# Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and investors. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

### Statement of Investment Principles (SIP)

The latest SIP (December 2023) can be found online at the web address:

https://www.epuki.co.uk/other/statement-of-investment-principles/

Changes to the SIP are detailed on the following page.

### Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- Actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP,
- The current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks,
- The extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate.

Summary of key actions undertaken over the Scheme reporting year:

Following the reporting period, the Scheme restructured their LDI mandate to increase their LDI hedge ratio to c.97% on interest rates whilst retaining the c.50% sensitivity to inflation (on a low dependency basis).

### Implementation Statement

This statement demonstrates that the Power Generation Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

# Implementation Statement (continued)

## Managing risks and policy actions DB

### The Trustee's policy on risk measurement and management

There are various risks to which any pension scheme is exposed. The Trustee has considered the following key risks which they expect to manage over the lifetime of the Scheme:

- The risk that the investment strategy fails to deliver sufficient returns to meet the Trustee's obligations to beneficiaries
- The risk that the investment returns result in volatile performance which in turn results in a high variability in the cost incurred by the Participating Employers.

These risks are managed by ensuring that the investments contain an appropriate balance of diverse assets including equities and bonds. The equities are used with a view to be delivering returns in excess of bonds to improve the funding position, whilst the bond investments aim to ensure that the volatility of returns remains acceptable. The mix of investments is reviewed on a formal basis at each actuarial valuation.

The Trustee also pays close regard to:

- The volatility which may arise through a lack of diversification of investments - this risk is managed by investing in diversified pooled funds.
- The risk that assets are not able to be realised at short notice without incurring significant costs. This risk is managed by ensuring that a significant proportion of assets are invested in funds which can be redeemed on regular dealing dates. The Trustee believes that in normal market conditions the manager will be able to meet all redemption requests from the assets of the funds given all the current "matching" assets are in daily liquid pooled-fund vehicles.
- The risk of investment manager underperformance. The Trustees invest using both "active" and "passive" investment styles to ensure that they are not overly exposed to one manager's underperformance. The Trustees have taken advice and set a realistic performance objective for their active manager that is set out in the Investment Policy Document. The Trustees accept this risk as a consequence of aiming to generate higher investment returns for the purpose of improving the long-term funding of the Scheme.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with the Scheme's investment managers and receive regular reports from all the investment managers and the Investment Consultant. These reports include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.

The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

# Implementation Statement (continued)

## Changes to the SIP

Following updated regulatory guidance from The Pensions Regulator (‘tPR’), the SIP was updated to include wording on their leverage and collateral management framework within the liability hedging portfolio (with BlackRock).

The Trustee keeps the SIP under ongoing review.

## Current ESG approach

The Trustee believes that environmental, social, and corporate governance (ESG) 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 also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically. The Trustee also expects the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

The Trustees have appointed Partners Capital Investment Group LLC (“Partners Capital”) as the Investment Manager of the “growth focussed” mandate. Partners Capital is committed to sustainable investing and strongly believes that financially material ESG factors can affect the risk-return profile of long-term investment portfolios. As a company, they hold core beliefs about how investing portfolios in a responsible manner can have an impact on the environment and society. These beliefs are closely aligned with the United Nations-supported Principles for Responsible Investment, to which they are a signatory. Partners Capital predominantly invests via third party fund managers across various asset classes rather than directly holding securities in public or private companies.

As of 31 March 2024, the Scheme has 100% of its Partners Capital managed assets invested in comingled funds.

As such, the following section focusses on the approach that Partners Capital uses to assess asset managers’ ESG integration approaches and how it engages with managers to improve those over time.

