of an upward and downward ratchet. A margin reduction of 7.5bps is applied only when both KPIs are met. Where one KPI of the two is met, no reduction is applied, and where no KPIs are met then the margin increases by 7.5bps.

Outcomes and next steps:

- The company met the KPI set for 2023, and was awarded a margin reduction as it also met the KPI relating to emission targets. The next test date for the company for FY2024 is July 2025.

Absolute return mandate (manager did not want to be named)

Rationale for the engagement:

In 2024, modern slavery continued to be a major component of the manager's engagements focusing on social-related risks, particularly through dialogues with companies in highly exposed industries such as mining, construction and apparel. The manager's social engagements in 2024 covered topics such as forced labour, supply chain traceability, community relations and occupational health and safety. The manager also participated in client consultation panels with Sustainalytics on human rights and material risk engagements in response to specific health and safety incidents. Approximately 20% of the manager's engagements in 2024 covered one or more social-related topics.

The engagement:

In 2024, the manager engaged with five mining companies to assess their responses to material social-related risks such as working conditions and health and safety. The manager's engagements were closely aligned with its thematic focus on modern slavery, which poses a significant financial and reputational risk especially with emerging regulations around the world that require companies to take more responsibility over their supply chains. Two of these conversations came in response to specific incidents or controversies that had taken place at the companies' sites, which had affected their market standings.

Outcomes and next steps:

- The manager discussed the two companies' response to the specific incidents identified.
- The manager also discussed the corrective measures put into place, and the results of various internal and external audits.

The manager noted that in the vast majority of its engagements, the engagement has been constructive and the company has taken certain measures to address the issues we discussed, although it recognises that there remains room for improvement.

Diversity & Inclusion

Private debt – BlackRock

Rationale for the engagement:

This example demonstrates BlackRock's active engagement with a tech-infused mini-golf company to improve the company's governance structure, including improved gender and ethnic diversity of the management team and the Board to drive value.

The engagement:

As the company needed covenant relief after a period of rapid growth, the lead equity investors in the business embarked on a new money equity raise and sought an amendment to the credit agreement to reflect the latest business plan.

As part of the amendment, BlackRock successfully negotiated improved economics and terms in the business, and made the amendment contingent on a material revamping of the company's governance structure, including a refreshed board shifting from 14 directors (entirely populated by equity investors and insiders) down to six directors, of which at least one needed to be independent, with another independent to be added on a best efforts basis. BlackRock was adamant that adding more gender and ethnic diversity to the management team and the board would add value.

Outcomes and next steps:

- ☑ This ultimately led to the company adding two more women to the senior executive team and diversity is a high priority in the ongoing independent director search.
- ☑ While the directors are yet to be agreed, BlackRock's team remains closely engaged with management on the performance of the business and progress toward raising additional equity capital.

Cashflow generating portfolio – M&G

Rationale for the engagement:

To assess current Diversity & Inclusion ('D&I') metrics against targets whilst requesting the company (a communications infrastructure services company) to disclose and publish a pay gap report.

The engagement:

M&G had a call with the Sustainability Director and a member of the investor relations team.

Regarding D&I, the company had met its representation target, already reaching gender and ethnic diversity of just over 30%. It did not plan to set new targets but has a working group addressing D&I. The company informed M&G that it is on par with industry standards, neither leading nor lagging. It plans to include social aspects in its sustainability report and has created an equity pay gap report, which it had not disclosed externally.

Outcomes and next steps:

- ☑ M&G requested that the company publish this pay gap report. The company said that it will discuss the possibility of disclosure with its steering committee, although this remains a work in progress.
- ☑ M&G will continue to monitor progress of the company's diversity and inclusion initiatives through its public reporting.