The People’s Pension Scheme
Statement of Investment Principles

September 2020
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1. Introduction

1.1 This Statement of Investment Principles (SIP) has been prepared by The People’s Pension Trustee Limited (the Trustee), the Trustee of The People’s Pension Scheme (the Scheme).

This statement sets down the principles which govern the investment decisions that enable the Scheme to meet the requirements of relevant regulations currently in force (including:

- The Occupational Pension Schemes (Investment) Regulation 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015 as well as to reflect the Government’s Voluntary Code of Conduct for Institutional Investment in the UK.
- The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

1.2 The Trustee has consulted a suitably qualified person by obtaining written advice from Barnett Waddingham LLP, the Trustee’s investment consultants. Barnett Waddingham are authorised and regulated by the Financial Conduct Authority.

1.3 The Trustee will review this statement at least every three years or if there is a significant change in any of the areas covered by this statement or in the profile of the Scheme’s membership. The Trustee will take expert investment advice and consult with the founder of the Scheme (as the nominated representative of the employers of the Scheme) over any changes to the SIP.

1.4 The powers of the Trustee are set out in Clause 51 of the Definitive Trust Deed and Rules, dated 25 May 2018. This statement is consistent with those powers.

2. Choosing investments

2.1 The Trustee’s policy is to offer a default investment arrangement plus a core range of investment funds suitable for the Scheme’s membership profile. Details of these are given in appendix 1. In doing so, the Trustee considers the advice of its professional advisers.

2.2 The Trustee carefully considers its investment objectives, shown in appendix 1, when designing the range of investment options to offer to the Scheme’s members. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings. Therefore, while seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the Scheme.

2.3 The day-to-day management of the Scheme’s assets is delegated to the Scheme’s investment manager State Street Global Advisors. The investment manager is authorised and regulated by the Financial Conduct Authority and is responsible for stock selection and the exercise of voting rights.

2.4 The Trustee reviews the appropriateness of the Scheme’s investment strategy on a continual basis. This review includes consideration of the competence of the investment manager with respect to its performance within any guidelines set.
3. Investment objectives

3.1 The Trustee has discussed and agreed key investment objectives in light of an analysis of the Scheme’s membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out in more detail in appendix 1.

3.2 The default strategy is designed to be appropriate for the average member considering membership demographics and risk tolerance. It aims to balance the risk and expected return over the lifetime of a member.

4. The kind of investments to be held

4.1 The Trustee is permitted to invest in a wide range of assets including equities, bonds, cash, property, derivatives and alternatives, subject to complying with relevant legislation.

4.2 In practice, the kinds of investments held by the Trustee depend upon the investment strategy of the relevant fund. Details of these are given in appendix 1.

5. The balance between different kinds of investments

5.1 The Trustee has made available a range of investment profile options. Through these options, members’ assets are automatically invested in line with a pre-determined strategy that changes at different stages of membership. For example, whilst a member is a long way off accessing their retirement savings, emphasis is placed on medium to higher risk funds (ie - investment largely in growth assets such as equities) in search of long-term, inflation-protected growth. As the member’s target retirement date approaches, their retirement savings are progressively switched to hold a larger proportion of lower risk assets so as to protect the value of their savings.

5.2 Members can choose to invest in any of the funds detailed in appendix 1 or can elect to invest in a lifestyle strategy. Where members don’t choose where their contributions and those made on their behalf by the employer are invested, the Trustee will invest these contributions according to the default investment strategy set out in appendix 1.

5.3 The Trustee considers the merits of both active and passive management for the various elements of the Scheme’s portfolio and may select different approaches for different asset classes.

5.4 The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.
6. Investment risk

6.1 Risk in a defined contribution scheme sits with the members themselves. The Trustee has considered members’ circumstances and considered ways of managing risks when designing the investment strategy for the Scheme. Details of this are given in appendix 1.

