

# UBS (UK) Pension and Life Assurance Scheme ('the Scheme')

## Annual Implementation Statement for the Year Ended 30 June 2023

### Introduction

This statement, written for the benefit of the Members of the UBS (UK) Pension and Life Assurance Scheme (the "Scheme"), sets out how, and the extent to which, the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year running from 1 July 2022 to 30 June 2023 (the "Scheme Year") in the Defined Contribution (DC) and Defined benefit (DB) Sections of the Scheme. Member AVC benefits invested in AVC policies do not fall within the scope of this Statement.

The SIP is a document drafted by the Trustee in order to help govern the Scheme's investment strategy. It details a range of investment-related policies, a summary of which is included below, alongside the relevant actions taken by the Trustee in connection with each of these policies.

This statement has been produced in accordance with the Pensions Act 1995, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 / 982 and the Pension Protection Fund (Pensionable Service) and the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 / 988.

Sections 1.1 and 1.2 of this statement set out the investment objectives of the Scheme and changes that have been made to the SIP during the Scheme Year, respectively. Section 1.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit ("DB") Section and Defined Contribution ("DC") Section of the SIP have been followed. **The Trustee can confirm that all policies in the SIP have been followed in the Scheme Year.**

The Appendix includes engagement examples and key voting activities of the underlying investment managers within each Section of the Scheme, and how the voting activities align with the Trustee Stewardship Priorities.

## 1. Statement of Investment Principles

### 1.1. Investment Objectives of the Scheme

The Trustee believes that it is important to consider the policies offset out in the SIP in the context of the investment objectives that it has set.

#### DB Section

The Trustee's primary objective for the DB Section is as follows:

- To invest the Scheme's assets in the best interests of the members and beneficiaries and with regard to the Principal Employer's interests, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.

This objective requires taking a degree of investment risk and the DB Section of the SIP describes the ways in which the Trustee seeks to manage such risk exposures. In addition, the Trustee is required to consult with the sponsoring employer on the nature of the DB Section's investment strategy and consider its views. This process helps to inform a suitable investment time horizon and the extent of funding support available.

## DC Section

The investment objectives for the DC Section are as follows:

- The Trustee aims to make available to Members of the DC Section a range of investment options to offer Members the opportunity to make their own investment decisions and select funds to cater to their individual circumstances, taking into account their needs and risk tolerance, in a cost effective manner.
- In addition to this, in respect of the DC Section, the Trustee is responsible for investing Members' contributions in accordance with each Member's investment decision. The contributions of those Members who do not make their own choice are invested in the DC Section's default investment option, which targets an asset strategy suitable for Members intending to take income drawdown at retirement (the Lifestyle Targeting Income Drawdown Strategy). This is the "Primary Default". Some Members who have not made their own choice and are closer to retirement remain invested in another default strategy, the Lifestyle Targeting an Annuity Strategy. This is the "Legacy Default".
- The objectives, risks and other factors referenced in the DC Section of the SIP are those that the Trustee considers to be financially material considerations in relation to the DC Section. The Trustee believes that the appropriate time horizon over which to assess as financially material considerations is based on each individual Member's time horizons i.e. this is dependent on Member age and their target retirement date. In designing the two default lifestyle investment strategies (Lifestyle Targeting Income Drawdown and Lifestyle Targeting an Annuity) and the third option (Lifestyle Targeting Cash), the Trustee has considered the proximity to target retirement dates as part of their design.

The policies set out in the DC Section of the SIP are intended to help meet the overall investment objectives of the Scheme. Detail on the Trustee's objectives with respect to the default investment options, the Lifestyle Targeting Cash and the freestyle fund range are outlined in the SIP.

### 1.2. Review of the SIP

During the year to 30 June 2023, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant, Mercer Limited ("Mercer"). This Statement is based on the SIP dated December 2022. The SIP was subsequently updated in August 2023, after the Scheme Year end and the current version can be found online at:

<https://epa.towerswatson.com/accounts/UBS/public/scheme-information/>.

## DB Section

The key changes to the DB Section of the SIP were as follows:

- A revision to the target benchmark strategy, which maintains a lower level of investment risk owing to the prevailing return requirements. The changes were to reduce the developed market equity exposure and to increase the allocation to LDI by 3% of assets.

