Yorkshire and Clydesdale Bank Pension Scheme

Annual Implementation Statement – Scheme year ending 30 September 2024

Table of Contents

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") to 30 September 2024.

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 2023 to 30 September 2024. The SIP linked above reflects the latest version of the SIP. The SIP which covered the Scheme year was dated April 2023 and was updated by a version dated October 2024.

Following a review of the April 2023 SIP the Trustee made the following amendments which are reflected in the October 2024 version:

- Inclusion of the review of the SIP against the managers' policies.

- Removal of the reference to the contingent assets provided by the PrincipalEmployer, following the winding down of the security structure over the year.

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 were:

- 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.

The investment managers of pooled funds, in which the Scheme are invested, are generally responsible for exercising voting rights and the Trustee otherwise delegates responsibility for the exercising of voting rights to the Scheme's investment managers. Therefore, 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:

- 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 2024 there was a particular focus on climate-related risks within these discussions, in particular within the meetings with the Scheme's buy and maintain credit managers LGIM and Abrdn. These mandates represent the Scheme's largest holdings and a significant proportion of the Scheme's carbon footprint.

- 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 November 2023 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 2023 as part of the agreed annual process.

- The Scheme's SIP and SI policy were sent to all of the Scheme's investment managers, and the Scheme undertook a review of the alignment of the managers' policies to the SIP.

- 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 updates on the estimates of the Scheme's exposures based on a range of carbon metrics, including total carbon emissions and carbon footprint. The metrics have been assessed against the carbon emissions reduction 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 November the Trustee met with Abrdn, one of the two buy and maintain credit managers, as well as meeting with LGIM in May, the other buy and maintain credit manager. The climate risks within the buy and maintain mandates are 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 the Trustee 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, the Scheme has not held any equity investments since disinvesting from the asset class in 2022. 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 with a key role to play in the investment strategy for the Scheme 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 Samarco – Abrdn had previously engaged with Samarco; in 2017 they set a target for gender balance in workforce by 2025 with the current Female workforce at 37%. Abrdn do regular engagement surveys with participation rates of 85%, which is very high relative to the industry.
- Abrdn's engagement with Diageo – Diageo are working on innovating outside of glass, such as the Johnnie Walker paper bottle, but the CEO believes that in the future glass will remain the key vessel for spirits, and therefore, the biggest area to win on and be able to hit their targets is meaningfully light-weighting glass. To get to net zero on glass bottles at scale by 2027-30, this will require hydrogen fired furnaces. They have also been working hard on selling high end bottles "naked" for the first time and thereby reducing lots of outer cartons (which pleasingly has not impacted demand, even in Travel Retail).
- 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 stock is classified as EPC C or better by 2030. LGIM planned a three part project, with stage one having started in 2022 (this was engagement questionnaires to 36 Housing Associations). Stage 2 involved re-engagement on specific goals for the associations that engaged and engaging with associations that did not. Stage 3 was to determine the relative strength of each association. LGIM continue to maintain communications with the housing associations to ensure that they meet the goals by 2030.
- LGIM's engagement with Nippon Steel – LGIM have been engaging with Nippon Steel since early 2022, the year in which LGIM introduced a 'red line' related to climate-related lobbying. The company having failed to meet the criterion led to LGIM focusing engagement with them through 2023. Given the significant role the company plays in influencing Japanese policy, LGIM co-filed (with the Australasian Centre for Corporate Responsibility) a Shareholder proposal to the company asking them to annually disclose climate related and decarbonisation policy and lobbying activities globally, this received 28% of support sending a key message to the company's Board .

At a higher level, the Trustee monitors 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 November 2023.

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.