6.2 A comprehensive list of risks is set out in the Trustee risk register. The main investment risks affecting all members and the ways the Trustee measures and manages these are listed below.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation risk</td>
<td>The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the member’s retirement savings</td>
<td>The Trustee makes available investment options that are expected to provide a long-term real rate of return.</td>
</tr>
<tr>
<td>Conversion risk</td>
<td>The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the amount likely to be received.</td>
<td>In the investment profile options made available through the Scheme, the Trustee changes the proportion and type of investments so that in the run up to retirement the investments gradually start to more closely match how the Trustee expects members to access their retirement savings. The Trustee keeps under review the appropriateness of the strategies. The Trustee also makes available alternative funds which members may select to better suit their own circumstances.</td>
</tr>
<tr>
<td>Retirement benefit risk</td>
<td>The risk that a member’s retirement benefit falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid.</td>
<td>The Trustee periodically reviews the appropriateness of the investment options offered to ensure member outcomes can be maximised. The level of contributions is outside the Trustee’s control.</td>
</tr>
<tr>
<td>Risk</td>
<td>Description</td>
<td>Mitigation</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Investment manager risk</td>
<td>The risk that an investment manager underperforms against the benchmark which they’re assessed against in the long term</td>
<td>The Trustee monitors the performance of the Scheme’s investment manager on a regular basis, through performance information and regular meetings with them. The Trustee has a written agreement with the investment manager, which contains a number of restrictions on how the investment manager may operate.</td>
</tr>
<tr>
<td>Market risk</td>
<td>Market risk refers to the risk that an investment may fall in value due to fluctuations in the market.</td>
<td>The investment manager is expected to invest in properly diversified portfolios and to spread assets across a number of individual shares and securities.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Some of the funds made available to members by the Trustee can invest in overseas assets which will be denominated in currencies other than Sterling. There is, therefore, a risk that the relative movements of Sterling and other currencies lead to losses (or gains) in the value of the investment.</td>
<td>The Trustee monitors the impact of currency risk on the portfolios. The currency exposure associated with a proportion of certain assets held is hedged back to Sterling to reduce the potential impact.</td>
</tr>
<tr>
<td>Operational risk</td>
<td>The risk of fraud, poor advice, errors, administrative failure or acts of negligence.</td>
<td>The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.</td>
</tr>
<tr>
<td>Environmental, Social and Governance (ESG) risk</td>
<td>ESG risks can have a significant effect on the long-term performance of assets held by the Scheme.</td>
<td>The Trustee has a policy on responsible investment that addresses how these risks should be managed. This is included in appendix 2.</td>
</tr>
<tr>
<td>Index selection risk</td>
<td>The risk that an inappropriate index is selected.</td>
<td>The Trustee takes advice from regulated advisers when making investment decisions.</td>
</tr>
</tbody>
</table>
7. Expected return on investments

7.1 The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustee is advised by its professional advisers on these matters. However, the day-to-day selection of investments is delegated to the investment manager.

7.2. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

8. Realisation of investments

8.1. The Trustee has delegated the responsibility for buying and selling investments to the investment manager. This role includes considering the liquidity of the investments in the context of the likely needs of members and the payment obligations of the Scheme.

9. Financially material considerations

9.1 The Trustee believes that environmental, social and governance (ESG) factors can affect the performance of investment portfolios and should be considered as part of the Scheme’s investment policy.

9.2 The Trustee’s policy on responsible investment (appendix 2) outlines its approach to ESG factors and whether or not they are considered financially material.

9.3 ESG factors are integrated into the portfolio when they are believed to positively affect return or negatively affect risk characteristics by a material amount. Integration may mean using the ESG factor to influence the weights of securities, sectors or asset classes held in a portfolio.

When an ESG issue is identified that negatively affects a small number of potential investee companies, the Trustee will consider if a wholesale exclusion from the Scheme’s portfolios might be suitable.

If a factor can’t be addressed by exclusion or integration, the Trustee will consider how this could be addressed by engagement with investee companies.

9.4 The Trustee relies on the expert opinion from the Intergovernmental Panel on Climate Change (IPCC), United Nations Framework Convention on Climate Change (UNFCCC), Committee on Climate Change (CCC) and UK government and regulators in concluding that climate change poses a material financial risk to member investment values. Whilst the scientific evidence is compelling, we acknowledge that there is still debate about the politics and process of addressing climate change, which will reward or harm different strategies.

9.5 The Trustee has agreed a Climate change policy (appendix 3) as climate change is likely to be the most financially material of the ESG issues as it will affect every business sector and geographical area.

9.6 The Trustee has a fiduciary duty to consider all material financial risks when making all investment decisions and makes no distinction in this between the default and self-select funds. In fulfilling this duty, the Trustee also expects its investment managers to take account of all financially material considerations, over an appropriate time horizon of the investments, when selecting, retaining and realising investments. This includes, but is not limited to, ESG factors (including but not limited to Climate change) where these are considered relevant financial factors. We receive, review and publish reports from our investment managers on the steps they take on our behalf including voting and engagement.

Further detail on how this approach is implemented in practice is set out in appendix 2 (Policy on responsible investment) and appendix 3 (climate change policy).

The Trustee recognises its duty to act as a fiduciary for the members extends to all funds. As such, ESG risks including climate change must be managed across all member options as far as possible, recognising the greatest scale and ability to influence investments lies in the default funds.
10. Non-financial factors

10.1 The Trustee believes that non-financial factors should be considered when selecting, retaining and realising investments where this is consistent with the Trustee’s key objective to enable members as a whole to provide adequately for their retirement. By ‘non-financial factor’ we mean the views of members and beneficiaries, including (but not limited to) their ethical views and their views in relation to ESG factors and the present and future quality of life of the members and beneficiaries of the scheme.

