

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 (signed July 2023) can be found online at the web address:

[Power-Generation-Pension-Scheme-SIP-FINAL-version \(epuki.co.uk\)](https://epuki.co.uk/Power-Generation-Pension-Scheme-SIP-FINAL-version)

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:

- During the reporting period, the Scheme restructured their LDI mandate to increase their LDI hedge ratio to c.80% on interest rates whilst retaining the c.50% sensitivity to inflation (on a low dependency basis). This was implemented through a transition from the BlackRock gilts and index-linked gilts fund and the LGIM index-linked gilt fund to the BlackRock Liability Matching Fund.

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 all assets are invested in pooled fund units 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 IIPD. 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 new stewardship guidance for trustees of UK pension schemes, the Scheme’s SIP was updated to further strengthen the policies around stewardship (in July 2023). The additional policies added to the SIP are outlined in the table below.

The Trustee keeps the SIP under ongoing review.

Methods for monitoring and engagement added to the SIP	
Environmental, Social and Governance factors and the exercising of rights	<ul style="list-style-type: none"> The Trustee receives information from their investment advisers on the investment managers’ approaches to engagement. The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme’s stewardship priorities) at least annually. The Trustee will share any agreed stewardship priorities to ensure alignment in voting and engagement activity (where relevant).
Policies added to the SIP	
How the investment managers are incentivised to vote on the Trustee’s behalf (where relevant)	<ul style="list-style-type: none"> The Trustee has acknowledged responsibility for the voting (where relevant) policies that are implemented by the Scheme’s investment managers on their behalf. The Trustee monitors the investment managers’ engagements and voting (where relevant) activities regularly as part of their ESG monitoring process to engage with investment managers on alignment
How the Trustee will engage with investment managers, direct assets and others about ‘relevant matters’.	<ul style="list-style-type: none"> The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme’s investment managers on their behalf. The Trustee, via their investment advisers, will engage with managers about ‘relevant matters’ at least annually.

Implementation Statement (continued)

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 Trustee has appointed Partners Capital as the Investment Manager of the “growth focussed” mandate. Partners Capital is committed to responsible investing and strongly believes that environmental, social and governance factors can affect the performance 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 rather than directly holding securities in public or private companies. Partners Capital’s direct exposure to public equities is generally limited to the Public Equities Co-investment Programme, where clients directly access the top positions of highest conviction active equity managers, without the payment of third-party fees and the, at times, onerous liquidity terms of these funds. As of 31 March 2023, the Scheme has c.3% of its Partners Capital managed assets invested in the Co-invest 2.0 portfolio, with direct ownership in 40 underlying stocks, and the remainder (c.97%) invested in comingled funds.

As such, the section below mainly focusses on the approach that Partners Capital uses to assess managers’ ESG integration and how it engages with managers to improve ESG integration.

1. Manager Due Diligence and Annual ESG Integration Survey

The fundamental due diligence on managers/investments includes an assessment of material ESG factors. Partners Capital’s 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 (which first started in 2014) 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 PRI (Principles for Responsible Investment), AIMA (The Alternative Investment Management Association) and ILPA (Institutional Limited Partners Association), seeks to assess the degree to which six categories of ESG factors are incorporated in the fund's investment decision making process, 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, equality 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.

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.

2. Responsible Investment Committee

Partners Capital's Responsible Investment Committee, comprises senior leaders drawn from across the business, assesses the suitability of asset classes, asset managers or companies where an ethical or reputational issue has arisen during the due diligence. The Committee will opine during the formal due diligence before investment approval, on matters ranging from fund managers' operational/ reputational risks (e.g., litigation against senior members of the fund management team), to the funds' investment strategies (e.g., the Responsible Investment Committee have rejected investments in a manager specialising in merchant cash advance with interest rates exceeding statutory limit for individuals in the US, and a fund that focus solely on the facilitation of hydrocarbon extraction).

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

During the regular monitoring of the managers, Partners Capital highlights the importance of the incorporation of ESG considerations into 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 their largest asset managers. 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 includes the Portfolio's exposure to sensitive sectors (Alcohol, Fossil Fuels, Tobacco and Gambling), Public Equity Portfolio's key ESG metrics (e.g., carbon intensity, % companies with programmes to improve diversity), Public Equity Portfolio's voting and engagement actions (e.g., % of equity managers exercising voting rights), Portfolio's active manager ESG integration scorecard and the Portfolio's allocation to impactful companies/ sectors (e.g., biotech and healthcare).

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	<ol style="list-style-type: none"> 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies’ debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none"> 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 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	<ol style="list-style-type: none"> 9. The Trustee will seek to understand each asset managers’ approach to voting and engagement when reviewing the asset managers’ approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> 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. 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 2023.

