Yorkshire and Clydesdale Bank Pension Scheme

Annual Implementation Statement – Scheme year ending 30 September 2023

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Section 1: Introduction

This document is the Annual Implementation Statement ("the statement") prepared by the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme ("the Scheme") covering the Scheme year ("the year") 30 September 2023.

The purpose of this statement is to:

- Provide details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on engagement and voting (as set out in the Statement of Investment Principles (the "SIP")) have been adhered to during the year; and
- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the year and state any use of services of a proxy voter during that year.
- Provide details and examples of the engagement activities undertaken on behalf of the Trustee during the year

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets including but not limited to: investment managers, portfolio construction and risks.

The latest version of the SIP can be found online here

This statement reflects the Scheme year from 1 October 2022 to 30 September 2023. The SIP linked above reflects the latest version of the SIP which is dated April 2023. Prior to this version, the SIP which covered the Scheme year was dated December 2021.

Following a review of the December 2021 SIP towards the end of 2022 and the start of 2023, the Trustee made the following amendments which are reflected in the April 2023 version:

- An update to the definition of types of assets held to align with the simplified portfolio expected to be held going forwards.
- Inclusion of the longevity swap and the risks introduced / managed by this new swap transaction.
- An increased focus on liquidity risk in light of market volatility over 2022 and 2023.

Section 2: How the Trustee has adhered to its engagement and voting policies

The Trustee's policies on voting and engagement, as stated in the SIP are:

- The Trustee policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code 2020 as best practice and encourages its investment managers to comply with the UK Stewardship Code 2020 or explain where they do not adhere to this policy.

- When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisors, looks to take account of the approach taken by managers with respect to sustainable investing. This includes considering voting policies and engagement on relevant matters (i.e. the capital structure of investee companies, actual and potential conflicts of interest and other stakeholders), as well as how managers take account of ESG-related risks in their management of the Scheme's assets, and the consistency of this approach with the Trustee's own beliefs.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, taking into consideration costs, risks and fiduciary duties, the contract with the manager will be terminated and replaced.

- For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee also invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

- The Trustee appoints its investment managers with an expectation of a long-term relationship and engagement, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

As the investment managers of pooled funds, in which the Scheme is invested, are generally responsible for exercising voting rights and as the Trustee otherwise delegates responsibility for the exercising of voting rights to the Scheme's investment managers, it is the responsibility of the Trustee to monitor, review and engage with investment managers with respect to how they have undertaken these activities.

The same policy applies to corporate engagement with the management of companies the Scheme is invested in. Corporate engagement is the responsibility of the managers of pooled funds and is otherwise delegated to the Scheme's investment managers because the Trustee believes that those managers are best placed to manage this engagement. The Trustee monitors, reviews and engages with the managers on how they have undertaken these activities.

Over the year, the Trustee has undertaken a number of actions in line with these policies as set out below:

- Throughout the year, the Trustee met with a number of the Scheme's investment managers as part of its ongoing monitoring of the Scheme's underlying investments. Managers' approach to sustainable investing was covered during these discussions, with a focus on managers' views of ESG risks and what actions they take to manage these. During the year to 30 September 2023 there was a particular focus on climate-related risks within these discussions.

- The Trustee's investment advisor produces sustainable investment reports for the Scheme's managers which include information on how the investment managers consider environmental, social and governance factors in their investment processes. The reports also include information on the voting and engagement practices of the managers. At each of these meetings, the Trustee reviewed the manager's sustainable investment report ahead of the manager presentation and subsequently discussed relevant topics with managers.

- The Trustee reviewed the fees of Northern Trust, the Scheme's Custodian and Performance Measurer, in October 2022 to ensure they were in line with industry standards.The Trustee reviewed the portfolio turnover levels of the Scheme's underlying investment funds in November 2022 as part of the agreed annual process.

- During the year the Trustee drafted a Sustainable Investment Policy ("SI Policy") setting out its beliefs with respect to sustainable investment matters, including environmental, social and governance issues and its policies for managing risks relating to these points. This includes the agreement of an exclusions policy which has been provided to the Scheme's corporate bond managers to take into account when purchasing new bonds on the Trustee's behalf.

- The Scheme's SIP and SI policy were sent to all of the Scheme's investment managers. The Trustee highlighted its policies with respect to Sustainable Investing and Voting and Engagement, and asked the investment managers to set out their approach to sustainable investment, including voting and engagement, and to highlight any areas where they believed their fund's approach to be inconsistent with the Trustee's policies.

  All of the Scheme's managers provided a response. The Trustee reviewed the managers' responses at a meeting in May 2023. Following the review, the Trustee concluded that they were satisfied that there were no obvious misalignments between managers' policies and the Trustee's policies.