1. Manager Due Diligence and ESG Integration Survey

   The fundamental due diligence on managers/investments includes an assessment of financially material ESG factors. Partners Capital’s asset class research teams have a range of tools at their disposal, including Partners Capital’s proprietary ESG Integration Survey and access to third-party ESG data, which they use to form a complete view of a manager’s ESG integration capabilities. These tools are utilised both pre- and post-investment, and whenever they re-underwrite the investment. In particular, their ESG Integration Survey serves as a tool to facilitate the due diligence on managers’ ESG integration strategies and for monitoring their progress over time.

# Implementation Statement (continued)

## Current ESG approach (continued)

The ESG Integration Survey, which draws best practice from the due diligence questionnaires produced by the Principles for Responsible Investment (PRI), The Alternative Investment Management Association (AIMA) and Institutional Limited Partners Association (ILPA), gauges information on six different dimensions in order to assess the extent to which asset managers are integrating financially material ESG information into their investment decisions, including a) policies and infrastructure, b) due diligence, investment decision making and portfolio management, c) climate change, d) asset class specific factors (in the case of public equity managers, this comprises engagement with portfolio companies' management teams on ESG issues and voting), e) measurement and reporting, and f) diversity, equity and inclusion.

Each manager is then categorised into one of four categories (Yet to integrate, ESG Initiated, ESG Advanced, and ESG Leader). Managers are expected to improve over time with guidance from Partners Capital on best practice. An illustrative breakdown of each of our four categories is outlined below:

<table>
<tr><th>Category</th><th>Public Equity, Liquid Credit, Private Equity, Private Debt, Real Estate</th><th>Absolute Return Hedge Funds, Commodities, Other Liquid Strategies</th></tr>
<tr><td>ESG Leader</td><td colspan="2">• Meet criteria required to be “ESG Advanced” and also demonstrates strong differentiating factors, e.g. multiple years of experience integrating ESG factors, or use of a proprietary framework for assessing ESG factors.</td></tr>
<tr><td>ESG Advanced</td><td>• Highly integrated ESG resources and tools that result in an ability to generate differentiated insights on underlying portfolio companies, create value to the point of delivering competitive advantage and expectation of better societal outcomes.<br>• Active ownership through engagement with portfolio company management teams.<br>• Reporting to limited partners on ESG activities.</td><td>• Investment process incorporates ESG factors in decision making to the extent possible.<br>• Reporting to limited partners on ESG activities.<br>• Substantial internal policies procedures and initiatives to address the firm's environmental impact and effect on local communities.</td></tr>
<tr><td>ESG Initiated</td><td>• Have a clear ESG policy.<br>• Clearly integrate ESG criteria into their investment decision making.<br>• Engagement through at least proxy voting.</td><td>• Investment strategy focused on “doing no harm”.<br>• Firm's internal ESG policy focuses on the firm's impact on people and the planet.</td></tr>
<tr><td>Yet to integrate</td><td>• Do not have an explicit ESG policy (firm or investment strategy).<br>• Do not truly integrate ESG criteria into investment decision-making at a base level.</td><td>• Personnel and governance policies are below threshold.</td></tr>
</table>

The asset class research team members and client portfolio management teams are trained in manager ESG integration, in particular on how best to engage with asset managers to help them understand what may be best practice in ESG integration in their asset class.

# Implementation Statement (continued)

## Current ESG approach (continued)

2. Sustainable Investment Committee

Partners Capital has enhanced its internal governance structure in relation to sustainability risk management in 2024. Partners Capital has established a Global Sustainable Investing Committee (the "Committee") to act as the main governing body to oversee and update Partners Capital's strategy on sustainability risk and disclosures. The Committee adjudicates on the suitability of third party-managers and co-investments, where necessary, or identifies controversial exposures in client portfolios and any material changes to Partners Capital's Sustainable Investing Policy. The Committee is chaired by Partners Capital's Global Head of Sustainable Investing and is comprised of the Head of Research Operations, Chief Investment Officer, Chair of Client Committee, and the Head of Asia Pacific Compliance.

