

Responsible Investment policy

The purpose of this policy is to set out the Trustee's Responsible Investment beliefs and principles, and to detail the approach it is taking to fulfil its commitments.

The effective date of this policy is December 2022.

Introduction

The GKN Group Pension Schemes No. 1, No. 2, No. 3, and No. 4 (collectively, the "Scheme") are long-term investors. The fiduciary duty of the Trustee is to act in the best financial interest of members of the Scheme, seek the best investment return that is consistent with a prudent and appropriate level of risk and make sure that the benefits promised to members are provided.

The Trustee seeks to fulfil its statutory duty which requires it to consider Responsible Investment ('RI') in its investment strategy and governance decisions.

The Trustee considers Responsible Investment to be the integration and consideration of environmental, social and governance ('ESG') issues into both initial asset investment decisions and then ongoing asset ownership practices.

The Trustee recognises that, as a long-term investor, it (and, by extension, the appointed Fiduciary Manager, underlying Investment Managers, and Investment Advisor) should incorporate ESG risks into its investment decision making process, as the long-term value of investments may be negatively impacted if these risks are not understood or evaluated properly. When referring to ESG issues, the Trustee considers financially material considerations (including climate change).

In developing the Scheme's approach to RI, the Trustee seeks to understand and manage ESG considerations to which the Scheme is exposed, to the extent that these may impact on the Scheme's asset portfolio or overall strategy.

This policy sets out the Trustee's beliefs, expectations and approach to RI, including actions taken on behalf of members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Scheme from ESG-related risks.

Responsible Investment Principles

The Trustee has discussed and agreed consensus beliefs and principles relating to RI. These beliefs and principles form the basis of its policy and are set out below.

- **Fiduciary duty:** Consistent with its fiduciary duty to act in the financial interests of the members of the Scheme, the Trustee recognises the important role to play in incorporating ESG factors in investment decisions and enhancing the long-term value of the Scheme's assets through active ownership.
- **Long-term outlook:** The Scheme will invest in a manner that is consistent with the appropriate long-term outlook. Accordingly, service providers, including the Fiduciary Manager and underlying Investment Managers, are expected to make decisions with long term ESG factors in mind.
- **ESG integration:** Incorporating ESG factors in investment decisions may lead to better long-term risk adjusted returns and the Trustee accordingly expects the Fiduciary Manager and underlying Investment Managers to monitor the ESG risks and opportunities relevant to the Scheme's investment strategy.
- **Climate Change:** The stability of the Earth's climate is a key priority of the Trustee. Climate change as a risk factor will feature with increasing prominence in investment strategy reviews and engagements with underlying Investment Managers across all asset classes.
- **Social and Environmental Impact:** The Trustee believes it has a duty to seek a wider / additive societal and environmental impact with the Scheme's investments.
- **Stewardship:** Communicating opportunities for better strategies, processes, and resolutions at various levels in the investment chain will lead to better long-term risk adjusted returns. Accordingly, the Trustee expects the Fiduciary Manager to monitor and engage with the underlying Investment Managers to positively influence engagement activity and outcomes.
- **Exclusions:** Where practical given the constraints of pooled funds, the Trustee will consider exclusions from the most harmful or controversial companies as part of an escalation strategy in the event that an engagement first approach does not yield / is not anticipated to yield sufficient progress.
- **Transparency and Reporting:** As ESG factors become increasingly material, the Trustee recognises that its members may have an interest in how RI is reflected through the Scheme's investment strategy. The Trustee publicly discloses Scheme stewardship activity on an annual basis and regularly reviews opportunities to improve reporting over time, via the fiduciary manager and investment advisor.
- **Industry Initiatives:** To facilitate positive change, the Trustee will consider aligning to and supporting recommendations from industry initiatives.

Aon comment

Further information and training will be necessary to support discussion on net zero commitments and how other peer pension schemes are incorporating climate considerations into their actions.

Aon will provide updates on this important area.

- **Commitment:** The transition to a low carbon economy, sustainability revolution and other megatrends will continue to be key themes of action in the future, the Trustee will seek to remain abreast of developments in this fast-moving area to facilitate better informed decision making.

RI approach

The Trustee takes the important steps and follows the procedures below in order to ensure its investment strategy is aligned with its beliefs and principles toward RI.

Trustee decision making

The Trustee aims to integrate consideration of ESG issues throughout all aspects of its investment decision making process, including modelling and setting investment strategy and monitoring the Scheme's Investment Managers. The Trustee is supported in these aims through regular and ongoing input from, and engagement with, the Fiduciary Manager and the Investment Advisor.

The Trustee believes the Fiduciary Manager should not apply personal, ethical or moral judgments when making investment decisions, and should instead remain focused on the primary objective of acting in the best financial interests of the Scheme's members. The Trustee expects the Fiduciary Manager to consider the availability, suitability and depth of conviction in an idea or strategy prior to investing and take into account the expected cost versus potential benefit from a member perspective in line with its fiduciary duty.

The Trustee undertakes periodic training on RI to understand how ESG factors, including climate change, could impact the Scheme's assets/liabilities and members' retirement outcomes.

ESG risk monitoring and assessment

The Trustee's processes to monitor and assess ESG-related risks and opportunities include the following:

- The Trustee's Fiduciary Manager monitors the Scheme's underlying Investment Managers on an ongoing basis, including the collection of detailed due diligence on ESG integration approach of the most material managers of the Scheme. The Trustee, with the advice from its Investment Adviser, discusses and monitors the ESG integration approach of the underlying Investment Managers on an ongoing basis together with the Fiduciary Manager.
- The Trustee recognises that developments will continue in this area. The Trustee asks its Investment Advisor to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- At least as part of each formal triennial investment strategy review, the Trustee will specifically consider RI issues, including the merits of strategies which seek to generate not only positive financial returns, but also seek to make a wider positive impact on society.