10.2 The Trustee engages with members on their investment priorities through surveys available online and by telephone. These surveys include questions concerning ethical and ESG factors.

10.3 Where exposure to a non-financial factor has no apparent effect on portfolio risk or return characteristics, the Trustee would consider possible routes of screening this issue from the portfolio if they consider members likely to find it concerning that such investments are made.

10.4 The Trustee has agreed a Policy on responsible investment (appendix 2) that outlines its approach to ESG and ethical factors and whether or not they are financially material.

10.5 The Scheme also offers members self-select funds, such as the Ethical Fund and the Shariah Fund, which allow them to invest in accordance with their views.

11. Voting rights, corporate governance and engagement principles

11.1 The Trustee expects its investment managers to vote and engage with companies and other relevant persons in global markets. This protects and promotes good standards and practice and helps to safeguard long-term economic value for our members. The Trustee has access to regular reports from our core investment managers on how they vote and engage with the companies we invest in through them.

The Trustee accepts that pooled vehicles will be governed and constrained by the individual investment policies of the investment manager. However, the Trustee recognises the important role it has to influence positive ESG standards both through voting on key policies and decisions at general meetings, and the manager’s ability to engage with boards on the Scheme’s behalf as an asset owner.

Principally, the Trustee believes the primary responsibility of the board of directors of each of the underlying companies held by the Scheme is to preserve and enhance shareholder value and protect shareholder interests.

11.2 The Trustee’s policy on responsible investment (appendix 2) includes proxy voting and engagement principles. The most likely areas the Trustee expects the investment managers to engage with companies on are:

- performance
- strategy
- the structure of company boards
- audit-related issues
- capital structure
- remuneration
- ESG-related issues.

11.3 The Trustee supports the UK stewardship code published by the Financial Reporting Council and encourages the Scheme’s investment managers to comply with the code. Such managers are expected to report on their adherence to the code on an annual basis.

11.4 The Trustee requires its investment managers to be signatories to the principles for responsible investment (PRI) and calls on all institutional participants in markets to adopt these global principles.
11.5 The Trustee acknowledges the importance of ESG and climate risk within their investment decision making framework. The Scheme invests exclusively in pooled funds at present and this policy is therefore framed around how the Trustee interacts with, monitors, and may seek to influence, the pooled fund managers. When delegating investment decision making to their investment managers, the Trustee provides their investment managers with a benchmark they expect the investment managers to either follow or outperform. The benchmarks to be used reflect the positioning the investment manager is expected to take within an investee company’s corporate structure.

The Trustee is firmly of the belief that ESG and climate risk considerations extend over the entirety of a company’s corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investments managers’ roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests. The Trustee also considers it to be part of their investment managers’ roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. The Trustee expects the investment manager to employ the same degree of scrutiny for pooled funds as if the investment had been made on a direct basis.

Should an investment manager be failing in these respects, this should be captured in the regular monitoring of the managers’ activity.

The Scheme’s investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

12. Asset manager arrangements

12.1 Prior to appointing the investment manager, the Trustee discusses the investment manager’s benchmark and approach to the management of ESG and climate related risks with the Scheme’s investment consultant, and how they are aligned with the Trustee’s own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager’s investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be materially out of line with their own investment objectives for the part of the portfolio being considered, they will consider another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the Scheme and their aims, beliefs and constraints. The Trustee monitors the investment managers’ approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustee’s desired aims, including the management of ESG and climate related risks, using the approach expected of them, the Trustee will expect to work with the investment manager to improve the alignment of their objectives. Should the collaboration with the investment manager be deemed unsuccessful by the Trustee, their appointment may be reviewed or terminated. The investment managers have been informed of this by the Trustee.

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager.
12.2 The Trustee is mindful that the impact on performance of ESG and climate change may have a long-term nature. However, they are aware that the risk associated with them may be much shorter term in nature. The Trustee has acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over mutually agreed rolling timeframes. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon.

The Trustee expects investment managers to be voting and engaging on behalf of the fund’s holdings and the Scheme monitors this annually. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short-term targets.

12.3 The Trustee monitors the performance of their investment managers over the medium to long time periods that are mutually agreed with the investment managers, and are consistent with the Trustees’ investment aims, beliefs and constraints. The investment consultant assists the Trustee in this monitoring process.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme’s Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges is considered annually.

12.4 During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. Overall performance is assessed as part of the regular investment monitoring process, which can be impacted by turnover costs.

The Trustee recognises that there are circumstances when turnover costs are unavoidable e.g. changing manager.

The Trustee recognises that turnover costs are necessary where they are incurred to ensure the Scheme remains in investments that will provide, rather than detract from performance over the long term. They are mindful that high turnover costs have the potential to adversely affect overall performance. When monitoring turnover costs both the level and reason behind them are considered and, if necessary, investigated further.