## DC Section

For the DC Section, the SIP was updated to reflect the following changes:

- Adding a reference to the new Global Equity Impact Fund
- Updating the name of the Pre-Retirement Fund to the Pre-Annuity Fund
- Updates to reflect a new additional default arrangement, the Global Blended Equity Fund, including the Trustee's policy in respect of this arrangement. This Fund became a technical default arrangement as it took transfers in by default of Member assets from another fund that was closing
- Specify the adoption of the Trustee's Climate Change Policy in the Responsible Investment and Corporate Governance section
- Other minor presentational changes.

### 1.3. Assessment of how the policies in the SIP have been followed for the Scheme Year

The information provided in this statement highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP.

**In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme Year.**

## 2. Investment Mandates

### Securing compliance with the legal requirements about choosing investments

#### **Policy**

As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant. The policy is detailed in Section 1 (Introduction) of the DB Section of the SIP and Section 8 (Choosing Investments) of the DC Section of the SIP.

The Trustee receives advice from its Investment Consultant on any investments prior to implementation. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 35 & 36 of the Pensions Act 1995 (as amended). The Trustee also consults with the sponsoring employer (UBS AG) where appropriate.

#### **How has this policy been met over the Scheme Year?**

##### **DB Section**

No new investment mandates were implemented over the Scheme Year in the DB Section. The Trustee did however increase the synthetic equity exposure in October in order to replace exposure lost elsewhere as a result of replenishing collateral within the LDI portfolio. Action was subsequently taken to reduce the synthetic equity exposure in order to de-risk the investment strategy.

The Trustee's decisions took account of the suitability of the changes in the context of its strategic objectives (in terms of risk and expected return) following an assessment of a range of possible alternative approaches.

##### **DC Section**

A number of changes were made to DC Section investments, during the Scheme Year, as set out below:

- The underlying fund of the Multi-Asset Fund was changed from the Abrdn Global Absolute Return Strategy Fund to the Fulcrum Diversified Core Absolute Return Fund in July 2022.
- The Global Equity Impact Fund was introduced to the Freestyle fund range in November 2022. The Wellington Global Impact Fund was selected by the Trustee as the underlying investment fund.
- The Developed World Fundamentally Weighted Equity Tracker Fund was removed from the Freestyle fund range in November 2022 and the assets were transferred to the Global Blended Equity Fund by default.
- Three Freestyle funds were renamed in November 2022: Sustainable Global Equity Fund to Climate Aware World Equity Fund, Pre-Retirement Fund to Pre-Annuity Fund and Emerging Markets Debt Fund to Emerging Markets Debt Tracker Fund.

The Investment Consultant delivered the Section 36 letter prior to each investment, with changes made following individual reviews of mandates, taking into account the Trustee's investment

objectives set out in the DC Section of the SIP, the context of the Scheme's overall investment strategy and Members' best interests.

## **Types of investments that the Trustee can hold**

### **Policy**

The investment strategy should take into account the objectives of the Scheme and, in the case of the DB Section, its liabilities.

The DB Section policy is to invest in a broadly diversified manner, with the use of derivatives permitted provided they contribute to risk reduction or facilitate efficient portfolio management. Further details are set out in Section 2 (Investment Objectives) and Section 3 (Portfolio Construction) of the DB Section of the SIP.

The DC Section policy is that the Trustee sets the default investment option with the aim of managing investment and other risks through a diversified strategic asset allocation. The Trustee aims to make available a range of investment options to offer members the opportunity to make their own investment decisions and select funds to cater to their individual circumstances, taking into account their needs and risk tolerance, in a cost effective manner. Further details are set out in Section 3 (Portfolio Construction) and Section 5 (Investment Strategy) of the DC Section of the SIP.

### **How has this policy been met over the Scheme Year?**

#### **DB Section**

A range of asset classes are included within the DB Section's strategic investment policy.

These include developed market equities, property, corporate bonds, emerging market debt, secured finance, infrastructure debt and government bonds.

During the Scheme Year, the Trustee regularly considered the range of investments held and how each of them contributes to the Trustee's overall strategic objectives.

#### **DC Section**

The Global Blended Equity Fund and Growth Fund, which comprise the growth phase of the Lifestyle investment strategies, are reviewed at least annually. The review of these funds took place in June 2023.

The Freestyle Fund Range is reviewed biennially, with the latest review having taken place in May 2022. The changes the Trustee agreed at the time were implemented in November 2022, and these are noted above in the earlier section "**Investment mandates – securing compliance with the legal requirements about choosing investments**".

The default investment strategies were reviewed biennially, and a review was completed in August 2023. However, the Trustee decided to make a change to review triennially. At the Investment Committee meeting following the ends of the Scheme Year on 31 August 2023, the Trustee asked for a more information about Mercer's proposal on the cash allocation within Lifestyle Targeting Drawdown and proposal on the retirement glidepath for Lifestyle Targeting Cash. Therefore, a new, triennial investment strategy is currently being undertaken on the Scheme's default Investments.

