British Coal Staff Superannuation Scheme
2022 Stewardship Report

British Coal Staff Superannuation Scheme (the "Scheme") is a long-term signatory to the UK Stewardship Code. This report sets out how Coal Staff Superannuation Scheme Trustees Limited (the "Trustee") have ensured the Scheme has fulfilled its stewardship responsibilities through 2022 and the outcomes of this activity. The UK Stewardship Code 2020 has 12 principles and this report has been presented according to those 12 principles.

Principle 1: Purpose, Beliefs, Strategy and Culture

British Coal Staff Superannuation Scheme is a UK based pension scheme providing benefits to 44,812 members as at 31 March 2022. The Scheme was established by an Act of Parliament on 1 January 1947 following the nationalisation of the Coal industry. The Coal industry was privatised in December 1994 and because of this, contributing members of the Scheme became deferred members. The Coal Industry Act 1994 established the parameters under which the Scheme operates with the Government in place as the Guarantor.

The Trustee has ultimate responsibility for decision-making on investment matters. Coal Pension Trustees Investment Limited ("CPTI") is responsible for providing investment advice and investment management services to the Trustee. The Trustee delegates responsibility for the day-to-day management of the assets to appointed investment managers. The Trustee's objective is to pay all future member benefits from the Scheme's assets without requiring new funds from the Guarantor, seeking to improve member outcomes when appropriate opportunities arise.

The culture of the Trustee and CPTI, driven by senior leadership and the nature of the Scheme, is focussed on delivering high growth over the time period assets are expected to be held before being sold, considering all relevant risks and opportunities. This includes a rigorous focus on stewardship with the aim of improving outcomes for members through mitigating risks or improving returns.

The Trustee has agreed a set of investment beliefs, which align with its culture and cover return, risk, future expectations, illiquidity, complexity, sustainability and internal governance structure. The Trustee has a specific belief in relation to sustainable investment provided below:

"Long-term investment success should come from a focus on sustainability. In particular, environmental, social and governance ("ESG") factors can have a material impact on long-term investment returns. They should be considered before any investment is made.

- *Investments with good or improving ESG characteristics are more likely to deliver long term sustainable returns*
- *The more long-term an investment, the more important ESG factors become*
- *Ignoring environmental and societal and regulatory issues can create investment and reputational risk, which ultimately reduce returns*
- *Being a good steward of assets can lead to better risk adjusted returns"*

This belief is included in the Scheme's responsible investment policy which is published on the Scheme website (see link). This policy was updated in 2021 and covers climate change, responsible investment integration, stewardship and collaboration as well as reporting and communication. The Trustee also agreed a new stewardship policy in 2021, which is published alongside the responsible investment policy. This provides more detail on the Scheme's approach to stewardship across assets classes including investment philosophy; purpose and beliefs; goals and priorities; escalation; and voting policy.

The Trustee supports and applies the UK Stewardship Code 2020 definition of stewardship: "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." The Scheme seeks to uphold good stewardship as well as hold to account the Scheme's investment managers and service providers.

Following a survey in 2021 of Trustee views on various stewardship issues, one of the outcomes was a renewed focus on human rights issues. This led to a policy to minimise the risk of investing in companies which were in breach, or at significant risk of breaching, UN Global Compact ("UNCG") principles. During 2022 this policy was implemented and CPTI has been working with the investment managers to ensure that they are not investing in companies that breach UNGC principles, or where potential breaches have been flagged that the managers are responding appropriately. Human rights are a key focus within the Scheme's stewardship approach across public equities and public credit and within CPTI's own engagement with both public and private markets fund managers.

The Trustee has continued to focus on climate change, seeking to understand the risks and opportunities embedded across all areas of investment. Climate-related issues are a focus for stewardship across asset classes resulting in several changes to managers and strategies made in 2022. The Scheme's first Task Force on Climate-Related Financial Disclosures ("TCFD") report was published on 25th October 2022 and is available via this link. CPTI is embedding climate risk and opportunity across all areas of investment and stewardship.

As a signatory to the Asset Owner Diversity Charter, CPTI has actively engaged across all the Scheme's large manager relationships and all new appointments on this topic during 2022. During 2022 the public equity managers were assessed and rated following their responses. Overall, the results of the analysis were very encouraging. CPTI are in the process of actively engaging with the public equity and credit managers on this topic and where the assessment has been completed, reviewing with the managers their current ratings and where improvements might be made moving forward. The next stage of this project will be to complete the same analysis for other asset classes.

Climate change considerations are actively embedded in the Trustee's investment strategy with ESG risks being built into a broader risk framework that is under development. Other areas of ESG, in particular diversity, human rights and quality of stewardship are a formal part of manager selection and mandate design. During the year the Scheme and CPTI worked with four strategic partners who are expected to manage collectively a significant portion of the Scheme's assets across a number of areas as well as providing broader advice and input to CPTI. Assessment of firm culture, purpose and approach to responsible investment, climate and diversity was a key part of this selection process. As a result of the above initiative, CPTI note that there have been improvements in working towards a lower governance burden, reduced complexity and cost synergies across asset classes. CPTI expect this trend to continue in future years, and have also been working on a number of ways to continue to build on these strategic relationships based upon:

1. Financials
2. Access, collaboration and people
3. Investment insight, advice and tools, and
4. Relationship and service

Reducing the number of asset managers used by the Scheme and forming stronger more challenging relationships with these asset managers should enable the Scheme to improve the stewardship of its managers.

All of the Scheme's assets are managed by external asset managers. As such the Scheme's influence and duty as a steward is implemented via the selection and engagement of these external managers as well as in setting the investment strategy, policies and asset allocation. The Scheme's focus as a steward of assets is to ensure priorities are clear and are enacted by the managers on behalf of the Scheme. Where there are concerns the Scheme must have a clear approach for challenge and escalation.
Through 2022 CPTI, on behalf of the Trustee, continued to integrate responsible investment and stewardship considerations into its formal external investment manager oversight and monitoring process, to ensure the investment managers were aligned with the Trustee's

responsible investment and stewardship policies. This included a range of considerations such as:

- Firm-wide responsible investment resources and capabilities;
- Firm-wide commitment to relevant responsible investment codes/principles/initiatives;
- Firm-wide commitment to diversity and inclusion;
- Level of active engagement including voting for equities;
- ESG integration into the investment process for Scheme specific investments;
- ESG reporting on Scheme specific investments.

CPTI formally added ESG considerations to its Manager Watch List framework this year, meaning any managers where CPTI are concerned around ESG or stewardship will be placed under formal review. Several points were followed up with external managers, especially where there was doubt that the Trustee's policy requirements were being met. Where there have been explicit action points identified, CPTI's policy is to engage further with external managers over the course of the year, and expect to either evidence that these action points have been adhered to, and/or, there have been significant improvements in terms of the direction of travel into 2023.

An example of an action taken during 2022, as a result of this process, was that the Scheme disinvested its portfolio with a China manager, which operated based on quantitative drivers. The decision to terminate was made by CPTI in 2021, on behalf of the Trustee, and the Scheme disinvested during Q1 2022. Whilst this review reflected a number of factors including cost, diversification and a changing view of the appropriateness of a quant-based approach to a high-risk region, the manager's approach to climate risk and opportunity was also a key factor, as well as their limited stewardship in this area.

As described under principle 2, another example of a successful external manager engagement during 2022 was that CPTI's own stewardship of the Scheme's real estate assets led to a change in property manager, a project which involved in depth engagements between CPTI and prospective managers. As part of the onboarding clear goals were set for tenant engagement with the target of 90% of tenant level energy data to be reported by 2024. This would be a significant leap from previous levels. Further objectives which were engaged also focused around net zero carbon business plans, repositioning toward energy efficient investments and development of asset level plans focused on community engagement.

CPTI applied the Scheme's stewardship policy across all of the Scheme's assets. During this year CPTI have also formulated an add-on policy for private markets recognising added difficulties here. CPTI utilises EOS at Federated Hermes ("EOS") to provide stewardship services across a large part of the Scheme's public markets holdings. CPTI delegates voting to EOS for the majority of the public equity holdings, but also delegates voting to certain investment managers on specific equity mandates where CPTI believe stewardship to be of a high quality. CPTI monitors the Scheme's voting and has appointed an external advisor to enable better understanding of the voting carried out by the Scheme's managers and EOS. This provides a provide a basis for CPTI engagement with analysis that has been helpful in highlighting some questions and areas where CPTI can provide challenge. Further detail on this process is provided in Principle 2.

Principle 2: Governance, Resources and Incentives

British Coal Staff Superannuation Scheme shares links with the Mineworkers' Pension Scheme through their joint and equal ownership of Coal Pension Trustees Services Limited ("CPT"), which provides support services to both Schemes. CPTI is a subsidiary of CPT and is the primary investment advisor to the Scheme, providing strategic advice and other investment management services to the Trustee.

The organisation charts overleaf show the structure and accountability across the Trustee and CPT/CPTI.

Committee Of Management (COM)

Highest governing body composed of member-elected Trustee Directors and appointed Trustee Directors usually from the financial sector. COM has ultimate accountability for risk and policies (including the RI and stewardship policies) plus ownership of oversight of key metrics.

Investment Sub-Committee (ISC)

ISC is a subset of COM and also includes external investment advisors who are professional investors with decades of relevant experience. COM delegates to ISC the ongoing oversight of investment risks and opportunities including those related to responsible investment. ISC is responsible for detailed oversight and challenge of the investment team.

Risk and Assurance Sub-Committee (RASC)

RASC is a subset of COM and overseas the design and operation of the overall risk management framework to ensure that it is fit for purpose to provide an appropriate level of assurance, that the Scheme adopts a sound approach to financial management and reporting and that all operational activities are effectively managed.

CPT

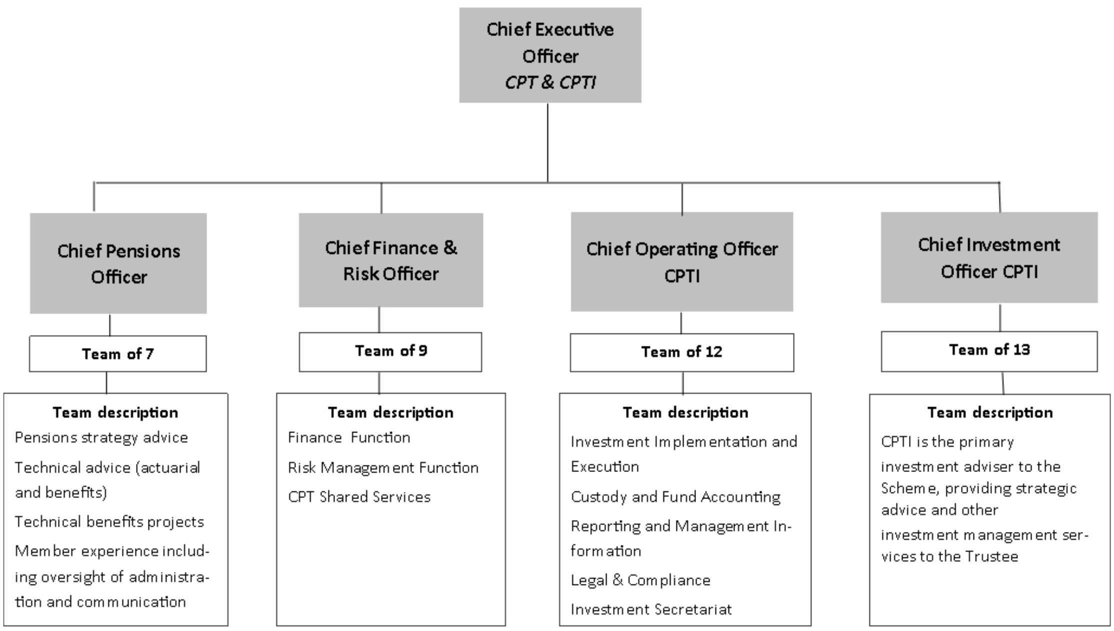
CPT has an established governance framework for delivering services to COM and ISC.

