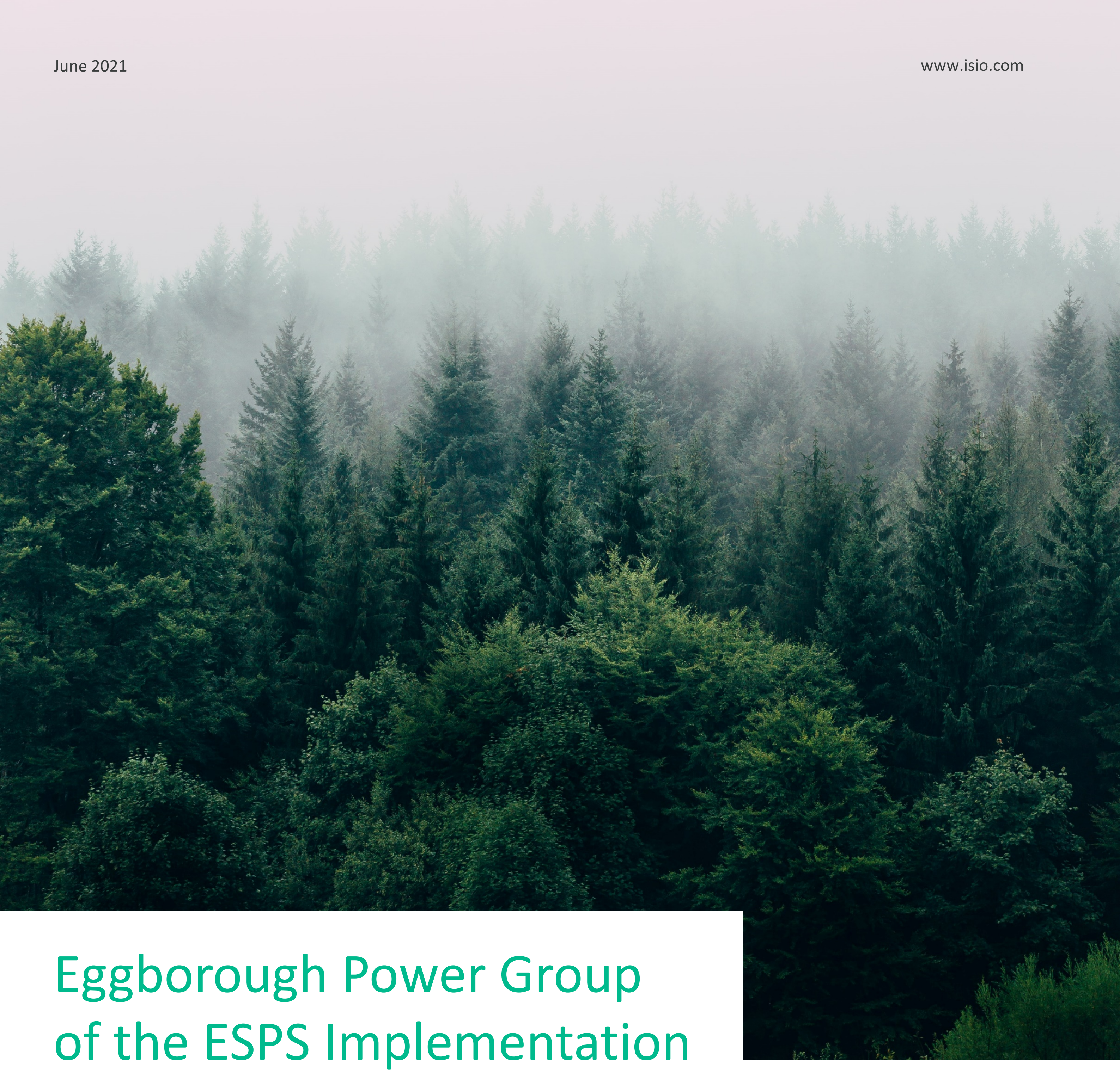

Eggborough Power Group of the ESPS Implementation Report

June 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Group updated its SIP in response to the DWP regulation to cover:

- Policies for managing financially material considerations including ESG factors and climate change
- Policies on the stewardship of the investments

The SIP can be found online at the web address https://www.epuki.co.uk/getmedia/50aa1bff-4f23-4e44-945e-c2903e2eda08/Eggborough-Power-Group-of-the-ESPS-Statement-of-Investment-Principles-Sept-2020

Changes to the SIP are detailed on the following page.