12.5 For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme’s asset allocation and its ongoing alignment with the Trustee’s investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.
13. Monitoring

13.1 Investment performance: The Trustee reviews the performance of each investment option offered through the Scheme against the stated performance objective and receives a performance monitoring report. This monitoring considers both short-term and long-term performance. The investment manager’s overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.

13.2 Objectives: The Trustee monitors the suitability of the objectives for the Scheme (appendix 1) and performance (net of fees) against these objectives at least every three years. It also does this when there is any significant change in the investment policy, underlying economic conditions or the profile of the members.

13.3 Investment choices: The Trustee monitors the appropriateness of the investment choices offered on a periodic basis.

13.4 Engagement and stewardship: The Trustee monitors the engagement and stewardship activities undertaken by the investment managers on an annual basis.

14. Agreement

14.1 This Statement was agreed by the Trustee and replaces any previous statements. Copies of this Statement and any subsequent amendments will be published on the Scheme website and made available to any participating employer, the investment manager and the Scheme auditor upon request.

Signed:

[Signature]

Steve Delo
Chair of The People’s Pension Trustee Limited

Date: 3 September 2020

On behalf of The People’s Pension Trustee Limited,
Trustee of The People’s Pension Scheme
Appendix 1


1. Scheme investment objective

1.1 The Trustee’s key objective is to enable members to provide adequately for their retirement via appropriate investment of their accumulated pension contributions.

1.2 In relation to the default option in particular, the objective is to provide an investment strategy that is intended to be suitable for a typical member.

1.3 To ensure that the expected volatility of the returns are achieved, and hence the level of volatility and risk in the value of members’ pension pots, is managed through appropriate diversification between different asset types.

2. The default option

2.1 Having analysed the Scheme’s membership profile, the Trustee decided that the investment profile set out below represents a suitable default investment option for the majority of members who don’t make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries.

The default strategy is known as the balanced investment profile.

2.2 The balanced investment profile is made up of two funds.

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Objective</th>
<th>Asset allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Investments (up to 85% shares) Fund</td>
<td>Purpose: The fund is a balanced risk long-term capital growth fund.</td>
<td>66% Equity</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation.</td>
<td>7% Infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7% Property</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5% Corporate Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5% Gilts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10% Global Fixed Interest</td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+4% per annum on a gross of fees basis.</td>
<td></td>
</tr>
<tr>
<td>Pre-Retirement Fund</td>
<td>Purpose: The fund is a low to medium risk fund which balances capital preservation and capital growth.</td>
<td>15% UK Gilts</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation.</td>
<td>15% Corporate Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16.4% Equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.8% Infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.8% Property</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20% Money Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30% Global Fixed Interest</td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+1% per annum on a gross of fees basis.</td>
<td></td>
</tr>
</tbody>
</table>

Correct at 3 September 2020
2. The default option

2.2 The investment profile gradually moves a member between the two funds depending on proximity to their retirement age (state pension age unless the member has selected otherwise), as illustrated below:

<table>
<thead>
<tr>
<th>Years from retirement</th>
<th>B&amp;CE Global Investments (up to 85% shares)</th>
<th>Pre-Retirement Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>-15</td>
<td>93.75%</td>
<td>6.25%</td>
</tr>
<tr>
<td>-14</td>
<td>87.50%</td>
<td>12.50%</td>
</tr>
<tr>
<td>-13</td>
<td>81.25%</td>
<td>18.75%</td>
</tr>
<tr>
<td>-12</td>
<td>75.00%</td>
<td>25.00%</td>
</tr>
<tr>
<td>-11</td>
<td>68.75%</td>
<td>31.25%</td>
</tr>
<tr>
<td>-10</td>
<td>62.50%</td>
<td>37.50%</td>
</tr>
<tr>
<td>-9</td>
<td>56.25%</td>
<td>43.75%</td>
</tr>
<tr>
<td>-8</td>
<td>50.00%</td>
<td>50.00%</td>
</tr>
<tr>
<td>-7</td>
<td>43.75%</td>
<td>56.25%</td>
</tr>
<tr>
<td>-6</td>
<td>37.50%</td>
<td>62.50%</td>
</tr>
<tr>
<td>-5</td>
<td>31.25%</td>
<td>68.75%</td>
</tr>
<tr>
<td>-4</td>
<td>25.00%</td>
<td>75.00%</td>
</tr>
<tr>
<td>-3</td>
<td>16.67%</td>
<td>83.33%</td>
</tr>
<tr>
<td>-2</td>
<td>8.34%</td>
<td>91.66%</td>
</tr>
<tr>
<td>-1</td>
<td>0.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>0</td>
<td>0.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
3. Alternative investment choices

3.1 The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their savings. Therefore, it’s not possible to offer a single investment option that will be suitable for each individual member.