## **Realisation of Investments**

### **Policy**

The Trustee's policy is that there should be sufficient liquidity within the Scheme's assets to meet short-term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Scheme's overall investment policy.

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, within their mandates. They also have

responsibility for generating cash, when instructed to do so, as and when required for benefit payments and expenses.

### **How has this policy been met over the Scheme Year?**

#### **DB Section**

The Trustee has defined a strategic cash buffer, which acts as the minimum level of liquidity that it plans to hold in order to satisfy the cashflow requirements of the DB Section.

The Administrator notifies the Trustee of the forthcoming cashflow needs on a monthly basis, following which the existing cash buffer is used to source the required funds.

The Trustee complements this monthly process with a weekly review of the available cash.

The DB Section's fixed income managers distribute income where possible in order to support cashflow needs. In the short-term, additional cash can be raised, if required, and subject to sufficient collateral being available, from the DB Section's LDI mandate with BlackRock.

These processes were all followed over the Scheme Year.

#### **DC Section**

The Trustee receives an administration report on a quarterly basis to confirm that core financial transactions are processed within Service Level Agreements (SLAs) and regulatory timelines. As confirmed in the Chair's Statement, the Trustee is satisfied that all requirements were met throughout the year, with over 98% of core financial transactions processed within SLA. The Trustee believes that all core financial transactions were processed promptly and accurately during the Scheme Year.

All funds are daily dealt pooled investment vehicles. The Trustee holds a life assurance policy with Mobius Life and the value of this policy is determined by reference to the value of the investments held within each fund. The Trustee has legal and beneficial ownership of the life assurance policy and not to the investments held within each fund.

These processes were all followed over the Scheme Year.

## **3. Environmental, Social and Governance ("ESG")**

### **Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments**

#### **Policy**

The Scheme's SIP outlines the Trustee's beliefs on ESG factors (including climate change). Further details are included in Section 8 of the DB Section of the SIP and Section 9 of the DC Section of the SIP. The Trustee keeps its policies under regular review.

The Trustee considers risk from a number of perspectives and believes a number of ESG-related risks may be financially material. The Trustee assesses these risks over the appropriate time horizon for the DB and DC Sections. The Trustee expects that investment managers evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to investments, in accordance with their own corporate governance policies, taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The Trustee expects that ESG considerations are embedded into each investment manager's investment decision-making process and the extent of integration as well as a review of each manager's policies is considered annually by the Trustee.

**DB Section Only:** Member views are not taken into account in the selection, retention and realisation of investments.

**DC Section Only:** The Trustee does take account of Members' views in the selection, retention and realisation of the investment vehicles underlying the funds and Members have a variety of methods by which they can make views known to the Trustee. The Trustee will not, however, seek Member views in all circumstances in relation to decisions taken.

#### **How has this policy been met over the Scheme Year?**

The Trustee has adopted a Climate Change Policy, which sets out its support of the Paris Agreement in order to avoid the worst impacts of climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C within the context of its fiduciary responsibilities. In addition the Trustee is a member of the Institutional Investors Group on Climate Change.

For the DB Section of the Scheme, the Trustee did not take account of Members' views in the selection, retention and realisation of investments over the Scheme Year in line with its policy for the DB Section.

For the DC Section of the Scheme, the Global Blended Equity Fund and Growth Fund comprise the growth phase of the Lifestyle investment strategies. At Scheme Year end, the Global Blended Equity Fund included a 75% allocation to the UBS AM Climate Aware World Equity funds; and the Growth Fund included a 45% allocation to the UBS AM Climate Aware World Equity funds.

The Trustee may seek Member views on ESG in the DC Section where necessary to inform their approach on an ongoing basis. A Member survey was undertaken in the previous Scheme Year. Questions on ESG integration within the DC Section investment options yielded responses which were considered by the Trustee as part of the decision to offer members the Global Equity Impact Fund, which was introduced to the Freestyle fund range during this Scheme Year in November 2022. The objective of this fund is to achieve long-term capital growth by investing in the stocks and shares of a range of companies listed across the globe that have a positive impact on social and environmental issues.

In relation to the DC Section, ESG ratings are also monitored as part of the annual Value for Members Assessment.