CPT Investment Team

Led by the CIO, the investment team has responsibility for ensuring the investments adhere to COM's RI and stewardship policies and ensuring the asset portfolio best captures opportunities and manages risks.

Responsible Investment team

The RI team provides support, expertise and research, proposes key themes and oversees implementation of the RI and stewardship framework, working with and challenging the investment managers. The RI team is led by the Head of Responsible Investing and includes 6 members across investment and operations who spend a high proportion of their time in this area.



The profiles and experience of the Trustee Directors of British Coal Staff Superannuation Scheme can be accessed via this link to the Scheme website. Four of the eight members of the Trustee body are elected from and by the membership. The four elected members represent geographical constituencies across the UK and any member is entitled to stand for election four-year terms.

Specific relevant skill sets:

- The member elected Trustee Directors have direct experience working in an industry with human rights, safety and environmental risks and have a clear understanding of these issues and in dealing with labour rights.
- The appointed Trustee Directors have significant financial, asset management and pensions experience as well as team and business leadership.
- The investment advisors are industry experts with direct and relevant experience covering macroeconomics, investment strategy and risk across multiple asset classes.
- The CIO has significant experience in responsible investment and stewardship from his past roles including at a global investment consultant and through his role as CIO at the Unilever pension schemes. He was previously a member of the EOS Client Advisory Board and the PRI's Asset Owner Advisory Committee.
- The Head of Responsible Investment previously spent 13 years at Willis Towers Watson (WTW) where she was the lead for responsible investment on the global portfolio management group as well as the portfolio manager for the company's flagship multi-asset fund, which has a large focus on impact investment. She has also been a member of numerous diversity steering groups and a vocal advocate on this topic across her career.

Resources

The Scheme's internal resource is provided by CPTI, whose senior leadership is committed to ensuring strong ESG and stewardship practices. There are two members of the CPTI team spending dedicated time on responsible investment including stewardship and they are supported by three members of the operations teams who, amongst other things, collate ESG data and assist with reporting. All members of the team are knowledgeable on incorporating ESG and stewardship across all areas. Internal resources are limited so the use of external managers for investments and the appointment of EOS for stewardship services in public markets is a key focus for CPTI, ensuring that investment managers and EOS have sufficient resources to engage effectively. In addition, CPTI also benefits from partnerships with Redington, MSCI and four strategic partners as mentioned in principle 1.

EOS has been appointed to provide engagement and voting services on a large proportion of the Scheme's public market assets (both equity and credit). EOS enables CPTI to access best in class resources and collaborate with other asset owners for the purpose of engagement.

EOS has assets under advice of $1.34tn (as at 31st December 2022) meaning it can have a meaningful voice with companies. EOS engagement is conducted on behalf of the Scheme by an experienced team with expertise across industries, professions, cultures and languages (including 19 nationalities and 19 languages). On average engagers have at least 10 years of professional experience. EOS have specially selected their team to include a diverse range of expertise and experience with background including industry, academia, law, consultancy and sciences. This is to enable the team of engagers to engage most effectively in a variety of markets, sectors, and issue areas. The EOS engagement plan (see link) provides further detail on their approach to engagement and voting, and the influence that comes from combining the Scheme's assets with other institutional investors around the world. Where EOS has been appointed this does not remove stewardship duties from the asset managers as clearly the ultimate buy and sell decisions are being made by the managers. Indeed CPTI believe the dual focus on stewardship by the manager and EOS creates challenge and helps identify areas for CPTI to focus on in their reviews of both EOS, the manager and the holdings.

CPTI regularly reviews the investment managers that are conducting engagement and voting on the Scheme's behalf in public markets to decide whether the voting best rests with the investment manager or EOS recognising the conflicts that exist between investing and engaging as well as the differing escalation tools available to the manager versus EOS. During 2022, CPTI reviewed the voting and engagement on an emerging market equity portfolio, which had historically been delegated to EOS. Following CPTI's review this has now been reassigned to the investment manager. The manager was able to provide greater engagement coverage of the portfolio companies and demonstrated positive developments from deep engagements with the underlying companies. CPTI will keep this delegation under review and continue to engage with the manager to utilise their voting rights as a tool for change. For new public equity mandates implemented in 2022, voting has been retained with the investment manager in one instance where CPTI holds a positive view of the managers stewardship capabilities but has been delegated to EOS for another. CPTI continue to engage with the manager where the voting and engagement was delegated to EOS and will regularly review this decision whilst the manager continues to enhance their stewardship efforts.

EOS continues to engage with the Scheme's public credit investments in a similar way to public equity engagement. CPTI has recently been engaging with EOS, advisors and the investment managers to understand the ability to influence specific engagement actions within credit investments, particularly around covenants and new issues. CPTI hope to be able to report more on this in the future.

Within private markets, assessing the approach to ESG and stewardship is a core focus of appointments and the ongoing monitoring process. This has been one important driver of changes currently being made across infrastructure and real estate assets.

Infrastructure

Within infrastructure the Scheme owns assets critical to the UK and also assets with high levels of impact on the environment and consumer cost of living. The Trustee takes ownership of these assets very seriously and believe that there is more that they and other asset owners can do to engage in this area. During the year CPTI conducted a detailed review of the assets owned in this space as well as the stewardship provided by the Scheme's asset managers. This review has led to a decision to significantly adjust infrastructure exposure and our access route.

Real Estate: Nuveen Appointment

On 2nd December 2022, Nuveen Investment Management International Limited were appointed as the Property Investment Manager to the Scheme. Nuveen were appointed based on their strong track record and commitment to sustainable property investing which aligned to the Scheme's targets.

Key commitments have been agreed to within the Property Investment Management Agreement focusing on the importance of ESG within the management of the Scheme. The agreement requires ESG risk factors to be integrated within the investment and business planning processes, with a material focus on promoting Net Zero Carbon and climate related transition risk. Further to this, several ESG objectives have been agreed to be achieved over the first two years of Nuveen's appointment. These include:

- Achieving at least 90% accuracy of Scope 1 and 2 carbon emissions;
- Achieving 100% Scope 3 carbon emissions (tenant operational energy usage data);
- Prioritise Net Zero Carbon pathways on new acquisitions;
- Develop Net Zero Carbon business plans for all investments, focusing on best use of capital based on carbon savings per GBP invested;
- Reposition the Scheme's property portfolio towards more energy efficient investments via acquisitions, disposals, and capital expenditure.
- Shift the portfolio to a renewable energy Power Purchase Agreement.
- Develop asset level action plans which focus on the 3 pillars of community engagement: "Wellbeing of communities"; "Education for all"; and "Social equity and support".

To support in the measurement of the portfolio's ESG performance, annual GRESB submissions will be prepared from 2024 by the manager. The Global Real Estate Sustainability Benchmark (GRESB) provides transparency and consistency for related standards and reporting.

In the period since Nuveen were appointed, the management team have focused on several ESG initiatives to support the Scheme objectives:

- A sustainability consultant has been appointed to provide 100% Scope 3 carbon emission data directly from tenants' utility providers.
- Tenant engagement has taken place to discuss installing solar photovoltaic panels on available roof space, focusing on assets which provide the largest carbon reduction. As part of this process, selected tenants have been approached with bespoke illustrative documents outlining potential savings available to them once the panels have been installed, along with an estimate of the reduction this will have on their carbon consumption.
- A new agreement with the portfolio's Property Manager is being negotiated which will modernise the property management mandate. The new agreement will focus on sustainable property management practices including securing sustainable power purchase agreements, paying contractors the living wage, supporting in the delivery of Net Zero Carbon asset plans, and improving tenant data collection for GRESB submissions.

Alongside ESG initiatives, Nuveen has focused on improving the risk profile of the Scheme. This has been approached via a combination of improving distributable income while mitigating capital expenditure. Much of this improvement is possible within the Scheme's underperforming office portfolio which suffers from high vacancy in a challenging occupational market. Capital expenditure will be refocused on sectors where there is considerably lower risk for equal or greater returns. Business rates mitigation strategies will be implemented to reduce void costs on vacant units which have little prospect of securing tenants in the short-term. Ultimately, properties which do not meet the risk profile of the Scheme will be considered for disposal.

Trustee Training and Trustee oversight role

Trustee training is undertaken at Trustee meetings, sub-committee meetings and through other external training as appropriate and is monitored on a training log. In addition to CPT keeping a recording of any formal training provided by CPTI or third-party providers, the Trustee Directors are also required to record any training sessions or seminars they attend independently. This combined log enables the Chair of COM with CPT to keep a watching brief of those subjects the Trustee Directors are voluntarily pursuing, with a view to providing supplementary training on matters of particular interest and identifying any gaps in the Trustee Directors' knowledge and arrange for this to be addressed. Examples of training provided to the Trustee Directors in 2022 were sessions on the Trustee's duties under the Task Force on Climate-Related Financial Disclosures (TCFD) including training on climate related risks and opportunities such as sustainable commodities. The subjects to be covered this year will include training in relation to Paris Alignment and Net Zero and Scope 3 emissions reporting. It is anticipated that training will be provided by subject matter experts within CPTI as well as external parties.

The Trustee retains overall oversight on responsible investment policy implementation and is accountable for ensuring stewardship is embedded within the organisation and investment processes. CPTI ensures ESG and stewardship considerations are factored into the day-to-day investment decision making processes. This includes from an investment strategy and asset allocation perspective as well as from a manager selection, monitoring and reporting perspective. When specific investments and disinvestment are being evaluated, ESG considerations are always considered.

Private assets

Outside of core public assets the Trustee relies upon CPTI to undertake effective due diligence and ongoing monitoring to ensure that environmental, social and governance considerations are considered in the management of its private market investments. Investment managers must be able to demonstrate their consideration of ESG risks and return opportunities, and their consideration of wider stakeholders affected by the management of assets the Scheme is invested in as well as their stewardship efforts. This is monitored and assessed by CPTI through quarterly monitoring meetings and additional ESG-focused meetings where necessary. Outside of public equities direct carbon data has been sought (where possible) from private assets and proxies based on industry and region used where this is not available to improve understanding of exposures. CPTI are in the process of ensuring all managers, public and private, include in the Scheme’s IMAs or side letters a commitment to TCFD, the diversity charter and the Scheme’s exclusions policy. During 2022, CPTI also began implementing a solution (eFront) to add company level data to the private market toolkit for greater transparency around controversies, climate risk and other areas of ESG. This is in the process of being onboarded and CPTI are engaging with the investment managers to ensure that they disclose as much information as possible on this platform. Whilst the implementation is now close to finalised, this has been later than originally expected and it will still take some time to see the full benefit of the additional data. CPTI are also expecting to be able to view carbon data from this solution and hope to be able to report on this in the 2023 report.