3.2 Investment profiles

Alongside the default, the Trustee has made two alternative investment profiles available.

The ‘cautious’ investment profile uses the same basis as described above but initially invests in the B&CE Global Investments (up to 60% Shares) Fund instead of the B&CE Global Investments (up to 85% Shares) Fund.

The ‘adventurous’ investment profile uses the same basis as described above but initially invests in the B&CE Global Investments (up to 100% Shares) Fund instead of the B&CE Global Investments (up to 85% Shares) Fund.

3.3 Self-select options

The Trustee has made a number of funds available for members to self-select from. These are shown in the table on the next page.
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Objective</th>
<th>Asset allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Investments (up to 60% shares) Fund</strong></td>
<td>Purpose: The fund is a moderate risk long-term capital growth fund.</td>
<td>49.4% Equity 5.3% Infrastructure 5.3% Property 10% Corporate Bonds 10% Gilts 20% Global Fixed Interest</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+3% per annum on a gross of fees basis.</td>
<td></td>
</tr>
<tr>
<td><strong>Global Investments (up to 100% shares) Fund</strong></td>
<td>Purpose: The fund is a higher risk long-term capital growth fund.</td>
<td>82.4% Equity 8.8% Infrastructure 8.8% Property</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+5% per annum on a gross of fees basis.</td>
<td></td>
</tr>
<tr>
<td><strong>Ethical Fund</strong></td>
<td>Purpose: The fund is a higher risk long-term capital growth fund.</td>
<td>100% Global Equity</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation while screening out companies that do not exhibit high ESG standards.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+5% per annum on a gross of fees basis.</td>
<td></td>
</tr>
<tr>
<td><strong>Shariah Fund</strong></td>
<td>Purpose: The fund is a higher risk long-term capital growth fund.</td>
<td>100% Global Equity</td>
</tr>
<tr>
<td></td>
<td>Return frame: To generate returns in excess of Consumer Price Index (CPI) inflation, while investing in the largest global shariah compliant companies.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return objective: CPI+5% per annum on a gross of fees basis.</td>
<td></td>
</tr>
</tbody>
</table>

Correct at 3 September 2020
4. Governance

4.1 The Trustee of the Scheme is responsible for the investment of the Scheme’s assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has considered whether it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision-making structure:

<table>
<thead>
<tr>
<th>Overall fiduciary responsibility</th>
<th>The Board of The People’s Pension Trustee Limited (the Trustee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop and recommend changes to overall strategy to the Trustee</td>
<td>The People’s Pension Trustee Limited Investment Committee (the Committee)</td>
</tr>
<tr>
<td>Investment service providers</td>
<td>B&amp;CE</td>
</tr>
</tbody>
</table>

Correct at 3 September 2020

Members may also self-select from the Global Investments (up to 85% shares) Fund and the Pre-Retirement Fund.

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Objective</th>
<th>Asset allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Fund</td>
<td>Purpose: The fund is a low risk capital preservation fund. Return frame: To maintain the capital value of investments. Return objective: Returns equivalent to cash returns.</td>
<td>The fund invests in the short-term money markets such as bank deposits and Treasury Bills.</td>
</tr>
<tr>
<td>Annuity Fund</td>
<td>Purpose: The fund is a low risk long-term income fund. Return frame: To provide current income and low-moderate capital appreciation. Return objective: To protect against the rise in the level of annuity prices.</td>
<td>70% Corporate Bonds 30% UK Gilts</td>
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</tbody>
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</tr>
</tbody>
</table>
### 4. Governance

#### 4.2 Roles and responsibilities

<table>
<thead>
<tr>
<th>The Trustee</th>
<th>Investment committee</th>
<th>B&amp;CE</th>
<th>Investment adviser</th>
<th>Investment manager</th>
<th>Investment administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sets the structures and processes for carrying out its role.</td>
<td>• Selects and monitors the planned asset allocation strategy.</td>
<td>• Administrative and operational liaison with the investment managers.</td>
<td>• Advises on all aspects of the investment of the Scheme’s assets, including implementation.</td>
<td>• Operates within the terms of this SIP and its written contracts.</td>
<td>• Fund administration</td>
</tr>
<tr>
<td>• Selects appropriate experts to provide advice as and when required.</td>
<td>• Reviews the self-select fund range and investment profiles on a regular basis.</td>
<td>• Negotiation of fee terms and contractual terms.</td>
<td>• Advises on this SIP.</td>
<td>• Selects individual investments with regard to their suitability.</td>
<td>• Unit pricing</td>
</tr>
<tr>
<td>• Sets the structure for the implementation of the investment strategy.</td>
<td>• Monitors investment advisers and investment managers.</td>
<td>• Recommendations on generic fund options required to keep the Scheme an attractive option to participating employers.</td>
<td>• Provides required training to the Trustee.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Makes ongoing decisions relevant to the operational principles of the Scheme’s investment strategy.</td>
<td>• Scheme secretarial and reporting liaison with the investment managers.</td>
<td>• Ensures that it delivers advice that is compliant with the requirements of the Financial Conduct Authority.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Monitors investment performance and costs.</td>
<td>• The Trustee expects the investment managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this SIP so far as is reasonably practicable.</td>
<td>• Recommendations on generic fund options required to keep the Scheme an attractive option to participating employers.</td>
<td></td>
<td></td>
</tr>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>
Policy on responsible investment