- Over the year, the Trustee has undertaken a number of actions as part of its consideration of the potential impact of climate change on the Scheme:

  - The Trustee has received regular updates on the estimates of the Scheme's exposures based on a range of carbon metrics, including total carbon emissions and carbon footprint.

  - The Trustee has progressed with the adoption of a carbon emissions reduction target, including conversations with the Company on the proposed target.

  - The Trustee has requested information on the potential impact of climate change from the Scheme's investment managers when meeting them through the year. In particular, in December the Trustee met with Abrdn, one of the two buy and maintain credit managers, for a follow up session regarding climate-related risks that had been discussed earlier in the year. The climate risks within the buy and maintain mandates are understood to be the among the most material to the Scheme, due to the size of the mandates.

In addition to the actions above the Trustee's investment advisor provides ratings for each of the Scheme's investment managers. These ratings are reviewed (and updated where necessary) on a quarterly basis and include considerations relating to sustainable investment. Any changes in these ratings or the investment advisor's opinion of a fund is communicated to the Trustee.

As set out in section 4, the Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the Scheme year and will continue to monitor the investment managers' stewardship practices on an ongoing basis.

Section 3: Voting and Engagement

The Scheme is invested in a diverse range of asset classes and the scope for voting and engagement activity varies by asset class. For voting, focus would usually be on the equity investments which have voting rights attached. However over September/October 2022 the Trustee took the decision to fully disinvest the Scheme's equity holdings. This section therefore focuses on engagement activities within the buy and maintain credit mandates as these represent a significant proportion of Scheme assets, and one of the main sources of risk to the Scheme.

Engagement Activity

The Trustee's primary focus, from an ESG perspective, is on encouraging its investment managers and advisors to engage with the companies it invests in to better manage risks and improve outcomes. Engagement activities are monitored through the year in a number of different ways, including the annual review of managers' approach to sustainable investment and ratings of those managers, updates from the Scheme's investment consultant on the managers' engagement capabilities (where relevant) and as a part of regular manager meetings.

The Scheme's buy and maintain corporate bond mandates with LGIM and Abrdn are key mandates for the Scheme from an engagement perspective. They are mandates that are very material to the strategy, with a 35% strategic asset allocation to the asset class and a key role to play in the investment strategy due to their cashflow generation and long-term focus. They also represent the majority of the Scheme's holdings in corporate securities. Over the year the Trustee met with both LGIM and Abrdn to discuss the buy and maintain credit investments and ESG was one of the main topics considered. Within these discussions the Trustee looks for detail on both the process for engagement that each manager follows (including systems and resourcing) as well as examples of the engagement in practice. Specific engagement examples included:

- Abrdn's engagement with Anglian Water as part of Abrdn's water utilities thematic discussion. The discussion covered three environmental performance areas including wastewater management, emissions and leakage. The engagement activity also covered potential disclosure improvements such as a publicly available live sewage discharge map.
- Abrdn's engagement with BNP Paribas – whereby BNP Paribas have committed to no longer financing new oil & gas fields regardless of the financing method. Existing residual oil and gas fields are in run-off and expected to reduce by 80% by 2030. This is a strong commitment from one of Europe's largest banks with only HSBC having committed to the same action.
- LGIM's engagement with the Housing Associations they own or have under coverage. The purpose was to assess whether Housing Associations' planned EPC spend was consistent with the requirement that all of their shock is classified as EPC C by 2030, to identify threats to balance sheet and cashflow quality. The engagement suggested significant differences between Housing Associations with risk not being fully priced into the market. Further engagement is planned by LGIM.
- LGIM's engagement with national policymakers on Taskforce on Nature-related Financial Disclosures ("TNFD") as a signatory of the Business for Nature 'Make it Mandatory campaign which brings together over 400 businesses and financial institutions from 52 countries calling for governments at COP15 to adopt Target 15 of the Global Biodiversity Framework, requiring all large businesses and financial institutions to assess and disclose their risks, impacts and dependencies on biodiversity by 2030.

At a higher level, the Trustee is intending to monitor the level of climate-related engagements undertaken by its investment managers across the portfolio.

The Trustee also reviews its investment advisor's approach to sustainable investment and reviewed a number of reports detailing the investment advisor's credentials in this area in September 2022.

Section 4: Conclusion

The Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the Scheme year.

The compliance of the Scheme's investment managers with the Trustee's voting policies is not assessed here due to Trustee decision to fully disinvest from public equities in October 2022.

The Trustee will continue to monitor its investment managers' stewardship practices on an ongoing basis.