Fund name	Engagement summary	Commentary
BlackRock LDI	Total engagements; N/A	<p>BlackRock did not provide the requested engagement data. 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.</p>
Partners Capital	Total engagements; N/A	<p>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 Fiduciary Manager and may not represent an exhaustive list of all the engagement activities carried out by the underlying managers.</p> <p><i>Global long-only fundamental fund focussing on quality businesses</i></p> <p>U.S. Mining Company</p> <p>The manager’s management team has had concerns about some of the company’s activities, including around the environmental impact of its operations, operational-related disclosures, and labour relations. The manager has been in communication with investor relations, management, operational experts, and the ESG team at the company via phone calls, letters, and meetings to try to impact behaviour. In response to the manager’s efforts, the company disclosed data from its water monitoring program in the vicinity of one of its mines, which had been an area of concern for the manager.</p> <p><i>Pan-Asian long/short equity manager focussing on mid-cap companies (Held in Greyhawk Fund)</i></p> <p>Chinese Home Appliances company</p> <p>As part of regular interactions with the company’s management team, the manager would share best ESG practices to better understand the company’s view towards ESG and concrete action plans. Together with the manager’s China team, they prepared a deck to share with management, including their view of how ESG unlocks value, examples of how European companies embed ESG in their culture, and specific suggestions on how the Company could improve ESG practices. The Company is</p>

Implementation Statement (continued)

Engagement (continued)

Fund name	Engagement summary	Commentary
		<p>one of the companies in China today with leading ESG practices, including setting up an ESG committee to raise its strategic importance, and substantial efforts in recycling and carbon neutrality.</p> <p><i>Global long/short equity manager focussing US & Canada and Western Europe (Held in Falcon Fund)</i></p> <p>Financial Services company</p> <p>One portfolio company owned by the manager was subject to a shareholder proposal to force them to disclose more information on climate and disclosure. The manager voted in favour and the proposal had approximately 75% support. The manager followed this up with the management team, explaining that they had voted in favour of the proposal and outlined the steps they would like to see management taking and stressed that they were there to help. The manager generally has a presumption against saying “do this or we will divest”.</p> <p><i>Long-biased Global Public Equity Fund (Held in Greyhawk Fund)</i></p> <p>Spanish Transport Company</p> <p>The manager held former board seats and engaged on the management’s climate related proposal. This was a significant vote as the manager had been heavily involved in the company’s ESG plan. They had several meetings discussing the key targets, as well as KPIs that needed to be included. They monitored the progress made by the Company on several fronts (electrification of their fleet, construction of renewable plants for their own uses, reduction of CO2 emissions, etc.). Despite not being on the company’s board anymore, they continue to engage with the Company on several fronts, including ESG.</p>

Implementation Statement (continued)

Engagement (continued)

Fund name	Engagement summary	Commentary
		<p><i>US long-biased equities manager focussing on community and regional banks (Held in Greyhawk and Falcon Fund)</i></p> <p>U.S. Regional Bank</p> <p>The manager did not believe the management team were properly aligned with shareholder interests, and the manager presented directly to the board of directors to drive better governance and stewardship of shareholder capital. In this presentation, the manager analysed various paths forward for the company, largely focused on independence vs. a sale of the company, and articulated a view of what the manager believed the board should do to drive shareholder value.</p>

Implementation Statement (continued)

Voting (for equity/multi asset funds only)

As at 31 March 2023, the majority 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.

Fund	Votable Meetings	Meetings Voted	% With Management
Partners Capital Co-Invest Equities Portfolio 2.0	43	42	83%
Global Long Only Equities Strategy Fund	36	36	92%
Long Only US Quality Equities Fund	N/A	29,919	90%
Long-biased Global Public Equity Fund	256	256	98%
Vanguard Value ETF (Passive)	4,812	4,812	98%
iShares Core MSCI World UCITS ETF (Passive)	1,563	1,510	72%
iShares S&P 500 UCITS ETF (Passive)	508	508	80%

Partners Capital predominantly invests with third-party fund managers and as such, our ability to communicate aggregate voting statistics for our clients' portfolios is dependent on receiving such information from our fund managers. At present, not all managers disclose their voting records publicly or share these with investors. As a result, we are not able to share the voting records that cover 100% of the Scheme's public equity investments. This is an engagement point that we are working on with managers who do not share such information currently and expect that this will improve over the next few years. Whilst we do not receive detailed voting statistics from all of our managers, we do collect information on whether or not our active managers exercise their voting rights through our annual asset manager ESG integration survey. As of December 2022, 90% of the active public equity managers in the Scheme's portfolio responded that they exercise their voting rights. The remaining 10% 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.

The Scheme invested in one co-investment strategy with direct ownership in c.40 underlying stocks (Partners Capital Co-Invest Equities Portfolio 2.0). As outlined above, given the nature of the co-investment programme, Partners Capital do not engage with or monitor these investee companies directly. However, shareholder voting rights are exercised: Partners Capital has retained Institutional Shareholders Services Inc. (ISS) to assist in the proxy voting process and follows ISS' Sustainability Policy recommendations. The policy recommendations seek to promote support for global governing bodies advocating for sustainable business practices such as environmental stewardship, fair labour practices, non-discrimination, and the protection of human rights. The recommendations are underpinned by internationally recognized sustainability-related initiatives, such as the UN PRI.