The Partners Capital Sustainable Investing team continues to be responsible for the implementation of Partners Capital's Sustainable Investing strategy. The team prepares and provides the Committee with quarterly reports, including but not limited to, the monitoring of third-party managers and/ or controversial exposures in client portfolios, for the Committee's consideration.

3. Targeted engagements to assist in the improvement of ESG and impact practices

During the regular monitoring of managers, Partners Capital highlights the importance of the incorporation of ESG considerations into the investment decision making process and sets the expectation that the manager's process should improve over time. Partners Capital commits to assisting managers in improving their ESG integration through sharing industry best practice and benchmarking against peers. In 2023, Partners Capital launched a systematic engagement programme, working to address areas of improvement with those asset managers that they believe are behind the market or their peers in terms of ESG integration, especially where there is a significant amount of Partners Capital client funds invested. Engagements are led in a collaborative fashion with the aim of improving the overall level of ESG integration across managers on the Partners Capital platform. The success of ESG related engagements is also monitored and tracked

4. Reporting

Partners Capital has developed an ESG dashboard which allows clients to monitor their adherence to their responsible investment policies. The dashboard comprises five sections:

i. An estimation of the portfolio's exposure to sensitive sectors. Partners Capital has identified five primary sensitive sectors that certain investors may object to invest in based on moral or ethical concerns, which are reported on as part of the Dashboard. This section is designed to estimate the portfolio's exposure to these sectors. The sensitive sectors that are reported on as standard are: (1) tobacco; (2) alcohol; (3) gambling; (4) defence; and (5) fossil fuels;
ii. The portfolio's aggregate active manager ESG integration scorecard;
iii. ESG metrics calculated for the global and hedged equity portion of the portfolio;
iv. An estimation of the portfolio's allocation to what Partners Capital believes to be potentially impactful companies/sectors; and
v. Data on the stewardship approaches adopted by the portfolio's underlying public equities managers

# Implementation Statement (continued)

## Areas of assessment

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Scheme Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

| | |
|---|---|
| Risk Management | 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme<br>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee |
| Approach / Framework | 3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.<br>4. ESG factors are relevant to investment decisions in all asset classes.<br>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors. |
| Reporting & Monitoring | 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.<br>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.<br>8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions. |
| Voting & Engagement | 9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.<br>10. Engaging is more effective in seeking to initiate change than disinvesting. |
| Collaboration | 11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.<br>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights. |

# Implementation Statement (continued)

## Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 March 2024.

| Fund name | Engagement summary | Commentary |
| --- | --- | --- |
| BlackRock LDI | Total engagements; N/A | The manager only produces voting and engagement reports for funds containing equity holdings. As such, BlackRock LDI funds do not fall into scope for these reports given the underlying investments are UK government bonds. |
| Partners Capital | Total engagements; N/A | As the Scheme is mainly invested in third party fund managers, the engagement examples below are provided by the fund managers and compiled by the Investment Manager and may not represent an exhaustive list of all the engagement activities carried out by the underlying managers. Due to the confidentiality agreements with the managers and sensitivity around certain engagements (some of which may still be on-going), the examples listed below are anonymised.<br><br>***Global Concentrated Long-only Equities Fund (Held in Greyhawk Fund)***<br><br>U.S. Railroad Companies<br><br>The manager has engaged with two US Railroad companies in the portfolio, both of which are long-term investments, on their carbon footprint relative to the trucking industry. The manager believes that the competitive advantage of a lower carbon footprint could be multiple enhancing for the industry over time. The manager publicly released a letter and slide deck, addressed to one company's Board of Directors regarding the company's governance. Subsequently, the company implemented the proposed CEO change.<br><br>***Long-biased Global Public Equity Fund (Held in Greyhawk Fund)***<br><br>Toll-road and Airport Operator<br><br>The manager believed that the Toll-road and Airport Operator could benefit from become a leader in the ESG space by virtue of lower cost of financing and equity. The manager initiated engagement with company management, resulting in the company putting an ESG plan to a shareholder vote which passed with near unanimous approval and created a precedent for such plans in France. |