November 2018

For people, not profit
Responsible investment

Our core belief
Investment decisions should reflect environmental, social and governance considerations
Policy statement

We aim to be responsible investors of our members’ assets.

‘Responsible investment’ covers just about anything that presents a major opportunity – or a genuine threat – to members’ interests that we should identify, understand and evaluate.

It’s a broad term but, in the context of a pension scheme, responsible investment requires a long-term view on delivering capital and income to members in retirement.

We set an investment strategy in the interests of our members and consider responsible investment issues where they’re material to those interests. We allocate an appropriate amount of time to assessing these issues and to the systematic, fact-based analysis that enables us to make high-quality decisions.

This fact-finding and analysis is delegated to B&CE and our independent investment advisers.

Moreover, the Trustee has an Investment Committee to govern the investments of The People’s Pension, which considers responsible investment within its terms of reference.

Process

For us, responsible investment means using three tools:

1. **Integrate**: Construct portfolios to reflect environmental, social and governance (ESG) factors that could positively or negatively affect investment returns.

2. **Screen**: Exclude companies from investment portfolios that do not meet certain minimum ethical criteria. Include companies and investments that are likely to have a positive impact on the wider society.

3. **Engage**: Work with companies in an investment portfolio about the issues that are likely to have a material impact (both positive and negative) on future returns.

These three elements guide us when we set and review investment strategy. For example, when we believe that an investment approach could impact our members’ savings, we’ll consider addressing this in our investment processes. And we’ll do this by either excluding specific named companies or reshaping portfolios. When we feel strongly about an issue, but cannot alter our portfolios to benefit members, we engage with the relevant companies on these issues.

When we make decisions like this, we evaluate:

- the expected impact on investment returns
- the likelihood of the decisions having an impact on the issue in the wider society
- the cost, transparency and investment merit of the investment options available
- how it affects the governance of The People’s Pension and its investments.

Sometimes our preferred course of action is not possible, because of scale and time. For example, we may not be able to take certain actions that might help reduce risk until we have a certain number of assets under management. This means that certain actions may not be appropriate, either now or in the foreseeable future.
Appendix 2

The People’s Pension Policy on responsible investment November 2018

But overall, we do believe that it’s good governance to try, whenever we can, to:

• ensure our research process can identify investment approaches with a positive impact on both returns and, potentially, ESG issues
• focus on proposals from our advisers that specifically benefit our members and their needs, rather than other special interest groups
• test, challenge and in some cases research any new ideas or options to make sure they’re fully appropriate for our members’ needs.

We expect these principles to remain but we do recognise the need to be flexible. Any approaches we develop and implement now may be adjusted proportionately as The People’s Pension grows and as the market develops. Greater scale may enable us to devote extra resource for engagement or to pursue alternative investment approaches. We will review this policy annually and communicate changes to our approach with members.

Definitions:

Responsible investment (or ‘RI’) helps ensure members’ money is invested in the right way. We use the three tools explained above: integrate, screen and engage.

Environment, social and governance (or ‘ESG’) refers to any issue not covered by traditional financial analysis that could impair or improve long-term investment returns. These issues can be split into a number of factors, which we list and explain on page 4. We also state our core beliefs about these factors on page 8.

Investee companies refers to the companies that issue the shares or bonds our fund managers invest our members’ money in.

Corporate governance is the way in which companies are led, managed and structured – according to UK or other national law, regulations and official guidelines.
Decision-making process

The People's Pension works with its founder, B&CE. B&CE is a not-for-profit organisation that operates (like The People's Pension) in the best interests of its customers. It has a significant level of resource and it has responsible investment duties for assets sitting outside of The People's Pension. B&CE and The People's Pension act in partnership on responsible investment and agree the broad research agenda together. However, we may take different views from each other on topics from time to time, recognising the different characteristics, membership and objectives we have.

B&CE conducts responsible investment research for The People's Pension and is a signatory to several industry groups and research organisations. B&CE experts use insight from these bodies and the wider market to form a better understanding of ESG topics and trends before raising them formally with the Trustee. We take independent advice over any investment process proposed by B&CE.

Our current responsible investment research process is described in the next section. Responsible investment, and our approach to it, is evolving so this policy is subject to change.