As part of the efforts to enable effective stewardship across the Scheme’s assets, CPTI has recently been working on implementing a framework for engagement of private assets. Whilst much of this work is already being carried out by CPTI and its managers, CPTI recognised the need to strengthen and formalise this process. The framework recognises some of the limitations for engagement in private assets whilst aiming to encourage improved engagement and reporting on these assets moving forward. The approach will be tailored for each asset class and according to how the asset class is accessed, for example via funds or in a segregated mandate where CPTI has more direct control and input. As this framework has recently been agreed and is in the process of being implemented, CPTI expect to be able to report more on specific outcomes in the 2023 report.

EOS

The Trustee has appointed EOS at Federated Hermes (EOS) to assist in fulfilling its fiduciary responsibilities as a long-term investor in global equities and corporate bonds. EOS is a dedicated stewardship service provider whose purpose is to help long-term institutional investors be more active owners of their assets and to manage their risks by engaging with companies and policy-makers on environmental, social, governance, strategic and financial issues. Their approach is to engage in person and at board or executive level wherever possible, in order to effect positive change. EOS provide ongoing assistance to the Scheme and their involvement, as well as the scope of their services, is kept under regular review. For certain public equity mandates it is the Scheme's investment managers who vote and engage on the Scheme's behalf. The table below summarises the voting and engagement for the Scheme's public equity holdings by manager and how this has changed over the year with further information provided in principle 9.

Managers undertaking voting & engagement activity	Public equity allocation based on value of assets at 31/12/2021	Public equity allocation based on value of assets at 31/12/2022
EOS	93.0%	77.7%
Ninety One	0.0%	11.1%
Schroders	3.9%	5.3%
Green Court	2.1%	5.9%
AQR China	0.9%	0.0%

Note: Totals may not sum due to rounding.

The engagement activities within public equity holdings by EOS and directly by some of the appointed investment managers, enables the Trustee to implement a high standard of stewardship on behalf of the beneficiaries of the Scheme, aligned with its Stewardship Policy.

Data, research and analysis:

The Scheme has access to a large amount of ESG and stewardship data through various reports and platforms including:

- Holdings-based risk and exposure system, BlackRock Solutions, where it is now possible to assess and monitor ESG and climate related analytics using MSCI data for public equity and public credit.
- EOSi Client Portal – EOS online platform providing access to company level engagements, voting and other public policy activity and high-level engagement topics including EOS' Controversial Company Reports (CCR) which the Scheme recently

subscribed to. This reporting provides enhanced engagements on behalf of the Scheme with controversial companies that violate or are at risk of violating commonly accepted international norms and standards. CPTI has engaged with EOS during the year regarding further development of this resource and are looking forward to utilising these to a greater extent during 2023.

- Engagement and voting reports from investment managers.
- ESG reports and data from investment managers.
- PRI research and collaborations
- Share Action reports and shareholder resolutions.
- In private markets eFront is being onboarded which will help assess risk data once complete.
- Redington voting analysis services.

CPTI on behalf of the Scheme subscribes to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data is used to challenge investment managers on specific holdings and understand overall exposures. The data available so far has been focused on public equity and corporate credit but through 2022, the availability of more comprehensive third-party data on other asset classes, particularly in private markets, was considered. During the year the eFront tool was added to the toolkit which should, moving forward, assist with providing additional ESG data on most of the private assets and CPTI would expect to see that data embedded during 2023.

Incentives

All investment decisions taken on behalf of the Scheme by CPTI consider ESG factors in the decision-making process. All members of CPTI have specific responsible investment objectives. For those with dedicated time allocation to responsible investment, the responsible investment objectives make up a large proportion of their overall objectives and include a specific focus on stewardship. Some team members also have specific objectives in relation to stewardship. CPTI's senior leadership have specific objectives in relation to responsible investment including stewardship. These objectives are an important input to year end appraisal and any decisions on performance related pay.

CPTI has been clear with investment managers that ESG integration is a critical part of the investment process across all asset classes and investment managers are appraised on that basis. If there are concerns around ESG integration in an investment manager's approach, then this manager will be placed on the investment manager watchlist for enhanced scrutiny and, unless concerns are addressed, the mandate could be removed from the investment manager. At the end of 2022 there was one manager on the watch List for responsible investment reasons and therefore subject to enhanced monitoring and engagement by CPTI. As discussed under principle 1, following CPTI's engagement with this manager, they have already made steps toward addressing the concerns raised and CPTI continue to monitor their progress in this area.

Reflection – Principle 1 and 2

Having reviewed the Scheme's approach to stewardship during 2022, the Trustee believes the Scheme's purpose, beliefs, governance structure, and choice and use of service providers has enabled it to be a strong steward of assets. The responsible investment policy and stewardship policy agreed at the end of 2021 have clarified the Trustee's approach to being a good steward of the Scheme's assets. The effectiveness is demonstrated in the data and case studies provided in this report. That said, there are areas where more work is required, which are detailed throughout this report. In particular, the Scheme plans to continue with the work accelerated in 2022 to address climate risks and opportunities as highlighted in the Scheme's first TCFD report. Other areas where CPTI are planning more work on behalf of the Scheme include social factors, nature, data improvements and improving private market engagements as discussed earlier in this report. The Responsible Investment and Stewardship policies will be reviewed at the end of 2023 and will be updated to reflect some of the additional priorities and considerations mentioned.

Principle 3: Conflicts of Interest

The Trustee has developed policies to identify, manage and disclose any potential conflicts of interest that may arise, which includes in relation to stewardship activities. The Trustee's conflicts of interest policy covers the Trustee Directors themselves, key advisers to the Scheme and CPTI staff. The policy is posted on the Scheme website at the following link.

One potential conflict relates to the principal/agent problem where a member of CPTI staff or a Trustee has an ethical or moral view that might not be aligned with members' financial outcomes. This is addressed by ensuring the Trustee Directors and CPTI staff have a strong focus on the fiduciary duty to members and delivery of the financial outcomes required.

In terms of conflicts related to stewardship, it is believed that appointing a separate stewardship provider (EOS) who does not make active investment decisions reduces inherent conflicts. Additionally, CPTI ensures that all investment managers have robust conflicts of interest policies and actively investigates any conflicts it perceives in the management of the Scheme's assets.

EOS has a group conflicts of interest policy and conflicts of interest register which requires that it identifies and manages actual or potential conflicts of interest between itself and its clients, or between different clients of EOS. In the event that a conflict occurs between EOS and its client then it is the clients' interests that are put first. Some examples of actual conflicts previously identified, recorded and escalated by EOS are provided on the final page of their stewardship conflicts of interest policy, which can be found at the following link.

Another clear conflict which comes up regularly is that between short term financial gains and those over the medium and longer term which the Trustee must carefully balance in order to fulfil its fiduciary duty to all members. This is an issue that CPTI continue to challenge managers on if they appear overly focused on the short term.

Principle 4: Identifying and responding to market-wide and systemic risks to promote a well-functioning financial system.

CPTI considers any market-wide and systemic risks at weekly team meetings and escalates these to the Trustee where appropriate. CPTI also receives regular questions and challenges from the Trustee on these issues. The Scheme has a customised asset liability modelling tool as well as cashflow forecasting technology. These models and tools are key inputs to look at different Scheme risks and stress test different downside scenarios. Examples of significant market-wide risks on which the Trustee is focused are geopolitics, climate change and inflation. CPTI continually engages with the Trustee, advisors, asset managers and other asset owners to discuss market-wide and systemic risks. In particular, geopolitics has been a key focus for the Trustee over the past year and CPTI has engaged regularly with managers on this area. This has also led the Trustee to review the level of investment in onshore China as well as set a higher bar for stewardship in this region.

Russia

During 2022 CPTI assessed the direct Russian exposure in the portfolio following Russia's invasion of Ukraine. Since then geopolitical risk and the knock-on implications on supply chains and inflation remain topics of monitoring and regular Trustee discussion.

Climate change

Addressing the systemic issue of climate change has remained a key focus in 2022 for CPTI and the Trustee, with climate change featuring on the agenda of the majority of ISC and COM meetings. CPTI and the Trustee believe climate risk could have a material impact on the long-term performance of the Scheme's assets. This is formally documented in the Scheme's Responsible Investment policy and Stewardship policy as well as the Scheme's first TCFD report, which was published on the 25th October 2022.

A greater understanding of climate change risks and opportunities has led to changes in the asset allocation of the Scheme. In particular, an increase to investments in climate solutions has been targeted and certain assets with significant stranded asset risk, particularly in real assets, are being exited. Climate change has also led to changes in mandate design and has been a key factor in manager changes over the last 12 months. Examples include:

- A quantitative China equity manager was discontinued
- Appointing a public equities manager to run a best-ideas climate and environmental solutions mandate (funded March 2022)
- The decision to sell a number of infrastructure assets
- Appointment of a new real estate manager
- Private debt investment lending toward renewable energy, green loan programs, economic and social development, affordable housing and climate resilience.
- A unique CLO (collateralised loan obligation) investment opportunity which applies an ESG filter to the underlying portfolio of credits.

As a reminder, during 2021 the Scheme transitioned the passive equities to a bespoke mandate with BlackRock, which focused on multiple metrics to assess climate transition readiness. This was a major change which significantly improved the Scheme’s carbon metrics as well as reducing exposure to laggards (the Scheme’s passive equities had previously been a laggard in these areas). As part of this mandate shift, stewardship of passive equities was assigned to EOS, which CPTI assessed to be better aligned with the Trustee’s stewardship priorities. CPTI continue to review and work with BlackRock providing feedback on their stewardship approach despite the voting being delegated to EOS at present.

The Scheme’s climate strategy continues to be developed – in addition to targeting greater investment in climate solutions and reviewing stranded asset risk exposure, consideration is being given to how climate risks and opportunities can be embedded in the expected returns model in 2023. This will allow CPTI to better identify and understand the risks to the Scheme’s assets from climate change and the ways in which the Scheme could reposition assets to reduce risk as well as capture new opportunities. During 2023 CPTI will formally assess and consider the Scheme’s approach to reporting on Paris alignment and Scope 3 emissions data.

Climate change is an explicit focus for stewardship as noted in the Trustee’s policies. In line with this, EOS and a number of the Scheme’s investment managers name climate change as a key focus in their stewardship priorities. A process of reviewing current and future IMAs is underway to include obligations on investment managers to take account of material ESG issues when making investment decisions, comply with Trustee policies including around UN Global Compact violations and provide reporting in relation to TCFD and diversity. The Trustee’s responsible investment and stewardship policies will also be included as an appendix to IMAs. During 2022 and early 2023 CPTI agreed and finalised IMAs or side letters to IMAs with eight public asset investment managers and are in discussions with the final two.

Through EOS and certain investment managers, the Scheme participates in industry initiatives such as Climate Action 100+, which engages with the world's largest corporate greenhouse gas emitters to ensure they take necessary action on climate change. The effectiveness of this work is described in case studies such as the one on Lyondell-Basel in Principle 10.

As part of all manager appointments and regular manager reviews, the manager's approach to climate change both in terms of their investment decisions and their stewardship is discussed. This has been a key driver of some manager changes and has also led managers to improve their approach and resources in this area.