Implementation Report

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

- Actions the Group 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 Group 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,
- Voting behaviour covering the reporting year up to 31 March 2021 for and on behalf of the Group including the most significant votes cast by the Group or on its behalf.

Summary of key actions undertaken over the Group reporting year:

- During the reporting period, the Trustees chose to appoint Partners Capital as the fiduciary manager. The Trustees have agreed to transfer c.50% of current Group assets to a new fiduciary mandate with Partners Capital. The remaining c.50% (currently invested in an index-linked gilts mandate with BlackRock) will be re-configured and invested in a corporate bond and LDI mandate.

- During the period the Trustees agreed to transfer ownership of the Group's assets from Eggborough Power Group of the ESPS to a new standalone scheme, the Power Generation Pension Scheme. This transfer is being finalised post year end with an effective transfer date of 31 March 2021.

Implementation Statement

This report demonstrates that the Eggborough Power Group of the ESPS has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions DB

The Trustees’ policy on risk measurement and management

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

- The risk that the investment strategy fails to deliver sufficient returns to meet the Trustees' 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 Sponsor.

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 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 Trustees also pay 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 Trustees believe 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 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 Group.

Arrangements are in place to monitor the Group'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 Trustees meet regularly with the Group'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 Group's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

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

Changes to the SIP

Policies added to the SIP	
Date updated: September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• As the Group is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. • The Trustees believe fees being charged acts as the investment managers incentive to meet its objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees expect the investment managers to engage with the underlying companies. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	• The Trustees review the performance of all the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees define target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on a regular basis. The Trustees have delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

The duration of the Group's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Group invests in. • For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees objectives and Group's liquidity requirements. • For open ended funds, the duration is flexible, and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Current ESG policy and approach

ESG as a financially material risk

Current ESG Policy

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have 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 Trustees consider 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 Trustees also expect the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

Areas of assessment

The below table outlines the areas which the Group's investment managers are assessed on when evaluating their ESG policies and engagements. The Group Trustees intend to review the Group'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 Group. 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees.
Approach / Framework	3. The Trustees 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	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore, the Trustees will receive training as required to develop their knowledge. 8. The role of the Group's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustees 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	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.

Engagement

As the Group 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 2021.

Fund name	Engagement summary	Commentary
BlackRock Aquila Life MSCI World Fund	Total engagements: 1,636 Environmental: 1,073 Social: 705 Governance: 1,429 Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.	BlackRock engages with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. Examples of significant engagements include: Shell – BlackRock engaged with Shell with regards to the company's climate commitments These engagements have covered a range of topics including procedures which can be implemented in order to reduce emissions, the use of low-carbon technologies, and how to incentivise more energy efficiencies. BlackRock will continue to closely monitor the company's delivery of its climate targets. Amazon – The manager engaged with the company on their plans to improve disclosure on food waste and food diversion management. BlackRock also discussed the company's efforts to monitor the use of certain technologies and enforce compliance with product policies. As a result of these engagements, Amazon have agreed to improve their governance policies. This is exemplified through management's proposal to lower the threshold for shareholders to request a special meeting.
BlackRock Index-Linked Funds	Total engagements: N/A	BlackRock did not provide the requested engagement data. The manager only produces voting and engagement reports for funds containing equity holdings. As such, BlackRock Index-Linked Funds do not fall into scope for these reports.
First Eagle Amundi International Fund	Total engagements: 28 Environment: 3 Social: 2 Governance: 23	Engagement with a company's management team is part of First Eagle's investment process and ongoing stewardship. Through their interactions, they seek to better understand the business, management's strategy and motivation, capital allocation decisions, and financial and non-financial performance. Examples of significant engagements include: 3M – First Eagle met with management and board members of 3M and engaged on their chemical disposal lawsuit which revolved around a particular chemical used in some of the company's products for many years. Following numerous