## **4. Voting and Engagement Disclosures**

### **The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters)**

#### **Policy**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers. Further details are set out in Section 8 of the DB Section of the SIP and Section 9 of the DC Section of the SIP (Responsible investment and Corporate Governance).

In addition, it is the Trustee's policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.

#### **How has this policy been met over the Scheme Year?**

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, updated guidance was produced, which is effective for all scheme year ends on or after 1 October 2022. The updated guidance requires trustees to include a description of what they believe to be a significant vote within the Implementation Statement. The voting information should also include details explaining why each vote has been categorised as significant, what the vote was, and why the manager voted in the way it did. The Trustee has defined a significant vote as one which meets the following materiality parameter as well as one or more of the following stewardship priorities (where available):

- **Materiality:** the size of the holding within the relevant fund is more than 1% of that fund, at the underlying fund level, for all component parts of the primary DC default (which includes the UBS AM Climate Aware World Equity funds as utilised by the DB Section). For all other funds the threshold is 5%.
- **Stewardship priorities:** relates to one or more of the following areas of focus:
  - **Environment:**
    - Biodiversity: addressing the impact of biodiversity loss
    - Climate change: low-carbon transition and physical damage resilience
  - **Social:**
    - Human rights: modern slavery, pay and safety in workforce and supply chains and abuses in conflict zones
  - **Governance:**
    - Diversity, Equity and Inclusion (DEI): inclusive and diverse decision making and ensure equal voting rights
    - Board Governance: Chair tenure, independence, remuneration practices

The Appendix includes examples of engagement activity undertaken by the Scheme's equity managers and provides details of the significant votes cast on behalf of the Trustee by these investment managers during the Scheme Year. The Trustee did not inform the investment managers of what it considered to be a 'significant vote' in advance of voting.

The Trustee believes that ESG (including climate change) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee keeps the topic of corporate governance and responsible investment under periodic review. This policy is regularly assessed to ensure that it is applicable, appropriate and with the aim of keeping it in line with expectations of the majority of the membership. These beliefs underpin the Trustee's policies on voting and engagement and are based on a typical Member's time horizon for the DC Section and the overall time horizon for the DB Section.

The Trustee expects that voting rights are exercised by the appointed investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The undertaking of engagement activities in respect of investments is also delegated to investment managers.

The Trustee reviews the investment managers' policies and engagement activities (where applicable) on an annual basis and did so during the Scheme Year.

The Trustee does not use the direct services of a proxy voter. Investment managers may retain proxy voting services for the physical exercise of voting rights and for supporting voting research.

The Scheme does not have a stock lending programme in place. Any activity related to stock lending and its interaction with voting would be at discretion of the specific investment manager.

## 5. Monitoring the Investment managers

### Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies

#### Policy

The Trustee's policy is set out in Sections 4 (Risk Management and Measurement) and 9 (Aligning Investment Manager Appointments with Investment Strategy) of the DB Section of the SIP and Sections 4 (Risk Management and Measurement) and 11 (Manager Arrangement Policies) of the DC Section of the SIP.

## **How has this policy been met over the Scheme Year?**

### **DB Section**

As noted in the DB Section of the SIP, the documents governing the manager appointments include a number of guidelines, which, amongst other things, are designed to ensure that only suitable investments are held by the Scheme as well as ensuring alignment between the investment managers' incentives and the Trustee's objectives. The terms of the Agreements do not allow the investment managers to do anything that could be considered to be "speculative" or "trading" by the financial services and tax authorities.

### **DC Section**

As noted in the DC Section of the SIP, the Trustee undertakes due diligence to ensure it is aware of the nature of the underlying asset categories within each fund and how the underlying investment manager will allocate capital between them. The Due diligence also considers the risks associated with the underlying mix of assets; the expected return targeted by the underlying investment managers; details around realisation of the investments; and the impact of financial and non-financial factors (including but not limited to ESG factors and climate change) on their long-term investment decision-making process. This due diligence was conducted as part of the manager monitoring programme during the Scheme Year.

The Trustee will review an appointment if the investment objective for an underlying manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

## **Evaluation of asset managers' performance and remuneration for asset management services**

### **Policy**

The Trustee's policy is set out in Section 9 (Evaluating Investment Manager Performance) of the DB Section of the SIP and Section 11 (Manager Arrangement Policies) of the DC Section of the SIP.

## **How has this policy been met over the Scheme Year?**

Annual due diligence meetings are held to review, among other things, the investment performance of the Scheme's investment managers.

### **DB Section**

Performance metrics for all of the Scheme's investment mandates were reported to the Investment Committee on a quarterly basis both at an asset class and investment manager level. Investment manager remuneration is also reported to the Investment Committee on a quarterly basis.