Inflation

Inflation is a key risk to the Trustee in delivering its objectives given the inflation-linked pension benefits promised to members and the impact higher than expected inflation can have on markets and asset returns (as was experienced in 2022). Inflation scenarios are considered as part of stress testing and in the Scheme's asset liability modelling tool, which feeds into wider asset allocation decision making. Following the extraordinary monetary and fiscal policies seen in response to the COVID crisis, the Trustee had a heightened awareness of the risk of inflation as highlighted in the Scheme's first two stewardship reports. Over the course of 2022 inflation continued to rise and remains very high, which has had asset specific impacts as well as resulting in large uplifts to pensions to protect the purchasing power of members benefits. From an asset perspective, the largest impact has been the increase in both short and long term interest rates, which was a key driver of the large falls in asset values through 2022. The Scheme avoided the most significant liquidity challenges and asset value falls that many UK defined benefit pension schemes experienced as it does not invest in leveraged government bonds to explicitly match longer term benefits. However, with both public equity and bond markets falling the Scheme did experience declines in these asset classes. Infrastructure, where cashflows have some level of inflation protection, performed more strongly as CPTI would have expected. The Scheme is considering other ways to gain inflation protection including through a commodities allocation.

CPTI continually engages with external investment managers and service providers in discussions around market level risks and opportunities, and seeks to ensure the Scheme is resilient through a range of scenarios. Stewardship is one way to mitigate the risk that parts of the Scheme's portfolio are not prepared for various future scenarios. CPTI also actively engages with EOS on its stewardship priorities to ensure that these reflect the Trustee's own concerns.

EOS engagement

On behalf of the Scheme, EOS regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. Through EOS, the Scheme also promotes effective regulation in the markets in which it invests to encourage governance structures that facilitate the accountability of companies to their owners, to give companies the certainty they need to plan for the future and to promote a level competitive playing field, which enables companies to prioritise long-term profitability.

EOS has a comprehensive programme of engagement with legislators, regulators, industry bodies and other standard setters to help shape capital markets. Their public policy work includes:

- Engagement on issues and written responses to consultations on behalf of the Scheme;
- Providing the Scheme with the opportunity to endorse or co-sign responses to consultations; and
- Providing the Scheme with written responses to consultations for use as a basis for their own communication.

An example of an EOS public policy engagement in 2022 involved EOS as a member of the Carbon Disclosure Project (CDP) Technical Working group, responding to a public consultation survey on water-related indicators for financial institutions. CDP, with input from investors and their representatives, is developing the first set of standardised, global water security reporting indicators for the financial sector. EOS previewed the list of new water indicators and shared feedback confidentially with CDP. The water-related indicators included in the consultation represent the second phase of indicator development, which are qualitatively focussed. An initial set of water security indicators have already been incorporated into a nature related module as part of CDP's 2022 climate change questionnaire for the financial sector.

EOS spoke at a roundtable at Westminster, organised by ShareAction and the UK Sustainable Investment and Finance Association. It was attended by cross-party representatives from Parliament with other attendees from the financial sector and civil society. The goal was to raise the ambition of UK policymakers and action by the finance sector ahead of the Convention on Biological Diversity COP15. EOS highlighted the importance of engagement and stewardship for investors to tackle biodiversity loss. EOS outlined the actions they had taken to advocate for an ambitious and transformative global Biodiversity Framework, including formal participation in the negotiations on behalf of Finance for Biodiversity, position papers on aligning financial flows and an open letter to governments.

Outside of EOS the Scheme has been part of a group of UK asset owners seeking to address the systemic issues present in applying ESG frameworks to private markets. CPTI is also a signatory of the Diversity Charter which seeks to address the systemic issues associated with the lack of diversity in the financial industry and in corporate leadership.

Reflection

The Trustee continues to focus on assessing and reviewing market wide and systemic risks. 2022 was a challenging year for investment markets and the Scheme's assets delivered negative returns with both public equity and fixed income markets falling. The Scheme avoided the worst of the UK pension scheme crisis in autumn 2022 as it does not invest in long-dated bonds to explicitly match pension liabilities and does not use leverage in its government bond portfolio. Through EOS and the Scheme's investment managers, CPTI continues to focus on promoting a well-functioning financial system. That said there clearly remains significant work to be done to address the risk posed to the Scheme's assets by all of the systemic risks noted above; stewardship at the asset and system level is a key tool in this regard.

Principle 5: policy review, process assurance and assessment of the effectiveness of activities.

A key part of the Trustee's risk management framework is a programme of assurance to ensure that the risks of the Scheme are being managed and the controls in place are robust. An annual risk-assessed assurance plan is established and agreed by Trustee, and results are reported to the Trustee via RASC and the relevant sub-committees. The assurance plan is made up of internal audit (outsourced to PWC), deep dive reviews by CPT management and the use of specialist third party providers where required.

In addition, external audit provide an opinion on the financial statements based on the risk of material misstatement. The audit of the Scheme's and CPT's financial statements includes a limited element of control testing to gain comfort over the accuracy of financial statement balances and disclosures. Where any control weaknesses are identified they are highlighted to CPT management and the Trustee.

The Scheme continuously seeks to improve all policies and processes in relation to stewardship wherever possible and these are regularly under review. In 2021, the Trustee agreed a new Responsible Investment Policy, which included a dedicated section on climate change, as well as a new Stewardship Policy, which replaced the previous corporate governance policy. Throughout 2022 the policies agreed during 2021 were embedded with a focus on improving processes, integrating stewardship and assessing the effectiveness of the managers and EOS. These policies will be reviewed every two years. As noted above, since this review CPTI has drafted a new Private Markets stewardship policy and a policy for the engagement with managers around voting, holdings in laggards or controversies.

As the Scheme delegates the management of individual assets to its investment managers, the Scheme's key levers of control and influence in stewardship are:

(i) the appointment of aligned managers and stewardship providers; and
(ii) ongoing engagement, oversight and challenge of those managers and providers.

The nature of stewardship varies across asset classes, from private markets where the investment managers have direct control over an asset or company, to public markets where the reliance is on engagement and voting. The Trustee is committed to ensuring effective management and engagement across all asset classes. As referred to in principle 2, engagement within the private asset classes has been more difficult to track than in the public assets historically, however, CPTI has been working on implementing a framework to encourage improved engagement and reporting in this area. This framework will be integrated into the decision-making process with the stewardship approach tailored for each asset class and also according to how the asset class is accessed, for example via funds or in segregated mandates where CPTI have more direct control and input. This is currently being implemented and as such CPTI expect to share more information on this next year

In line with TCFD requirements, the Trustee has set metrics and a target for climate data which are part of the Responsible Investment Policy. These are formally reviewed on an annual basis and referenced in the Scheme's TCFD report (see link in principle 1).

As part of ongoing challenge and oversight, CPTI continue to review the public equity investment managers that engage and vote on the Scheme's behalf to ensure they remain consistent with the Scheme's own stewardship goals and priorities. As part of this review and as discussed under principle 2, CPTI appointed two public equity managers during 2022, one which retained voting rights and the other where voting has been delegated to EOS. CPTI also reassigned the voting rights, previous delegated to EOS back to an Emerging Markets equity manager, based on the manager having greater coverage of the portfolio for engagement.

Every year CPT, on behalf of the Scheme, requests internal controls reports (AAF 01/06, SOC1, ISAE3402 or SSAE18) across all the Scheme's investment managers and reviews these. The Scheme has chosen this approach as these are comprehensive industry standard reports which are carried out by independent assurance providers who ensure the relevant controls are in place, tested and working effectively. Any exceptions noted by the independent auditor in the internal controls report, together with the management response, in relation to stewardship are documented by the CPT compliance team and discussed with CPTI where required.

EOS perform a sample-based audit of approximately 50 meetings every 6 months where an EOS engagement professional has manually entered vote recommendations for clients. The audit is performed by the Voting and Engagement Support team and reviewed by the Engagement Regional Team Leads. The main purpose of the audit is to look at instances where the voting goes against the policy to ensure these were intentional. The process has been reviewed and agreed as appropriate by CPT's risk function. Separately, EOS ask ISS to provide evidence of a selection of auto-instructed meetings to ensure accuracy of EOS policy interpretation and operational workflow.

EOS provide a range of qualitative and quantitative reporting for clients on the engagement and voting activities which they have undertaken on their behalf. EOS engagement case studies are reviewed by the named companies in advance of publication for fact checking. CPTI reviews EOS's activities by examining regular reporting (client portal, quarterly and annual reporting), holding quarterly meetings and attending the bi-annual EOS client conference. CPTI regularly provides feedback on behalf of the Scheme. One of the key tools CPTI has used for assurance around engagement and voting is the additional look-through and analysis of this activity that Redington has conducted on the Scheme's behalf.

The Scheme is an active owner of a large amount of private markets assets where investment managers may directly control the companies, assets and properties invested in. As such their ability to influence these is often significant. Investment managers are expected to actively manage the assets, maximising opportunities and minimising risks around material environmental, social and governance factors. Stewardship examples in private markets are included under principle 7, however, the impact of the Scheme's ownership in these areas is something where the intention is to provide greater visibility in future. As discussed earlier in the report, and as a result of continuous review leading to the improvement of CPTI stewardship policies and processes, CPTI has developed a framework for private assets, aimed at encouraging engagement and ensuring appropriate reporting and monitoring for these assets, as well as ensuring that this framework is integrated into the decision-making process for future commitments.

Principle 6: Taking account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

The Scheme is a UK based pension scheme with 44,812 members as at 31 March 2022. The Scheme's members are mostly pensioners (69.4%) but also dependants (27.0%) and deferred members (3.6%). At the most recent Actuarial Valuation (31 March 2021) the Scheme's average age weighted by total pension was 75 years for pensioners, 83 years for dependants and 58 years for deferred members.

The Scheme has a fiduciary duty to meet the liabilities of the members benefits both long term and short term. The Scheme's cash flows continue for around 50 years so understanding and responding to long term systemic risks such as climate change are a key part of the Trustee's fiduciary duty, ensuring that the ability to meet long term liabilities is not compromised by short term actions.

Four members of the eight-person Trustee body are elected from the membership. The role of all Trustee Directors is to represent the views and interests of the members. As a particular part of their role the elected Trustee Directors meet and correspond regularly with members, inputting questions and their understanding of member views to CPT. The Scheme also has a website and active social media page.

Communication to members

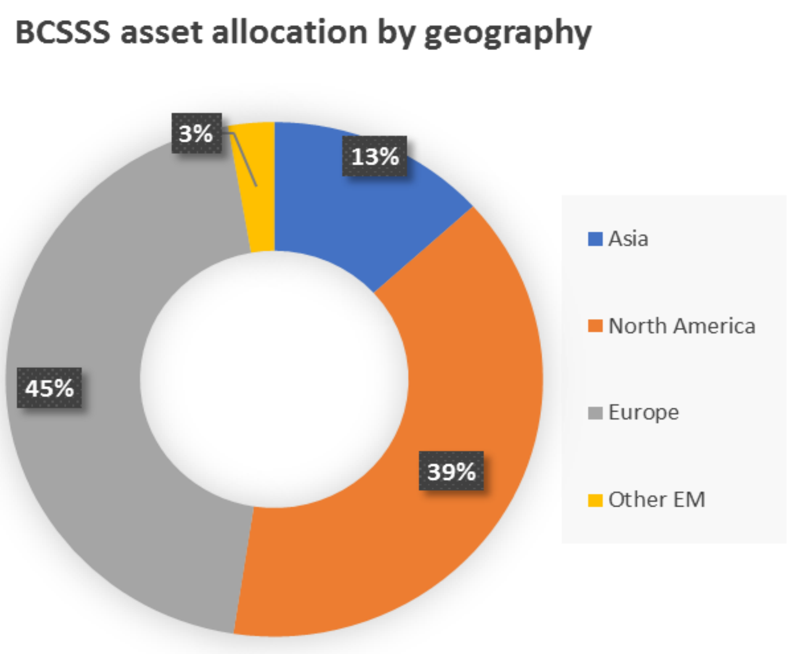
The Scheme discloses, on a quarterly basis, summary details of its voting and engagement on public equities as undertaken by EOS and the Scheme's investment managers. Summary statistics show the key issues on which EOS and the investment managers have engaged with the companies the Scheme is invested in. The Scheme also discloses Public Policy highlights reported by EOS, including key activities and achievements in discussions and consultations with regulators during the quarter.