		engagements with the company, board members and experts, the manager decided to sell their position in 3M. Wendel – The manager met with the Head of Sustainability to discuss the company's ESG journey and framework for evaluating ESG factors in its portfolio companies. Following such engagements, First Eagle may make suggestions, recommendations or offer feedback to investee companies. Their goal is to build long-term relationships and have an ongoing constructive dialogue with company executives.
Nordea Diversified Return Fund	Total engagements: 75 Environmental: 17 Social: 12 Governance: 46	Nordea undertakes a range of engagement activities with investee companies in order to affect and influence them to improve their environmental, social and governance practices, including promoting a long-term approach to decision making. Nordea's active ownership tools include voting, attending AGMs, standard setting and engagement with companies. Examples of significant engagements include: Mastercard – Nordea met with Mastercard's Chief Inclusion Officer. The main discussion points included current performance, goals and targets and gender pay gap. Following the engagement, Nordea's previous view that the company is a top performer in the area of diversity and inclusion was confirmed, and it was noted that Mastercard continue to improve female representation on all levels of management. The company has further established accountability and responsibility in this area, demonstrated through actions such as the establishment of a Gender Steering Committee. Nestle – Previously, Nordea expressed concern regarding the company's exposure to deforestation related to the production of palm oil. Following the publication of Nestle's net zero roadmap, the manager re-initiated discussions with the company in order to verify whether they will use best practices. Following the engagement, Nestlé acknowledged they need to ensure their agriculture initiatives are locally accepted, rolled out at scale and that their carbon off setting practices are achieving the goal of permanent carbon removal. Nordea intend to follow up on the company's progress in the coming months.
Invesco Global Targeted Return Fund	Total engagements: 17 Environmental: 13 Social: 8 Governance: 4 Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.	Invesco have an integrated approach to managing ESG risks at the business level. ESG risks are considered as part of the GTR investment process and are monitored by a dedicated ESG team. Invesco work based on engagement or dialogue rather than exclusion, and will try to influence the strategy of a company via active engagement with management and at a board level. Examples of significant engagements include: Barrick Gold – Invesco engaged with Barrick regarding carbon emissions. Barrick outlined their sustainability scorecard, which is an exercise where the company score their ESG performance relative to peers based on key selected ESG metrics. Through this they identified the key areas where performance is lagging which they are seeking to improve. During the engagement, Invesco also suggested that the company set more ambitious targets relating to carbon emissions, and the company responded that they would continue to assess the feasibility of this. Compass Group - Invesco reached out to the company after they were discussed in the news due to the low quality of the food parcels delivered to families to replace school meals during the COVID-19 lockdown. Invesco contacted the company to understand the actions they were taking to manage the situation,

		along with a discussion of other broader ESG topics. Invesco felt that the company had undertaken a number of robust corrective actions in response to the situation, although noted that they will continue to engage with the company to monitor the reputational impacts.

Voting (for equity/multi asset funds only)