# Implementation Statement (continued)

## Engagement (continued)

| Fund name | Engagement summary | Commentary |
|---|---|---|
| | | ***Long-biased Global Public Equity Fund (Held in Greyhawk Fund)***<br>Medical Technology Company<br>The manager has initiated a long-term engagement programme with a medical technology company. Company management has hired additional resources to deal with ESG disclosures and has set clear GHG emissions targets. The manager will be continuing to engage with the company on introducing ESG metrics into the compensation structure.<br>***Pan-Asian Long/Short Equity Manager focusing on Mid-cap Companies (Held in Greyhawk Fund)***<br>Global Retail, Sportswear and Luxury Companies<br>The manager has invested in global retail, sportswear and luxury companies. The manager has engaged with the portfolio companies, specifically on ensuring companies are pro-actively managing changing consumer demands on ESG. As part of engagement, the manager included ESG as a conversation topic in quarterly check-ins with management and conducted separate calls on ESG with companies' specific ESG teams. As a result, the manager has observed improved reporting and more product categories and marketing efforts around ESG initiatives.<br>***European-biased Long Only Equity Fund specialising in Utilities, Infrastructure, and Industrials (Held in Greyhawk and Falcon Funds)***<br>European Utility Company<br>The manager engages portfolio companies to shift towards a low-carbon future. The manager encourages companies to fully disclose climate data and metrics (i.e. Scope 1, 2 and, where possible, Scope 3) as well as social and governance factors. The manager provides companies with recommendations on climate and environmental considerations and, where possible, encourages them to be fully in line with SBTi and TPI frameworks. Recently engaged companies include a European Utility Company and a European Materials Company. |

# Implementation Statement (continued)

## Voting (for equity/multi asset funds only)

As at 31 March 2024, 100% of the Scheme's assets are invested in comingled funds and as such, no voting activities were carried out directly by the Scheme. The table below provides a summary of the voting records for the Scheme's public equity investments, where such information is disclosed to Partners Capital at the time of publication. Active managers listed below represent substantial positions in Partners Capital's Hedged Equities (Falcon) and Global Equities (Greyhawk) pooled vehicles.

| Fund | Votable Meetings | Meetings Voted | % With Management |
|---|---|---|---|
| iShares Core MSCI World UCITS ETF (Passive) | 1,524 | 1,509 | 94% |
| Long-biased Global Public Equity Fund | 13 | 13 | 100% |
| Long/Short Emerging Technology Equity Fund (Held in Greyhawk and Falcon Funds) | N/A | 38* | 82% |
| Long-biased Global Public Equity Fund | 2,908 | 2,710 | 75% |
| European-biased Long Only Equity Fund specialising in Utilities, Infrastructure, and Industrials (Held in Greyhawk and Falcon Funds) | N/A | 1* | 0% |
| Long Only US Quality Equities Fund | N/A | 32,197** | 86% |

*ESG-related voting statistics only

**Number of votable resolutions

Partners Capital predominantly invests with third-party fund managers and as such, their ability to communicate aggregate voting statistics for clients' portfolios is dependent on receiving such information from their fund managers. At present, not all managers disclose their voting records publicly or share these with investors. As a result, Partners Capital is not able to share voting records that cover 100% of the Scheme's public equity investments. This is an engagement area that Partners Capital is working on with managers who do not share such information currently and expect that this will improve over the next few years. Whilst Partners Capital does not receive detailed voting statistics from all of their managers, they do collect information on whether or not their active managers exercise their voting rights through their periodic ESG integration survey. As of March 2024, 76% of the active public equity managers in the Scheme's portfolio responded that they exercise their voting rights. The remaining 24% do not exercise their voting rights with reasons specific to the managers' investment strategy (e.g., quantitative strategy with fast turnovers in stock names). This figure excludes passive investments, which are reported in the table above.