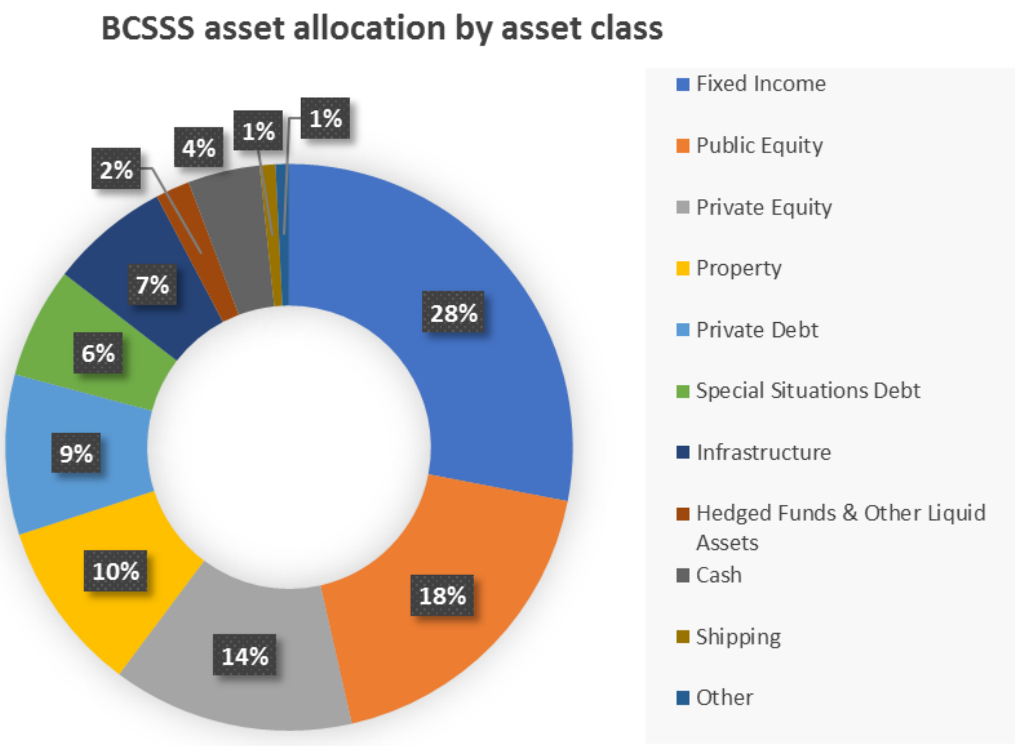
As discussed earlier, the Scheme recently published its first TCFD report and this along with the annual stewardship report is publicly available to members on the Scheme's website (https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing).

Members have contact details for the Scheme secretariat and any queries or views that may be communicated are passed from the secretariat onto CPTI to consider and respond. In addition to posting information on the Scheme's website and sending emails where members have provided their addresses, the Scheme publishes a newsletter at least once each year and sends out letters to members on important topics of relevance.

Assets under management

The Scheme's audited net assets as at 31 March 2022 totalled £9.82 billion and the asset value totalled c. £8.96 billion as at 31 December 2022. A summary of the Scheme's assets by asset class and geography as at 31 December 2022 are provided below:





Time horizon

The primary responsibility of the Trustee is to administer the Scheme in accordance with the rules and for the benefit of all beneficiaries over the whole life of the Scheme. Given the specific context of the Scheme, the Trustee has considered its own objectives carefully. During 2022 the work undertaken in relation to TCFD, in combination with the increased maturity of the

Scheme, caused the Trustee to actively review the time horizon of the Scheme as set out below. While the Scheme maintains a multi-year investment horizon the Trustee is cognisant that a significant proportion of the liability are paid within the next 10 years.

The Trustee has defined time horizons as follows:

Short term: Everything up to 3 years in the future. This would cover the Scheme's next actuarial valuation (undertaken every 3 years) and is in line with the Scheme's economic scenario modelling, which is used to assess risk and asset allocation.

Medium term: Defined as the period between 3 and 10 years. The end of this period is aligned with long term expected return forecasting which is done over 10 years. Around 50% of the Scheme's future payments (in real terms) are expected to be made over the next 10 years.

Long term: Defined as anything beyond 10 years up until 35 years (2057) when only 2% of the Scheme's future payments (in real terms) are expected to remain.

Principle 7: Systematically integrating stewardship and investment, including material environmental, social and governance issues, and climate change.

The Scheme takes an integrated approach to stewardship. Across CPTI all members of the team take ESG considerations into account when making investment decisions and two members of the CPTI team and three members of the operations team spend dedicated time on responsible investment including stewardship. The Trustee has outlined its beliefs related to stewardship and ESG, and these beliefs help frame the Scheme's responsible investment policy. As highlighted in principle 4, the Trustee believes climate change is a systemic risk. In 2021, the Trustee updated their responsible investment policy to include a dedicated section on climate change and climate change was also highlighted as a key priority for stewardship.

The Trustee has agreed 2 investment themes that it expects to provide significant risk and opportunity over the medium term – climate change and healthcare. Both have grounding in ESG considerations. These investment themes will directly influence the Scheme's asset allocation. Outside of this CPTI has committed to integrating climate change into expected returns modelling over the course of 2023/2024.

As highlighted in principle 2, in 2021 CPTI on behalf of the Scheme subscribed to ESG data through MSCI including ESG risk ratings, carbon emissions data, controversies and screening data. This data has been used throughout 2022 to continue to challenge investment managers on specific holdings or understand overall exposures. Greater private markets data has been sought in 2022 although carbon data for much of the private markets portfolio is already received and there is a physical risk assessment for property. All of this data is used to produce a responsible investment Management Information pack which is reviewed regularly by CPTI. The pack serves to highlight areas of particular risk and drive challenging questions of the CPTI team and of service providers. A Trustee Risk Dashboard was also developed in 2022, which includes several areas of ESG risk and this is reviewed quarterly by the Trustee (through its Investment Sub-Committee).

The Scheme holds its investment managers to account on their management of ESG risks and opportunities. CPTI are in the process of amending the Scheme's current and future IMAs to include obligations on managers to take into account material ESG issues when making investment decisions, comply with the Scheme's exclusion policy and provide reporting in relation to TCFD and diversity. As part of this oversight, and as described in principle 2, CPTI also engaged the EOS CCR service to highlight and engage laggards in the portfolio.

CPTI's manager selection process considers investment managers' ability to integrate stewardship and investment including considering ESG factors. This is a key input to both the research and tendering process for new managers and the oversight of existing managers. All public and private markets managers have been assigned a rating in relation to ESG. ESG, climate and stewardship are regular topics in manager meetings, and separate dedicated sessions are often held with managers in this area. As mentioned in the 2021 report, four Strategic Partners were appointed to work with the Scheme across asset classes and to be used for advice and as sounding boards. Assessing culture, purpose, ESG and specifically the approach to climate change was a key part of these appointments. Climate change is a specific risk that is focussed on given the large potential market impact and investment managers are expected to integrate climate risk guidelines, such as TCFD, into their decision making and reporting. Managers have been challenged across all asset classes on this throughout the year and these issues are formally part of all new appointments and manager devil's advocate reviews. Managers are challenged in meetings based on a qualitative understanding of their approach and quantitative data is also used on the managers' holdings and voting activity.

For public equity, the Scheme uses EOS as the formal voting and engagement mechanism to supplement the activity of managers, which enables the Scheme to implement stewardship goals, particularly around company engagement and voting, to a high standard. As referenced in principle 5, CPTI expanded the engagement by EOS to cover one additional active public equity mandate in 2022. EOS's research and engagement insights provide useful information for CPTI on the Scheme's holdings across a number of investment managers, which can be used to challenge and scrutinise their investment decisions. For each manager in this asset class CPTI makes a formal assessment of whether the asset manager or EOS will be able to deliver better engagement and voting, which is based on comparing stewardship approaches and on coverage. All public equity managers have a clear understanding that ESG, climate change, diversity and stewardship are important areas which are systematically integrated across all areas of policy, monitoring, review and investment decision making.

Following the Trustee Director survey which took place in 2021 and additional research around Human Rights, this has been a key area of focus for 2022 and continues to be through 2023. During the year the Trustee has begun receiving regular information on its controversies exposure within the portfolio and has regular conversations on this issue. The Trustee commitment to the Stewardship Code ensures a focus on being active stewards of assets, engaging with managers, service providers and the broader market to ensure goals are met.

Private equity

In private equity, investments in funds and co-investments are regularly evaluated. For example, consideration of ESG factors for both fund and co-investment opportunities is a critical input to the monitoring process as well as in the ongoing stewardship. The majority of BCSSS' private equity investments are via the PE advisor JP Morgan. Here JP Morgan will act as a steward of the underlying assets on the Scheme's behalf and raise any queries or challenge with the underlying manager. This includes taking Limited Partner Advisory Committee (LPAC) seats where possible and pushing for agendas to include ESG priorities. BCSSS has LPAC seats with 12 funds currently.

Mid market private equity manager

The Scheme committed to the third fund of a European mid market buyout manager in 2015 on the advice of the PE advisor, which is also an investor and member of the limited partner advisory committee (LPAC). In 1Q22 the advisor alerted CPTI to an incidence of fraud by the manager whereby two of the partners had set up a fake company to purchase a portfolio company at a low price from Fund 2. With respect to the Scheme's investment in Fund 3, three intercompany loans had been made without the appropriate disclosure to the LPAC. The board members worked extensively together and with the remaining partners of the manager to uncover the full extent of the fraud. The Scheme's advisor hired its own external legal counsel to assist with the matter and Alvarez & Marsal were also brought in by the LPAC to review all capital calls and distributions, valuations of portfolio companies as well as interview all of the underlying portfolio company management teams. The buyout manager had also brought in a consultant to review the situation and subsequently has tried to pass through the not insignificant cost of this review to its investors on a pro rata basis. The Scheme's advisor pushed back strongly on this believing this to be unreasonable and subsequently this was not charged to limited partners.

Large market private equity manager

The Scheme's PE advisor sits on the LPAC for one of the funds of a large buyout fund. During the most recent LPAC, it challenged the manager on its dealings with the local regulators regarding the insolvency of one of the fund's financial services portfolio companies. It had had the company on watch after it was written down to zero following interest rate rises and the regulator had had to step in. The private equity manager was unable to sell the company within the timeframe set by the regulator, at which point the regulator encouraged the manager to repay the monies taken out in a prior recapitalisation, which the manager did then do. However, the PE manager has treated this injection of capital as an expense to the fund; the Scheme's PE advisor has pushed back on this because as a fund expense it will not impact the return on the underlying investment which is misleading and will also impact the gross to net spread at fund level. It is also pushing the manager on what further reserves might be required for the company, as given the age of the fund there are limited sources of capital remaining and this fund is now on its close watch list.