*Appendix 2*
1. We identify and understand responsible investment issues

B&CE communicates with companies, regulators, non-governmental organisations (NGOs) and other organisations in the investment chain.

We do this to understand the following:

- The issues we need to prioritise for research – from an investment and ethical perspective
- The most efficient and effective ways to address these issues – and we do this by collaborating with a variety of organisations
- Best practice

This generates a list of issues which we then research and build into our investment process. The Trustee reviews this list and agrees what B&CE will research as a priority.

We recognise how detailed this approach is but we believe it is important because it enables us to identify and focus on key issues.

2. We assess issues

When we identify a responsible investment issue, B&CE goes through our responsible investment framework to determine the most effective method of addressing it. This involves the following:

- A formal assessment to determine whether an investment approach to altering our portfolios could improve member outcomes
- Determining the most appropriate approach to exclusion – one that looks at just the issue in question (narrow) or one that considers a whole range of different issues (wide) – more on this in our section on ‘Exclusion and screening’

Finally, for any priority ESG issue that our portfolios remain exposed to, we’ll include the issue when we engage with investee companies and decide upon its prioritisation alongside other issues.

Here’s how we assess which approach is appropriate.

2.1 Our investment approach

Any investment approach is primarily about improving risk and return characteristics.

B&CE works with asset managers and index providers to understand and assess how their insight could help us integrate ESG factors into our investment process. Most likely this means using ESG data to tailor the indices tracked by our funds to take account of the issue.

Once an approach is identified B&CE will present evidence to the Trustee to demonstrate whether the stated approach is likely to:

- reduce exposure to the ESG issue, including how the approach affects wider ESG measures
- affect the risk and return characteristics of the portfolio.

If there’s evidence that an approach will reduce exposure to an ESG issue and improve risk and return characteristics, we’ll seek to include it in our portfolios as quickly as we can.

Where the approach reduces ESG exposure and has no apparent effect on portfolio characteristics, we would also consider including this approach. This may be an exclusion or a more complex process.

Where the approach harms risk and return characteristics, we would consider it within our exclusion process.
Appendix 2

2.2 Exclusion and screening

If we can’t address an issue through our approach to investment, we’ll consider applying exclusion or screening to the portfolio.

This consideration is only relevant to issues that don’t appear to improve risk and return characteristics. We’re very aware that excluding investments can have a cumulative effect and result in a more concentrated portfolio.

We recognise two types of exclusion:

1. Narrow issues
2. Wide issues

2.2.1 Narrow issues

Some issues affect a small number of potential investee companies – and a wholesale exclusion from our portfolios might be suitable.

These narrow issues can have a material reputational impact and/or not comply with broad social norms. An example is ‘controversial weapons’, as identified by the UN Global Compact. A narrow issue can be considered as a stand-alone exclusion.

B&CE uses ESG research from MSCI – one of the world leaders in this field – to identify and analyse a company’s involvement in major ESG controversies. This assesses adherence to international norms and principles.

MSCI ranks companies using the following scale:

<table>
<thead>
<tr>
<th>Red</th>
<th>Orange</th>
<th>Yellow</th>
<th>Green</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicates that a company is involved in one or more very severe controversies</td>
<td>Indicates that a company has been involved in one or more recent severe structural controversies that are ongoing</td>
<td>Indicates that the company is involved in severe-to-moderate level controversies</td>
<td>Indicates that the company is not involved in any major controversies</td>
</tr>
</tbody>
</table>

Where an issue has been flagged as Red, we’ll consider this as a ground for exclusion from the portfolio.

2.2.2 Wide issues

These are far-reaching and have an impact and exposure across many sectors and markets.

Current examples include pay inequality and gender diversity. Excluding companies with poor behaviour from our portfolios would result in us having a very small number of companies to invest in. Conversely, having a diversified pool of companies to invest in could limit the practicality of the a policy.
Our primary route for addressing wide issues is engagement, but we do believe in exclusion for the worst behaving companies on several issues. Here’s how we make this happen.

MSCI has assessed 37 key ESG issues:

<table>
<thead>
<tr>
<th>3 Pillars</th>
<th>10 Themes</th>
<th>37 ESG key Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Climate change</td>
<td>Carbon emissions*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product carbon footprint</td>
</tr>
<tr>
<td></td>
<td>Natural resources</td>
<td>Water stress*</td>
</tr>
<tr>
<td></td>
<td>Pollution and waste</td>
<td>Toxic emissions and waste*</td>
</tr>
<tr>
<td></td>
<td>Environmental opportunities</td>
<td>Opportunities in clean tech</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Opportunities in green building</td>
</tr>
<tr>
<td>Social</td>
<td>Human capital</td>
<td>Labour management*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Health and safety*</td>
</tr>
<tr>
<td></td>
<td>Product liability</td>
<td>Product safety and quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chemical safety</td>
</tr>
<tr>
<td></td>
<td>Social opportunities</td>
<td>Financial product safety</td>
</tr>
<tr>
<td></td>
<td>Corporate governance</td>
<td>Controversial sourcing</td>
</tr>
<tr>
<td></td>
<td>Corporate behavior</td>
<td>Access to communications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to health care</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Opp’s in nutrition and health</td>
</tr>
</tbody>
</table>

*Indicates ‘universal’ issue assessed for all companies in the MSCI World Index.