- The Trustee includes ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring.
- With support from its Investment Advisor, the Trustee will consider the approach taken to management of climate-related risks. In particular, where appropriate the Trustee will consider the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"), which has established a set of clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change.
- As part of formal investment strategy reviews, the Trustee will consider qualitative and quantitative climate change scenario analysis to review the potential risks and consider mitigating action as required.
- The Trustee expects the Fiduciary Manager to understand and implement its RI principles, beliefs and requirements.
- In the event that any underlying Investment Manager or service provider does not meet any of the expectations listed in this policy, the Trustee expects the Fiduciary Manager to engage with the respective stakeholders and encourage improvements in processes, transparency or activity as required. In extreme circumstances, where such engagements are unsuccessful in improving the practices of the underlying investment managers, the Fiduciary Manager is expected to notify the Trustee and outline their proposed next steps.

Expectations and monitoring of investment managers

- As part of its delegated responsibilities, the Trustee expects the Fiduciary Manager and underlying Investment Managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. Whilst the Trustee does not expect all the underlying Investment Managers to explicitly take into account non-financial ESG considerations, it does expect transparency on these matters in order to facilitate a full understanding of the Scheme's investments.
- *The Trustee, with the support from its fiduciary Manager and Investment Advisor, carries out a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the Principles for Responsible Investment ("PRI") alongside commentary from the Investment Advisor, can support the Trustee in identifying areas of potential ESG risk and engagement opportunities.*
- The Trustee expects the Fiduciary Manager and underlying Investment Managers to align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, it will assess with the Fiduciary Manager and Investment Advisor how the manager is implicitly aligned as part of its monitoring.

Implementation

Aon comment

Some pension schemes, with assets under management above £1bn, are within scope of the mandatory reporting requirement under the TCFD framework.

As the Scheme's aggregated assets are in excess of this threshold, it was agreed that adopting this approach was best practice and appropriate for the Scheme.

Aon will support the Scheme in readiness for this area.

Aon comment

A periodic ESG review, along with carbon intensity reporting, can be provided through an "ESG Dashboard" if this is of interest to the Trustee.

- The Trustee recognises that new investment solutions often come to market which aim to address both risks and opportunities presented by global challenges. The Trustee, with input from the Investment Advisor and Fiduciary Manager, will consider such new investment solutions (across all asset classes) that are raised and will assess the suitability of such investments within the context of the wider Scheme in discussion with its Investment Advisor.
- The Trustee expects the Scheme's appointed Fiduciary Manager and underlying Investment Managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process.
- The Trustee expects the Fiduciary Manager and underlying Investment Managers to provide their RI policies to the Trustee and the Investment Advisor periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When it looks to appoint a new Investment Manager, the Trustee expects the Fiduciary Manager to request and consider this information as part of the selection process.

Training

On a regular basis, the Trustee will receive training on relevant RI matters, not limited to evolving regulatory requirements. This will take the form of topical 'bitesize' updates on relevant areas pertinent to the Scheme and the broader market context.

Stewardship – voting and engagement

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the Investment Managers, where relevant, on the Trustee's behalf. In doing so, the Trustee expects that the Investment Managers will use their influence as major institutional investors to exercise the Trustee's rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG in their businesses.

The Trustee expects the Fiduciary Manager to monitor and engage with the Investment Managers about relevant matters (including business performance, strategy, capital structure, management of conflicts of interest, ESG and corporate governance matters) and to use its influence to ensure, where appropriate, the underlying Investment Managers

Aon comment

Trustee to consider further training or discussion of beliefs.

Aon comment

These policies are consistent with those in the SIP.

exercise voting rights and ensure the Scheme's assets are not exposed to undue risk.

The Trustee expects the Fiduciary Manager to report on the details of the underlying Investment Managers' stewardship policy and engagement activities, where relevant to their strategy, on an annual basis. Where possible and appropriate, the Fiduciary Manager is expected to engage with the underlying Investment Managers for more information.

Annual reporting which will be made available to Scheme members on a publicly available website and in the Scheme's Engagement Policy Implementation Statement ('EPIS'). Where possible, the transparency for voting should include voting actions and rationale with relevance to the Scheme.

Initiatives and industry collaboration

The Trustee recognises that collaboration with others and support of broader initiatives can be a powerful tool to influence behaviour.

The Trustee expects the Fiduciary Manager and underlying Investment Managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

The Trustee expects its Investment Advisors to keep it informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with its beliefs and principles.

Evolving its approach

The Trustee acknowledges that the Scheme's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.

The Trustee is committed to making ongoing improvements to its approach and the processes that underpin the delivery of this policy and is focused on making sure that it remains relevant and appropriate for our members.

Disclosure and reporting

The Trustee believes transparency is important. In support of this belief, it will consider its approach to incorporating this policy and its direction in engaging with members. This policy supplements additional disclosures and information available as part of its Statement of Investment Principles (available at the following link: <https://uat.gknpensions.co.uk/index.html>).

The Trustee will review this policy annually, as part of each formal triennial investment strategy review, or as required in response to changing regulations or broader governance issues.

Approved by the Trustee of the GKN Group Pension Scheme

Aon comment

Please let us know if you would like any further details on industry initiatives. Joining Aon's Responsible Investment Network, which provides virtual and in-person roadshows, events and training sessions, along with updates on relevant market developments, may be of interest to some or all of the Trustee.

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