PE company co-investment

The Scheme's PE advisor recently spent substantial time in the LPAC meeting understanding the company's approach to ESG, their improvements in reducing carbon footprint, and their target dates to get to Net Zero. In terms of diversity in its employee base, the company has made positive progress with 26% of senior management being female, however there remains room for further improvement. They also focused on ESG factors in purchasing and procurement. As a result, the company will aim at a 60% reduction: the company has made a commitment to reduce emissions from their own operations (scope 1 and 2) by 60% by 2030, versus the 2021 baseline. Our advisor has asked them to provide examples of what they are doing to track progress and to meet target.

Real estate

For property, a new manager was appointed during 2022 and one part of the reason behind this change was insufficient focus on systemic market changes with the previous provider. A key part of the new appointment has been a focus on the costs and opportunities associated with the necessary building upgrades required to meet climate regulation. As part of the hiring process there was active engagement with the new manager on diversity and inclusion policies. A lack of tenant and contractor engagement and stewardship was a key failing of the previous manager.

UK Infrastructure

The Trustee's investment belief is clear that being a good steward of assets can lead to better risk-adjusted returns and the longer the term of an investment, the more important ESG considerations are. Infrastructure is a very long-term illiquid investment and therefore stewardship including ESG integration has been a key focus of CPTI's oversight of the Scheme's infrastructure managers. The Scheme's investments include renewable energy and projects that support energy efficiency.

As mentioned in principle 2, within infrastructure the Scheme owns assets critical to the UK and also assets with high levels of impact on the environment and consumer cost of living. The Trustee takes ownership of these assets very seriously and believe that there is more that they and other asset owners can do to engage in this area. During the year CPTI conducted a detailed review of the assets owned in this space as well as the stewardship provided by the Scheme's asset managers. This review has led to a decision to significantly adjust infrastructure exposure and access route.

Principle 8: Monitor and hold to account managers and/or service providers.

CPTI applies its formal monitoring framework across all the Scheme's external managers to make sure they align with the Scheme's expectations for responsible investing including stewardship. All external managers are encouraged to have formal policies covering stewardship and engagement in addition to being required to review the Scheme's policies and be comfortable with these. If external managers do not have a formal policy, engagement occurs to understand why, then where possible work is undertaken with external managers to help create formal policies. During the year, the Scheme's real estate manager was successfully encouraged to develop policies in this area. As part of CPTI's ongoing review process, changes to engagement and voting coverage have also been made during the year as highlighted in principle 9 and CPTI have added managers to the formal watchlist due to concerns around ESG. ESG integration (particularly climate change) has been a key driver of appointments and terminations as also highlighted in principle 9. Managers note that the Scheme is an engaged client in this area, asking challenging questions and providing useful feedback.

When conducting formal manager monitoring updates, CPTI will discuss with external managers portfolio activity, and how stewardship including ESG considerations were factored into the decision-making process at the individual security level. CPTI's rating for each manager is based on multiple factors which include:

- firm-wide responsible investing resources and capabilities;
- firm-wide commitment to relevant responsible investment codes/principles/initiatives;
- firm-wide commitment to diversity and inclusion;
- level of active engagement including voting for equities;
- ESG integration into the investment process for Scheme specific investments; and

- ESG reporting on Scheme specific investments.

The Scheme continues to evolve its climate and ESG monitoring of managers with significant progress achieved through 2022, particularly in relation to private market assets as described under principle 2.

CPTI utilises a number of third-party data sources to challenge managers including MSCI, which includes ESG risk ratings, carbon emissions data, controversies and screening data. Additionally, CPTI subscribes to the CCR service described in principle 2 through EOS, which utilises Sustainalytics as its data source and highlights those companies which are considered as being in violation of internationally recognised guidelines. CCR provides insight into the nature of those violations and a view on engagement with the company. During 2022 CPTI engaged with EOS on enhancements to this reporting, which EOS have recently completed, and this should further assist CPTI in engaging with the investment managers on these issues going forward.

EOS is a key stewardship service provider for the Scheme and therefore CPTI regularly reviews their service on behalf of the Trustee including the scope of their engagement work for the Scheme. Changes to the public equity portfolio were implemented in 2022 including a global environment strategy managed by Ninety One and a value strategy managed by Wellington. The voting and engagement responsibilities have been delegated to Ninety One for the environment strategy but delegated to EOS for the value strategy. Managers are assessed to determine whether voting and engagement is best placed with the investment manager or EOS with this decision kept under review. Through regular communication with EOS, as outlined in principle 9, CPTI hold EOS accountable for the stewardship services they provide.

CPTI uses qualitative assessment during meetings and of materials and newspaper coverage to assess the managers, however quantitative data around portfolio holdings and other factual action such as voting is also key to both challenging and assessing the managers.

Whilst no single consultant is engaged for overall advice, input is often sought from a range of consultants and/or strategic managers on particular projects or asset classes. During the year, consultants have provided input across a range of areas including private market carbon emissions data, new mandate selection, voting analysis and TCFD reporting. In each case, CPTI has delivered feedback around the quality and alignment of the services provided. An example was using proxy carbon emissions data for the private equity portfolio, provided by one of CPTI's consultants. The data highlighted certain funds as being higher in terms of their overall emissions profile due to certain underlying portfolio companies; CPTI queried the categorisation of these companies with the consultant and the consultant is working on improved modelling for this year.

CPTI, on behalf of the Scheme, has held to account the Scheme's investment managers during the year on how they are monitoring and engaging companies that have low ESG scores or are implicated in ESG controversies. This is to ensure that they are effectively managing and mitigating the risks involved in investing in these assets and reinforcing that this is an area of focus for CPTI. This also serves to deepen CPTI's knowledge of the portfolio and areas of elevated ESG risk.

CPTI has also engaged closely with EOS, the managers and other organisations such as ShareAction with regards to significant vote resolutions. An example in 2022 was the shareholder resolution filed at Sainsbury's to accredit as a Living Wage employer. CPTI wrote to a number of the Scheme's asset managers urging them to take an active role in ensuring that supermarkets were held responsible for their actions and to guarantee all workers a real Living Wage by supporting this resolution. CPTI asked the managers to support and make their voting intention public to encourage other investors to follow.

The Diversity Charter

Numerous studies have shown a correlation between companies with diverse teams and business success. A lack of diversity in background and experience can stifle innovation and promote groupthink. The Scheme has been a signatory to the Diversity Charter for 18 months. So far, CPTI has been collecting data across all core and strategic relationships and has reached out to 41 managers and had responses from all of them. CPTI has scored these responses and provided managers with feedback on the scores as well as what would be required to improve these over both the short and long term.

Case study

As highlighted in last year's report, CPTI has engaged with an external Onshore Chinese public equity manager to improve ESG transparency, reporting, and formalise stewardship related activities. In 2021, the manager created a distinct ESG working group to help formalise decision making in this area and made greater use of external data providers to formally track company level ESG metrics. In 2022, the manager finalised their ESG policy, to which CPTI had provided input, and has begun working towards incorporating specific ESG protocols into their voting policy. Following CPTI engagement, the manager also formally became a UNPRI signatory in 2022. CPTI continues to work with this manager and since the start of 2023 has been in the process of switching to a new share class for this portfolio where the Scheme will be able to apply its own exclusion policy.

In addition to monitoring and holding to account the Scheme's investment managers CPTI monitors service providers in a similar way.

CPT identified a number of companies that were identified within the MSCI ESG manager database as not having reported carbon emissions, despite CPT having confirmed from alternative sources that those companies had reported carbon data. CPT engaged with MSCI to understand the reasons for each of these cases, a number of which MSCI hadn't processed due to a backlog. Following this engagement MSCI has been working on their backlog and reviewing their processes and resources in this regard.

Principle 9: engagement with issuers to maintain or enhance the value of assets.

Both EOS and the Scheme's investment managers undertake company level engagements on behalf of the Scheme in both public and private markets on issues that may impact their long-term sustainable value. The Trustee expects proposals for engagement to involve some breach of generally accepted financial, strategic, operational, legal, social, environmental, ethical or governance best practice. Engagements may relate to longer-term strategic, environmental, social or governance issues, which may not have immediate stock-specific impacts, for example, where the company's shares or debt are already fully valued and the intent is to preserve that value.

The Trustee expects company specific engagements to be undertaken where it is believed that:

1. Engagement will lead to an increase in value of a company's shares and/or debt over the long term;
2. Engagement will prevent or limit a decrease in the value of a company's shares and/or debt over the long term.

In determining whether and how the engagement is taken forward, due regard should be given to the likelihood of engagement success and potential to bring about positive change. Such considerations should be based around an assessment of the likely impact of the engagement and the ultimate benefit to the value of the Scheme's holding.

Engagements may involve:

- Meetings with executive and non-executive directors;
- Meetings with other company representatives;
- Discussions with other shareholders of the company;
- Participation in collaborative investor initiatives;
- Submission of shareholder resolutions at general meetings as appropriate.

Summarised below is the breakdown of the Scheme's split of public equity voting and engagement activity across EOS and the other investment managers as at 31 December 2021 and as at 31 December 2022. This breakdown illustrates where voting and engagement coverage has shifted over the year as a result of reviews undertaken.

Managers undertaking Voting & Engagement activity	Public equity allocation based on value of assets at 31/12/2021	Public equity allocation based on value of assets at 31/12/2022
EOS	93.0%	77.7%
Ninety One	0.0%	11.1%
Schroders	3.9%	5.3%
Green Court	2.1%	5.9%
AQR China	0.9%	0.0%

The Trustee's expectations in term of public market engagement, as summarised above, are met by CPTI through regular meetings with EOS and the Scheme's investment managers. CPTI, on behalf of the Trustee, keeps those currently delegated to engage and vote on the Scheme's behalf under review. As referenced in principle 5, the key outcomes from that review in 2022 were as follows:

- Ninety One was appointed to run a climate opportunities public equity mandate, which aims to outperform broad global markets over the long-term, whilst also delivering a quantifiable impact through both carbon savings and company engagement. The aim is to invest in companies that will deliver strong and sustainable long-term returns through exposure to decarbonisation, including renewable energy, electrification, and resource efficiency. CPTI have delegated the voting and engagement of this mandate to Ninety One.
- The onshore China mandate with AQR was discontinued because as well as the review reflecting a number of factors including cost, diversification and a changing view of the appropriateness of a quant-based approach to a high-risk region, CPTI became uncomfortable with the exposure to environmental laggards, very high carbon intensity companies and limited stewardship in these areas.
- Reaffirmed the decision to retain voting with Schroders on their mandate following a review of their approach to engagement and voting.
- During 2022 CPTI reviewed the voting undertaken by EOS specifically on the Emerging Markets equity portfolio managed by Genesis. Whilst CPTI have a positive view of the quality of engagement by EOS, analysis indicated that their engagement coverage of the names held in this mandate was limited. Following discussions with the manager, CPTI were comfortable that Genesis has engagement objectives for all portfolio companies and has made significant improvements toward ensuring a robust and integrated engagement process. CPTI also discussed with the manager some initial concerns regarding their tendency to vote with managers at times when EOS had voted

against management and in line with the Institutional Shareholder Services (ISS) recommendation. CPTI challenged Genesis on these specific examples and were comfortable with their rationale, but will continue to engage with them on these types of issues going forward. This change was implemented early in 2023 and will improve engagement coverage and reporting.