### **DC Section**

Over the year to 30 June 2023, the Trustee reviewed the investment performance of the Scheme's underlying investment managers on a quarterly basis. These reviews considered the performance of the funds against their stated aims, objectives and policies.

The Trustee's focus is on long-term performance but it may review an underlying investment manager's appointment under certain circumstances.

The Trustee reviewed the investment managers' fees as part of the annual Value for Members Assessment.

## **Monitoring portfolio turnover costs**

### **Policy**

The Trustee's policy is set out in Section 9 (Portfolio Turnover Costs) of the DB Section of the SIP and Section 11 (Manager Arrangement Policies) of the DC Section of the SIP.

### **How has this policy been met over the Scheme Year?**

#### **DB Section**

The Trustee did not explicitly monitor portfolio turnover costs. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets), and where possible, performance objectives for investment managers were set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

#### **DC Section**

The Trustee considered transaction costs as part of the annual Value for Members Assessment and these are also disclosed in the annual Chair's Statement.

As the Scheme invests through pooled funds, the Trustee is unable to define target portfolio turnover ranges for funds. It will, however, engage with an underlying investment manager if portfolio turnover is higher than expected.

## **The duration of the arrangements with asset managers**

### **Policy**

The Trustee is a long-term investor and does not seek to change the investment arrangements on a frequent basis. Further details of the Trustee's policy are set out in Section 9 (Duration of Arrangement with Managers) of the DB Section of the SIP and Section 11 (Manager Arrangement Policies) of the DC Section of the SIP.

### **How has this policy been met over the Scheme Year?**

The focus of performance assessments is on longer-term outcomes. The Trustee would not ordinarily expect to terminate a manager's appointment based purely on short-term performance.

#### **DB Section**

All changes to investment arrangements during the Scheme Year were as a result of strategic changes to the investment policy. A summary of the key asset movements is provided in the next section.

#### **DC Section**

All changes made over the period to 30 June 2023 were as a result of strategic changes and consideration of long-term performance.

## 6. Strategic Asset Allocation

### **Kinds of investments to be held, the balance between different kinds of investments and expected return on investments**

#### **Policy**

The Trustee's policy on the kinds of investments to be held and the balance between different kinds of investments can be found under the following sections of the DB Section and DC Sections of the SIP:

- Investment Objectives (Section 2)
- Portfolio Construction (Section 3)
- Investment Strategy (Section 5)

#### **How has this policy been met over the Scheme Year?**

##### **DB Section**

The Scheme's investment arrangements were reviewed over the year to 30 June 2023 following which a number of changes were agreed.

Following this review, the policy in place had an 18.5% weighting to equities, 16% to alternative assets and 65.5% to bonds. Rebalancing ranges were refined, with equities and bonds permitted to deviate by +/-2%, and alternative assets by +/-4%, relative to their central target weights. For efficient portfolio management purposes, a synthetic equity mandate is used for a portion of the equity exposure with capital being utilised from the LDI portfolio

The asset allocation and rebalancing ranges are monitored on a weekly basis, allowing for mandated performance and significant cashflows.

Over the year, there were a number of key changes:

1. The Baillie Gifford Emerging Markets Equities, LGIM Small Cap Equities and J.P.Morgan Emerging Markets Debt funds were terminated. Assets were transferred to the BlackRock LDI portfolio in order to replenish the LDI collateral.
2. Assets were transferred from the Ares Secured Finance and UBS AM Climate Aware Equity funds to the BlackRock LDI portfolio in order to replenish the LDI collateral during the highly unusual market conditions of Autumn 2022.
3. Synthetic equity exposure was reduced in August 2022 following a rebalancing trigger being hit. It was subsequently increased in October 2022 in order to replace exposure lost elsewhere as a result of replenishing collateral within the LDI portfolio. Action was subsequently taken to reduce the synthetic equity exposure in order to de-risk the investment strategy.
4. The Scheme's interest rate and inflation hedge ratios were increased to 77% and 80% of liabilities respectively (as measured on the "Adjusted Long Term Objective" basis).

The target investment return for the DB Section is a function of the strategic investment policy, as described above. Monitoring of investment performance is conducted at each quarterly Investment Committee meeting. Performance is measured primarily with reference to the DB Section's funding position on 3 key measures:

1. The Technical Provisions basis (TP), as defined by the Scheme Actuary.
2. The Sponsor's IFRS accounting basis, which determines whether deficit recovery contributions are payable under the Framework Agreement.
3. The Long Term Objective basis (LTO), which the Trustee has defined as its secondary funding objective.