As the Group invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Aquila Life MSCI World Fund	Meetings voted: 1,022 Votable proposals: 15,759 Votes cast: 14,289 Votes 'with' management: 13,249 Votes 'against' management: 1,040 Votes 'abstain': 114	Chevron Corporation – BlackRock voted in favour of a resolution proposing that Chevron produce a report on climate lobbying aligned with the Paris Climate Agreement Goals. The rationale behind the vote was that in BlackRock's view, Chevron could provide investors with a more detailed explanation of the alignment between their political activities such as political spending and lobbying and the goal of the Paris Agreement to limit global warming to no more than two degrees Celsius. Santander – The company's shareholders requested for a report to be produced on the risk of discrimination in vehicle lending and what steps have been established in order to prevent racial discrimination against borrowers. BlackRock voted in favour of the proposal as the manager believes that discriminatory lending practices are a material risk to the company's business. Additionally, shareholders would benefit from increased and improved disclosure on compliance programs, processes and procedures, as well as risk mitigation processes and procedures, to prevent discriminatory lending (including racial discrimination).	BlackRock uses the Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorises their voting actions into two groups: holding directors accountable and supporting shareholder proposals. Where BlackRock has concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.
First Eagle Amundi International Fund	Meetings voted: 123 Votable proposals: 1,752 Votes cast: 1,647	Exxon – The manager voted against a shareholder proposal which requested that Exxon publish an annual report of the incurred costs and associated significant and actual benefits that have accrued to shareholders, the public health and the environment from the company's environment-	The First Eagle investment team, supported by their ESG experts, review the relevant issues with regards to voting activities on a case-by-case basis and exercise their best judgment. First Eagle also use proxy advisory firms such as

	Votes 'with' management: 1,581 Votes 'against' management: 63 Votes 'abstain': 3	related activities. They felt that the information Exxon discloses in its Energy & Carbon Summary provides sufficient information to assess the company's actions. Additionally, First Eagle voted in favour of a shareholder proposal asking Exxon to prepare a report annually disclosing its company policy and procedures governing lobbying, payments by ExxonMobil used for lobbying and a description of management's and the Board's decision-making process and oversight for making payments. The manager felt that additional disclosure with regards to their involvement in lobbying would help them better assess the risks and benefits associated with Exxon's involvement in public policy but also improving disclosure and communication would help Exxon improve its public perception.	ISS to help identify significant issues, although they always retain the ultimate decision on how to vote. If there is a controversial or material issue, they aim to engage with the company's management or its Board of Directors to ask for additional information.
Nordea Diversified Return Fund	Meetings voted: 270 Votable proposals: 3,344 Votes cast: 1,501 Votes 'with' management: 1,343 Votes 'against' management: 149 Votes 'abstain': 9	Nike – Nordea voted in favour of a shareholder proposal for Nike to produce a report on political contributions disclosure. Nordea believe that Nike's reporting lacks transparency regarding contributions to organisations that conduct lobbying, and that increased transparency in these matters is to the benefit of shareholders. Nordea intend to continue to support similar shareholder proposals if the company does not show progress in this area. Oracle – The company's shareholders proposed that there should be a report on gender pay gap. Nordea voted in favour of this proposal as they believe Oracle is lagging relative to other large IT companies in terms of reporting on the gender pay gap. Nordea state they will continue to support shareholder proposals on this issue as long as the company is not showing substantial improvements.	At Nordea they believe active ownership is paramount in creating returns with responsibility. As they are a major owner in many companies, both in the Nordics and globally, they vote at annual general meetings according to their corporate governance principles. They strive for transparency and they have a voting portal which demonstrates their voting, both at the Annual General Meetings they physically attend and their proxy voting.
Invesco Global Targeted Return Fund	Meetings voted: 365 Votable proposals: 5,332 Votes cast: 5,244 Votes 'with' management:4,927 Votes 'against' management: 289	Citigroup Inc. - Invesco voted against a resolution for a report on lobbying payments and policy, voting in line with management recommendations. Invesco commented that a vote against this resolution was warranted as the company already discloses adequate information for shareholders to be able to assess its engagement in the political process and its management of related risks. easyJet plc - Invesco voted against a proposal to remove Johan Lundgren as	At Invesco, voting is conducted by their investment teams, who are supported by Invesco's centralised team of ESG professionals and proxy voting specialists. Invesco's Global ESG team oversees the proxy policy, operational procedures, inputs to analysis and research and leads the Global Invesco Proxy Advisory Committee.

	Votes 'abstain': 28	Director. This was due to their opinion that sufficient evidence was not provided to indicate that removing four key directors will leave the board and company better positioned.

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