- During 2022, CPTI also appointed a new value focused equity manager with the voting and engagement delegated to EOS.

CPTI, on behalf of the Scheme, is continuing to review the approach to engagement and voting in China through Green Court.

On behalf of the Scheme, EOS undertakes company-specific engagements with the objective of achieving beneficial and sustained change at the companies and in the societies where they operate. EOS analyses company performance, policies and practices based on corporate disclosures and research on Environmental, Social and Governance (ESG) factors. During 2022 EOS engaged on the Scheme's behalf with 305 companies on 1,346 issues and objectives covering the following topics: environmental (25.0%); social and ethical (25.0%); governance (36.8%); and strategy, risk and communication (13.2%). More detailed disclosure on EOS's engagement on behalf of the Scheme through 2022 including objectives by sector/priority themes and outcomes of engagement are in the annual reporting available on the Scheme's website (link).

CPTI, on behalf of the Scheme, provides feedback to EOS on engagement priority areas and process as part of the annual refresh of the Engagement Plan (as referenced in principle 2). CPTI can also provide feedback through the bi-annual client advisory council events, client advisory board and the Scheme's relationship managers. In 2022, CPTI also engaged with EOS and many of the public equity investment managers on voting covering areas such as board independence, over-boarding, gender and ethnic diversity, climate change and executive pay.

The engagement work with investee companies on behalf of the Scheme is aimed at achieving sustainable investment returns through the promotion of long-term responsible business strategies. Engagements undertaken on behalf of the Scheme are guided by the Scheme's Stewardship Policy and Responsible Investment Policy, both of which can be found at https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing.

EOS and the investment managers monitor company performance on issues relevant to long-term value on an ongoing basis. Such issues include corporate strategy and governance; capital structure; board structure; directors' pay; social, environmental and ethical matters; and risk management. Examples of engagements conducted on the Scheme's behalf by EOS covering bribery and corruption and Ninety One covering environment and biodiversity are set out below.

Case study: Glencore

EOS have engaged with the commodity trading house and mining company Glencore, which pleaded guilty to charges of bribery and corruption with criminal and civil authorities in the US, UK and Brazil. The company admitted to providing payments and bribes via third parties acting on its behalf to foreign officials in Nigeria, Cameroon, Ivory Coast, Equatorial Guinea, Brazil, Venezuela, and the Democratic Republic of the Congo (DRC).

EOS engaged with the chair of Glencore to identify key learnings for the company on ethical culture and behaviours, and to develop a plan to address them. EOS have been assured that it has taken remediation action, including appointing a new chief compliance officer, refreshing the management team and CEO, and reporting to the board on compliance on a quarterly basis. A court-appointed monitor of its compliance programme is in place for the next three years.

Case Study: Croda

Croda is a leading bio-based chemical producer whose output, which mainly serves as ingredients for products such as skin creams, vaccines, and biological pesticides, replaces carbon-intensive, fossil-fuel-based alternatives. Croda is an enabler of decarbonisation in industries such as personal care and crop protection. In addition, some of its products offer efficacy advantages, for instance, its adjuvants decrease the amount of active ingredients required in a pharmaceutical product to deliver the same health outcome.

In the second quarter of 2022, Ninety One had an onsite meeting with Croda, visiting one of their manufacturing plants in Spain. This site visit was used to better understand the contribution of the company’s new flavours and fragrances business which is made up of acquisitions from 2020 and 2021 – Iberchem and Parfex. Parfex, as a fine fragrance business, has developed a deep expertise in natural ingredients that has not yet been transferred to Iberchem, but this is a clear priority for Iberchem management and Croda more broadly. Notably, Iberchem has already established its “green future” label and Ninety One expect products that minimise environmental impact to grow.

In the fourth quarter, Ninety One also visited the company’s manufacturing site in the UK, in which they were able to review the chemical production process and research & development facilities. Both site visits enhanced their understanding of the significant know-how required to use bio-based feedstocks both in manufacturing and research & development (95% of Croda’s research & development pipeline is bio-based). The company’s target is to increase feedstock from 52% bio-based to 75% by 2030. Meeting this target is essential to achieving the 13.5% reduction in upstream scope 3 emissions by 2029 (both focuses of Ninety One’s 2022 engagement goals). These site visits helped Ninety One to understand the challenges and opportunities in decarbonising the chemical sector, and, subsequently, they have gained confidence in the Croda's ability to meet its ambitious goals. During their scope 3 discussions with the company, they highlighted the continuing work to better understand its emission baseline, with the company undertaking lifecycle analysis for all its key raw materials. Given the complexity in scope 3 calculations, Ninety One believe this is a key piece of work to ensure the company has the best possible understanding of its supply chain emissions and where it needs to target its decarbonisation efforts.

Additionally, Ninety One engaged with Croda on its land/biodiversity targets and reporting. More specifically, they met with the Managing Director of their crop protection business, who leads on Croda's Land Positive Commitment. They spent time discussing Croda's methodology for calculating land savings as a result of use of their bio-stimulants, adjuvants, and seed coatings. They asked Croda to provide more information around these calculations in follow up disclosures. They also discussed Croda's goal to develop a scientific-based target for the company's impact on nature with a desire to become "nature positive", although this remains very early stage. They also had a separate discussion relating to the company's exposure to biologically sensitive areas. Croda has so far not identified any operating areas within biologically sensitive areas, but some operate close by, so the company's mitigating efforts will be area specific. This is an area Ninety One will be continuing to monitor in 2023.

Real assets and private equity

Engagement in real assets such as infrastructure and real estate has a focus on ensuring these assets retain value and resilience in the future. As referenced under principle 2 activity in the Scheme's real estate assets is focussed on becoming more energy efficient and reducing the climate risk impact. In infrastructure, the Scheme has allocated capital to investment opportunities that are contributing towards the decarbonisation of the economy.

Examples of Private Equity engagement by JPM, on behalf of the Scheme, with issuers in order to maintain or enhance the value of the assets have been provided in Principle 7 and an example of an engagement by the Scheme's real estate manager with a property tenant is provided below:

Building a strong relationship with occupiers is a fundamental catalyst for improving ESG performance of real estate assets over time. Shortly following Nuveen's appointment to the Scheme, the manager introduced itself to a large tenant within one of the Scheme's industrial estates, Winwick Quay Business Park. The tenant informed Nuveen of their intention to install solar photovoltaic panels on the property at their own expense. The installation costs of the panels to the tenant was revealed to be significantly higher than the costs should Nuveen manage the installation due to the economies of scale available to the manager. Nuveen have since negotiated a deal with the tenant which will see the tenant increase their lease term by 10 years, improving the income profile of the asset. In return for the lease extension, the Scheme will install the solar panels and sell the power back to the tenant, providing a positive IRR to the Scheme while also limiting tenant costs and reducing the carbon intensity of the property.

Principle 10: Policy on Collaborative Engagement

The Scheme collaborates with other investors through a number of forums and relationships. A key example is the relationship with EOS where engagement with companies is conducted based on assets aggregated across multiple asset owners. Beyond this EOS and the Scheme's investment managers are involved in a number of regional and industry initiatives for collaborative engagement including the UNPRI, Climate Action 100+, Institutional Investors Group on Climate Change, International Corporate Governance Network, Council of Institutional Investors and Corporate Governance Forum.

CPTI participates in quarterly meetings of the UK Pension Scheme Responsible Investment Roundtable to share ideas and best practice across UK pension schemes. This covers a range of topics including stewardship, climate change and diversity.

CPTI is also a member of the Occupational Pensions Stewardship Council (OPSC). The Asset Management Taskforce which brings together government, senior representatives from asset management, regulators and key stakeholders recommended in their 2020 report that a dedicated council of UK pension schemes should be established to promote and facilitate high standards of stewardship of pension assets. In response to that recommendation the Department for Work and Pensions (DWP) created the OPSC as a forum for sharing experience, best practice and research and providing practical support. The council will develop a stronger overall voice of trustees within the market, especially in relation to service providers. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics.

The Scheme is also a signatory to the Principles for Responsible Investment (PRI), which works to promote the incorporation of ESG factors into investment decision-making. CPTI also expects to take part in PRI asset owner collaborations in future.

In 2021, CPTI signed up to the Asset Owner Diversity Charter, which includes commitments to incorporate diversity questions into manager selection and ongoing manager monitoring. During 2022, CPTI has been using the diversity charter questionnaire for new manager selections as well as to review the approach to diversity of existing managers. Additionally, CPTI has been working with the investment managers to ensure diversity disclosure is incorporated into the Scheme's IMAs and side letters. By the end of Q2 2023, CPTI intends to have reviewed the questionnaires for all asset classes other than private equity and to arrange follow up calls with the managers by the end of 2023. Following the initial exercise, the questionnaire will be sent to managers on an annual basis so that CPTI can track progress toward diversity and inclusion.

Two examples of collaborative engagements from EOS and Ninety One are set out below.

Case study: EOS and Climate Action 100+

Following on from the Lyondell Basell collaborative engagement case study discussed in last years' Stewardship report, EOS continued to engage as the Climate Action 100+ lead with the company through 2022. In Q3 EOS welcomed the company's release of its climate strategy, setting a Scopes 1 and 2 net-zero ambition for its global operations by 2050; a 30% absolute reduction of Scopes 1 and 2 emissions by 2030; and a goal to source a minimum of 50% of its electricity from renewable energy by 2030.

In addition to its climate goals, LyondellBasell had prioritised actions in its 2020 sustainability report to help eliminate plastic waste from the environment including waterways and oceans to advance a circular economy. The company has a goal to produce and market two million metric tons of recycled and renewable-based polymers annually by 2030. To deliver this ambition it recently announced a new organisational structure including a Circular and Low-Carbon Solutions business segment, and is strategically investing along the value chain. While a quantifiable water goal was not set by the company, water management efforts are well covered in the sustainability report.

It has also set out a pathway towards achieving its 2030 target and EOS encouraged the company to collaborate with industry peers with the aim of developing a science-based sector-wide Scope 3 approach. In late 2022, LyondellBasell announced that it would increase its 2030 greenhouse gas emissions reduction target of 30%, relative to a 2020 baseline. In accordance with guidelines from the Science Based Targets initiative (SBTi), it will also submit its climate goals to them to be validated against SBTi guidance.

Case study: Ninety One and Carbon Disclosure Project (CDP)

Ninety One are active supporters of the CDP non-disclosure campaign which brings investors together to request that companies disclose more detailed environmental reporting via CDP questionnaires. They believe advocating for better carbon reporting, via the CDP's questionnaires, is critical for investors to improve their understanding of a company's carbon risk and carbon impact. As a business, Ninety One supported engagements with 71 companies, leading on 31 of these companies. Of the engaged companies, 40% submitted climate change reports. For the Global Environment Strategy, Ninety One request all holdings report to CDP.

In 2023, Ninety One will be using the non-disclosure campaign to engage with new holdings such as Power Grid, which they added to the portfolio in February 2023. Power Grid is a leading transmission business in India where Ninety One are seeing strong growth in power demand and ambitious plans to decarbonise the energy sector. Transmission will be a critical enabler of grid decarbonisation and the company has a leading market share in the country with a strong cost of capital advantage.

The engagement by CPTI regarding the Sainsbury's Living Wage resolution referenced in Principle 8 is also an example of CPTI participating in collaborative engagement exercise with ShareAction. CPTI continues to seek opportunities to collaborate where appropriate.