Based on asset values as at 30 June 2023, the DB Section's funding level was 102.3% on the TP basis, 118.4% on the IFRS basis and 93.5% on the LTO basis (prior to any changes under consideration as part of the 2023 actuarial valuation).

In addition, investment managers' performance is also reviewed relative to each manager's respective benchmark, where applicable. Over the 3 years to 30 June 2023, the DB Section overall returned -7.9% p.a. (net of fees) relative to a benchmark return of -8.3% p.a.

## **DC Section**

A number of changes were made to DC Section investments over the Scheme Year. These changes are detailed in the earlier section "**Investment mandates – securing compliance with the legal requirements about choosing investments**".

### ***Growth Fund***

Following the Scheme Year end, on 31 July 2023, Mobius Life, the Scheme's DC investment platform provider, notified the Trustee that the property allocation of the Growth Fund had marginally breached its lower limit of 5%. The Trustee received advice that it would be appropriate at that time to review the strategic allocation to property within the Growth Fund and to revert to its long term allocation of 5%. The changes brought about by this advice will be reported in the following Scheme Year.

### ***Freestyle Fund Range***

A review of the Freestyle fund range took place in the previous Scheme Year. The Trustee agreed to a number of changes as a result of this review which were implemented in this Scheme Year. These changes are detailed in the earlier section "**Investment mandates – securing compliance with the legal requirements about choosing investments**".

## **Risks, including the ways in which risks are to be measured and managed**

### **Policy**

#### **DB Section**

The Trustee recognises a number of risks are involved in the investment of the assets of the DB Section and that the choice of and allocation to investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found in Section 4 (Risk Management and Measurement) in the DB Section of the SIP.

The Trustee considers both quantitative and qualitative measures for a number of risks on an ongoing basis when deciding investment policies, strategic asset allocation, and the choice of asset classes, funds, and asset managers.

#### **DC Section**

The Trustee recognises a number of risks are involved in the investment of the assets of the DC Section and that the choice of and allocation to investments can help to mitigate these risks. The Trustee therefore provides a range of investment options (including three Lifestyle investment strategies and a range of Freestyle funds) which enables Members to reflect in their investment choices the level of risk they wish to take in light of their own individual circumstances. Details of these risks and how they are measured and managed can be found under Section 4 (Risk Management and Measurement) of the DC Section of the SIP.

The Trustee recognises that, under a DC arrangement, Members bear the investment risk. The Trustee has considered risk from a number of perspectives in relation to the DC Section, including the default options.

## How has this policy been met over the Scheme Year?

### **DB Section**

Investment risks are measured through a range of metrics such as Value at Risk, economic risk, liquidity and the overall likelihood of achieving the target level of funding by 2033 (the Trustee's target date). In addition, the Trustee reviews the Sponsor covenant, the quantum and make-up of assets in the Funding Collateral Pool, and the alignment of the DB Section's investment strategy with the strategic policy. These details were captured within the quarterly risk monitoring report presented to the Trustee during the Scheme Year.

Separately, the Trustee maintains a Risk Register, which outlines the risks to the DB Section and the internal controls that the Trustee has put in place to mitigate such risks. This document is reviewed on a quarterly basis.

In response to the gilt crisis of Autumn 2022 and subsequent regulatory developments, the Trustee considered a number of enhancements to both the LDI portfolio and the Trustee's collateral waterfall, with the intention of improving the resilience of both the LDI portfolio and the wider Scheme to adverse market events. These enhancements were implemented post Scheme Year end.

On 1 July 2022 a second tranche of longevity hedging was implemented to provide further protection against increases in Member life expectancy.

### **DC Section**

The Trustee provides a range of investment options (including three Lifestyle investment strategies and a range of Freestyle funds) which enables members to reflect in their investment choices the level of risk they wish to take in light of their own individual circumstances. In Member-facing communications, the Trustee highlights a number of risks that a member may face as a result of investing in any particular fund.

The Trustee also received updates from the Investment Consultant on developments concerning the investment managers. Following a review of individual manager mandates in the last Scheme Year, the Investment Consultant implemented changes to a number of the DC Section funds. Further information on these changes can be found in the above section "**Investment mandates – securing compliance with the legal requirements about choosing investments**".

Within the Global Blended Equity Fund, which is the sole fund in the earlier years of all Lifestyle investment strategies, Climate change risk was managed through a 75% allocation to the UBS AM Climate Aware World Equity Funds.

Other risks were managed during the year as described in the DC Section of the SIP.

## Appendix

### Examples of Engagement Activity by the Scheme's Equity Investment Managers

The Trustee has delegated its voting rights to the investment managers indirectly and does not use the services of a proxy voter. Particular focus is placed on UBS Asset Management (UBS AM) as the manager of the most significant equity mandates held within the DB Section and underlying manager of the majority of the equity funds offered in the DC Section. Below are two examples of engagement activity undertaken during the Scheme Year.

#### UBS AM engaged with Glencore

UBS AM has been engaging with the company, which operates in the mining sector, on a variety of topics since 2019. This has included meetings with the board chair, CEO, CFO, general counsel, and business heads. UBS AM had five high level contacts with the company during 2022. This included providing feedback on the company's climate change progress plan. UBS AM also raised the topic of community relations at the Cerrejón coal mine in Colombia and provided feedback on the actions and disclosures required to demonstrate responsible management of a complex social situation. In other discussions, UBS AM addressed the need to improve health and safety, with a particular focus on the above-average level of fatalities, as well as the settlement of bribery and corruption investigations.

#### Baillie Gifford engaged with Copa Holdings, S.A.

Copa, which operates airlines in Latin America, has adopted the International Air Transport Association (IATA) 2050 net-zero carbon goals. The Corporate Governance Committee of the board oversees sustainability priorities in this area and the board itself has become more diverse. At the management level, there is also a cross-functional Sustainability Committee. In response to Baillie Gifford's requests, Copa has provided further disclosures, including reporting with Carbon Disclosure Project (CDP), and engaged in discussions around some of the challenges in this area. The company has implemented actions to lower emissions where currently feasible (lower emission fleets, fuel type, electrification of vehicles, and onsite solar photovoltaic power) and also recognises the key role that sustainable aviation fuels will play and assesses the range of potential technologies.

### Voting Activity during the Scheme Year

Set out below is a summary of voting activity for this reporting period relating to the investment managers used by the DB and/or DC Sections of the Scheme.

	UBS AM World Ex-UK Equity	UBS AM Europe Ex-UK Equity	UBS AM UK Equity	UBS AM Pacific ex- Japan Equity	UBS AM North America Equity	UBS AM Japan Equity	UBS AM Climate Aware World Equity	Baillie Gifford EM Equity	BG Long Term Global Growth	LGIM World Small Cap
<b>Scheme Section</b>	DC	DC	DC	DC	DC	DC	DC/DB	DC/DB	DC	DC
<b>Number of meetings eligible to vote</b>	2,186	486	669	456	659	499	1,306	68	44	4,046
<b>Number of resolutions eligible to vote</b>	27,514	8,925	10,374	3,158	8,761	5,981	17,351	676	467	42,305
<b>Number of eligible resolutions where votes cast (%)</b>	97.2%	91.0%	99.0%	99.9%	99.0%	100%	97.0%	92.0%	96.6%	99.8%
<b>Votes with management (%)</b>	83.5%	79.9%	89.7%	81.6%	80.1%	92.9%	83.4%	84.3%	89.9%	73.6%
<b>Votes against management (%)</b>	13.6%	10.9%	9.2%	18.3%	18.9%	7.1%	13.4%	4.7%	5.6%	26.1%
<b>Abstentions (%)</b>	0.1%	0.2%	0.1%	0.0%	0.1%	0.0%	0.0%	3.0%	1.1%	0.1%

Source: Investment managers, data may not sum due to rounding. Number of proposals eligible to vote includes number of votes in favour/against management, number of votes abstained and number of "unvoted" where eligible.

## Most significant votes

The Trustee has defined a significant vote as one which meets the following materiality parameter as well as one or more of the following stewardship priorities (where available):

- **Materiality:** the size of the holding within the relevant fund is more than 1% of that fund, at the underlying fund level, for all component parts of the primary DC default (which includes the UBS AM Climate Aware World Equity funds as utilised by the DB Section). For all other funds the threshold is 5%.
- **Stewardship priorities:** relates to one of the following areas of focus:
  - **Environment:**
    - Biodiversity: addressing the impact of biodiversity loss
    - Climate change: low-carbon transition and physical damages resilience
  - **Social:**
    - Human rights: modern slavery, pay & safety in workforce and supply chains and abuses in conflict zones
  - **Governance:**
    - Diversity, Equity and Inclusion (DEI): inclusive & diverse decision making and ensure equal voting rights
    - Board Governance: Chair tenure, independence, remuneration practices