Principle 11: Escalating stewardship activities

Escalation is a key component of stewardship. This can be in the escalation of concerns around individual asset managers, or the asset manager's own escalation on an engagement with an underlying asset. It can also include an escalation beyond a single asset into strategy and sector level decisions or policy changes.

CPTI expect the Scheme's investment managers and EOS to escalate engagements according to the nature and severity of the concerns. Escalating engagements may be necessary where the company is not receptive to engagement, no progress is being made or progress is too slow. Escalations may include attempting engagement at a more senior level, letters to the board of directors, collaborating with investors or other stakeholders, questions or statements at annual meetings, recommending votes against annual meeting items, shareholder resolutions or open letters. Escalation may include divesting from a position. CPTI monitor escalations for public equities through regular reporting on engagement including voting and are actively working on how to expand this monitoring for other asset classes. CPTI also review EOS's and managers' escalation policies as part of reviews of stewardship approaches.

Examples of escalated engagements conducted on the Scheme's behalf by EOS and Ninety One are set out below.

In private markets escalations are more direct given the direct ownership of assets – examples can include personnel changes, strategy changes, manager changes or litigation.

In terms of escalation of concerns around a manager CPTI will add the manager to its formal watchlist which is reported to the Trustee on a quarterly basis. Once on the watchlist a manager is subject to increased scrutiny. If issues are not adequately resolved the next step would be to replace the manager.

Case Study: Volkswagen (EOS)

As Climate Action 100+ co-lead for the German automobile companies BMW, Mercedes-Benz and Volkswagen, in 2022 EOS intensified their engagement on aligning their public policy lobbying with their ambitions for achieving net-zero emissions. EOS specifically requested transparency on climate-related lobbying activities, which BMW and Mercedes provided through lobbying reports.

Volkswagen remained reluctant to do the same, so EOS escalated their engagement by supporting the filing of a shareholder resolution asking for an explanation of how its lobbying activities help to address climate risk. In response to the company's rejection of this resolution, EOS voiced their support for a group of investors taking legal action to challenge the decision. EOS also recommended voting against the discharge of management and supervisory boards in connection to this issue, and other governance concerns.

Case Study: Nippon Ceramic (Ninety One)

Nippon Ceramic's mainstay products are ultrasonic and infrared sensors, and it has a growing business in electric-current sensors. The company's technologies support the move away from internal combustion engines and towards electric vehicles powered by renewable energy, and ultimately away from individual car ownership to shared self-driving vehicles. Ninety One expect the number of ultrasonic sensors per car to more than double as the transport system moves towards autonomous cars. Infrared sensors, meanwhile, are used to automatically switch off household appliances to conserve energy. Nippon Ceramic believes it has a leading market position in Japan in electric-current sensors for electric vehicles.

Nippon Ceramic's returns and margins have been slowly improving over the last five years, driven by automation and growth in higher-margin products. However, returns continue to be depressed by a very inefficient balance sheet (c.40% of the market capitalisation is cash), something Ninety One continued to discuss with management, but have seen no evidence of progress.

Ninety One continued to engage on carbon disclosure (Scope 1, 2 & 3 and carbon avoided), but progress was disappointing. They believe that if the company had reported these data points it would have encouraged further investments in these areas and helped address the capital allocation concerns. Their engagement on gender diversity was also somewhat disappointing, with no meaningful progress on appointing women to management positions or the board. As a result of this, and given the slower progress on revenue growth and returns than Ninety One would have hoped for, after reducing the position they sold out in June 2022.

Principle 12: Exercising rights and responsibilities

Voting

The Trustee believes that voting is an important investor right and responsibility. Through EOS and certain investment managers, the Scheme seeks wherever practicable to vote responsibly on every resolution at all meetings of companies it is invested in. Voting is regarded as an important constituent of the Scheme's stewardship and as a means of achieving positive change. The use of voting rights attached to shares held by the Scheme are appropriately aligned to its overall responsible investment policies and objectives.

The Trustee expects EOS and the Scheme's investment managers to make voting recommendations based on the unique circumstances of each company taking into account local best practice and regulation. Voting should be undertaken pragmatically and in pursuit of positive change. The purpose of the vote is to achieve beneficial change in company behaviour or to register dissatisfaction. Whenever practicable, the Scheme, through EOS and the investment managers, seeks to communicate with portfolio companies in advance of casting a vote against management to explain the Scheme's rationale and to seek to change the company's position. Where a vote against management is cast, communication should be continued with the company to explain the voting action and to discuss possible solutions to avoid a recurrence.

The Trustee's stewardship policy details how the Scheme carries out its voting which is delegated to EOS and the investment managers. CPTI, on the Scheme's behalf, is also able to influence the voting policies of the investment managers and EOS through dialogue and other feedback channels. The stewardship policy is published on the Scheme's website at the following link:
https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing.

The Scheme will typically follow the voting recommendation made by EOS where this has been delegated to them although the Scheme retains the right to vote differently. This is facilitated through the ISS ProxyExchange voting platform, in accordance with the Scheme's own policy. The process differs for each investment manager. Where the Scheme is invested through a pooled fund, the Scheme does not have the right to change the investment managers vote but CPTI, on the Trustee's behalf, engages with the investment manager on their voting policy and decisions. CPTI monitors the voting done by EOS and the Scheme's investment managers by looking at how they have voted on specific resolutions particularly in relation to board diversity, remuneration and climate. As referenced in principle 9, CPTI engaged with EOS and a number of the Scheme's investment managers in 2022 on their voting policies as well as covering the rationale for decisions on specific resolutions.

Although CPTI delegates a significant portion of the Scheme's stewardship activities to EOS, CPTI has asked three of the Scheme's active equity managers to retain voting responsibilities. It is important for CPTI, on behalf of the Scheme, to understand how EOS (CPTI's third party voting and engagement provider) and the other three equity managers are exercising voting rights and if this aligned with the Trustee's policy.

In 2022, CPTI engaged an investment consultancy, Redington, to help gain a better understanding of the Scheme's voting. This assessment was delivered in the form of voting activity reports that analysed all voting activity over 2022. CPTI worked with Redington to undertake a deep dive of the Scheme's voting agents' activities. The areas CPTI asked Redington to review, and the corresponding expectations and insights are:

- Trends in voting behaviour
- Voting compared to proxy recommendations
- Substance of a manager's voting policy and how this has been implemented
- Outcome of policy referrals on particular resolutions
- Instances where votes were not placed and the corresponding rationale
- Votes at significant issuers
- Other significant votes

Through this assessment, CPTI worked with Redington to better understand where the Scheme's voting agent's activities were strong, and where there was room for improvement. CPTI have since used these insights to engage with the Scheme's voting agents to hold them to account for their practices and challenge them to improve where any deficiencies have been found. Example engagement topics so far have included where a voting agent has failed to exercise all voting rights, to understand the rationale for where the voting agent has voted differently to a large number of shareholders on high profile votes, and where a voting agent has appeared to overly rely on a proxy adviser's recommendation. The Scheme's voting agents have so far been receptive to CPTI's comments, and CPTI intend to undertake another voting assessment over 2023 to see if there has been an improvement in voting activities.

In reaching voting recommendations, EOS takes account of its own regional voting guidelines which have been reviewed by CPTI and can be found at https://www.hermes-investment.com/stewardship/eos-library/.

Summarised historic voting information is publicly available at https://www.bcsss-pension.org.uk/about-your-scheme/responsible-investing. Information is disclosed quarterly in arrears to avoid compromising dialogue with companies in the portfolios, whilst being fully transparent and accountable. The table below summarises the Scheme's voting record in 2022 from EOS and the investment managers who vote on the Scheme's behalf.

Investment manager	Resolutions eligible to vote	Percentage of resolutions voted	Percentage of voted resolutions against management	Percentage of resolutions abstained
EOS	20,989	98.1%	15.4%	2.1%
Ninety One	340	98.5%	4.5%	1.2%
Schroders	1,130	98.4%	2.3%	0.2%
Green Court	1077	94.5%	10.7%	0.3%

Summarised overleaf are the votes where the Scheme has voted against management or abstained, split by resolution category, across the investment managers that continue to vote on behalf of the Scheme and also at the Scheme level.

Resolution Category	EOS	Schroders	Ninety One	Green Court	BCSSS Total
Routine Business	15%	10%	17%	5%	14%
Director Related	47%	39%	32%	20%	46%
Capitalization	8%	23%	20%	17%	9%
Company Articles	4%	1%	4%	0%	4%
Compensation	10%	8%	13%	6%	10%
Audit Related	5%	12%	5%	25%	6%
Other	11%	8%	8%	27%	11%

The below case study is an example of EOS recommending a vote against management at TotalEnergies on the Scheme's behalf.

Case Study: TotalEnergies annual shareholder meeting

EOS recommended voting against the advisory resolution at TotalEnergies' 2022 AGM, which was seeking non-binding approval of the 2022 Sustainability & Climate Progress Report. This recommendation was based on EOS' view that the company's current progress in reducing emissions and improving the ambition of its targets does not provide sufficient assurance that the company’s plans are substantially aligned to the goal of the Paris Agreement to limit climate change to 1.5°C. In particular EOS noted:

- The lack of appropriate global short- or medium-term targets for the absolute reduction of Scope 3 greenhouse gas emissions.
- The determination of misalignment to a selected 1.5°C benchmark pathway of the company’s short- and medium-term emissions reduction targets for the carbon intensity of energy products sold, as determined by the Transition Pathway Initiative and reported in the Climate Action 100+ benchmark.

Stocklending

The Scheme has an active stocklending programme but has always been ready to recall stock from a loan where it appears that this would be an appropriate way to safeguard the Scheme’s financial interests. Towards the end of 2021 a stocklending recall service was implemented aiming to recall all stocks where possible on loan for voting. The solution was active from the beginning of January 2022 and has been effective so far in allowing the Scheme to exercise the majority of its votes.

Fixed income

Whilst EOS engage on the Scheme’s behalf on public fixed income, the Scheme’s public fixed income investment managers have an important stewardship role. Recently CPTI have been in discussions with the managers to understand some of the differences between credit and equity engagement in more detail. Whilst both do seek to achieve similar ESG goals there are significant differences in terms of escalation process. CPTI is working with the managers to identify best practices and what more they can do going forward as good stewards of the assets.

Private Markets

In private markets, investment managers may directly control the companies, assets and properties invested in. As such their ability to influence these is often significant. The Trustee expects the Scheme’s investment managers to actively manage the assets, maximising opportunities and minimising risks around material environmental, social and governance factors. CPTI, on behalf of the Scheme, is responsible for overseeing and engaging with the appointed investment managers both directly and through appointed consultants, encouraging best practice in relation to stewardship, and communicating expectations for reporting on progress and the outcomes of engagement and voting activities. CPTI seeks to exert influence through its ongoing dialogue with its investment managers, by taking active roles on advisory boards and through broader asset owner collaborations. Advisory boards provide a method of collaboration with other investors within the same private asset pool.

For private debt, whilst investing in debt does not give managers direct control or voting outside of distressed situations, debt holders still have significant opportunity and responsibility to engage. Debt investors have significant influence when deciding whether to participate in future debt issuances, both in relation to the cost and lending terms of loan agreements. Particularly in the case of new lending, managers also have the opportunity to introduce covenants in relation to material ESG risks.

The examples for private equity, real estate and infrastructure in principle 7 show how the Scheme has addressed stewardship in 2022 across private market assets.

Signed by the Chair of Coal Staff
Superannuation Scheme Trustees Limited