## DB Section

Manager	Fund	Company	Size of holding	Summary of resolution	Date of vote	How the manager voted	Why vote is significant	Rationale of manager vote	Vote outcome
Baillie Gifford	Emerging Markets Leading Companies Equity	PETROLEO BRASILEIRO S.A. – PETROBRAS	6.18%	Election of Directors	19/08/2022	Against	Board Governance	As is common in Brazil, we were being asked to either accept the management's slate of directors (put forward by the Brazilian federal government) or adopt cumulative voting for the election of board directors. We were also being asked to approve any subsequent amendments to the management's slate of directors following the submission of our votes. Given our ongoing concerns regarding the involvement of the Brazilian Federal Government in the corporate governance of Petrobras we opposed this resolution.	N/A
UBS AM	UBS Life Climate Aware World Equity Fund	Tesla, Inc.	1.28%	Report on Efforts to Prevent Harassment and Discrimination in the Workplace	04/08/2022	For	Human rights	The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.	Failed
		Microsoft Corporation	3.67%	Report on Tax Transparency	13/12/2022	For	Board Governance	The introduction of the proposed Global Reporting Initiative (GRI) Tax Standard would enhance the company's transparency in communicating the governance of its tax practices to investors globally.	Failed
		Apple Inc.	4.36%	Report on Median Gender/Racial Pay Gap	10/03/2023	For	DEI	UBS AM will support proposals that seek the disclosure of the median pay gap.	Failed
		Amazon.com, Inc.	1.84%	Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining	24/05/2023	For	DEI	Request for additional reporting is reasonable.	Failed
		Meta Platforms, Inc.	1.13%	Report on Framework to Assess Company Lobbying Alignment with Climate Goals	31/05/2023	For	Climate change	The proposal would further enable shareholders to determine the strength of company policy, strategy and actions in regards to climate change.	Failed
		Alphabet Inc.	1.33%	Advisory Vote to Ratify Named Executive Officers' Compensation	02/06/2023	Against	Board Governance	Executive pay is not aligned with performance. Lack of a clawback provision. Vesting of performance awards is less than three years. Poor pay disclosure. Excessive pay quantum.	Passed
		NVidia Corp	1.90%	Elect Director Stephen C. Neal	22/06/2023	Against	Board Governance	As Chair of the Nomination Committee the nominee has responsibility for improving the gender diversity on the board, which is 23%.	Passed

Source: Investment managers

## DC Section

Manager	Fund	Company	Size of holding	Summary of resolution	Date of vote	How the manager voted	Why vote is significant	Rationale of manager vote	Vote outcome
UBS AM	UK Equity	Astra Zeneca	7.18%	Re-elect 12 board members	27/04/2023	For	Board Governance	No concerns identified with regard to the proposal.	Passed
		Shell Plc	7.06%	Request Shell to Align its Existing 2030 Reduction Target Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement	23/05/2023	For	Climate change	UBS AM remain unclear on why setting a modest absolute Scope 3 target remains off the table for the company.	Failed
		HSBC Holdings	4.99%	Approve Remuneration Report	05/05/2023	For	Board Governance	No concerns identified with regard to the proposal.	Passed
	Pacific ex-Japan Equity	Samsung Electronics	7.80%	Approve Remuneration of Executive Directors and/or Non-Executive Directors	15/03/2023	For	Board Governance	No concerns identified with regard to the proposal.	Passed
		BHP Limited	5.12%	Approve Climate Accounting and Audit	10/11/2022	Against	Climate change	Support for this shareholder proposal is not warranted. The company's climate governance seems to be strong, with board discussions regularly and training sessions to understand recent developments. Remuneration is tied to climate via the strategic assessment in the annual bonus.	Withdrawn / Failed
	North America Equity	Apple Inc.	6.33%	Report on Median Gender/Racial Pay Gap	10/03/2023	For	DEI	We will support proposals that seek the disclosure of the median pay gap.	Failed
		Microsoft Corp	5.22%	Report on Tax Transparency	13/12/2022	For	Board Governance	The introduction of the proposed Global Reporting Initiative (GRI) Tax Standard would enhance the company's transparency in communicating the governance of its tax practices to investors globally.	Failed
	Climate Aware Equity	Tesla, Inc.	1.28%	Report on Efforts to Prevent Harassment and Discrimination in the Workplace	04/08/2022	For	Human Rights	The request for additional reporting is reasonable, and would enable shareholders to have a better understanding of the company's approach.	Failed

Source: Investment managers