**Board, pay, ownership and accounting carry weight in the ESG rating for all companies.
The MSCI ESG ratings address four key questions about the companies in which we invest – these are as follows:

1. What are the most significant ESG risks and opportunities facing a company and its industry?
2. How exposed is the company to those key risks and/or opportunities?
3. How well is the company managing key risks and/or opportunities?
4. What is the overall picture for the company and how does it compare to its global industry peers?

One of the key things in investment is weighting – which means devoting an appropriate amount of time to a given company or issue. It doesn’t mean dividing time equally across a number of unequally sized companies. The MSCI ratings work in the same way. They look at how a company performs against the industry average, rating them somewhere between best (AAA) and worst (CCC) and this helps us build a picture of wide issues.

We use these ratings to exclude or reduce our exposure to companies with the worst ESG performance and therefore reduce our exposure to a wide number of financial and reputational risks.

This approach isn’t perfect. ESG issues will still crop up in the companies we invest member assets in. But we’re pragmatic – we address concerns about an issue in combination with other issues and acknowledge that it cannot be completely removed from a portfolio.

2.3 Engagement

When we can’t address an issue by investment approaches or by excluding specific securities from the portfolio, then we remain exposed to it.

We’re comfortable with this and handle the matter through our engagement and, where appropriate, voting with investee companies.

In practice, our engagement may take a wide variety of forms depending on how high a priority the issue is to us, the mechanisms available to engage on the issue and the views whether our investment managers believe it is a high priority issue.

In many cases, we expect and require our fund managers to vote and engage with companies across global markets to protect and promote good standards and practice. This helps to encourage behaviours that are capable of boosting the long-term economic value of our members’ investments.

Sometimes we work with other organisations. This can help us be more effective. The best example is our support for the UN-backed Principles of Responsible Investment – the world’s leading proponent of responsible investment – supported by thousands of pension schemes, investment groups and governments.

We support collaborative initiatives that are focused and well organised, and which add more power to our engagement approach.

3. Trustee review process

B&CE manages the majority of the day-to-day activity within this process, working with the Trustee to agree issues that are being worked on and strategies to address them.

We expect to work in full partnership with B&CE. But if there are any differences of opinion between the Trustee and B&CE, we’ll make a note of that in our annual statements on this policy.

4. Ongoing diligence and review

The responsible investment landscape is continually changing and more research is constantly published on many ESG issues. The way we prioritise issues and risks enables B&CE to focus on the most important ones – but we can change those priorities at any time in response to new evidence.

Similarly, we might conclude that a given issue can only be dealt with as part of our wider exclusions and engagement activity. But, even where this is the case, we’ll re-assess ESG issues every 3 years to help us ensure we draw the right conclusions.
Appendix 1: Passive management – engagement principles

We measure our managers against the following principles.

We’re an increasingly active owner – influencing both investee companies and the policies our asset managers use.

We expect our managers to...

- **be transparent and accountable by**
  - engaging in dialogue, honest evaluation, continuous enhancement and increased transparency of their stewardship practices.

- **enhance and evolve ESG practices in markets by**
  - applying higher voting standards where governance practices do not meet global investor expectations
  - identifying clear engagement priorities that focus on sector, thematic and/or market specific issues
  - collaborating with other investors when collective action is needed.

- **Develop long-term partnerships with companies and guide them through the evolution of ESG practices by**
  - engaging constructively with management/boards to bring about change in investee companies
  - publishing thought-leadership papers to inform directors on changing ESG practices
  - communicating clearly our expectations and vote rationale during engagement.

Given our commitment to high standards, we also expect our fund managers to have signed our Policy on responsible investment and to comply with the UK Stewardship Code (and relevant international equivalents, where applicable).

State Street Global Advisors (SSGA)

We have agreed with SSGA, the scheme’s core passive investment manager, that strong relationships with boards and management teams of investee companies together with the monitoring of their performance, can enhance the long-term value of our members’ investments.

On behalf of the Trustee, the Chief Investment Officer has evaluated (and will continue to evaluate) the breadth and capability of SSGA’s function, in line with the above principles.

SSGA has a team of asset stewardship professionals who help it to carry out its duties as a responsible investor. These duties include researching companies, identifying issues and then engaging with them as necessary. SSGA voting and engagement focuses on a range of themes, including the following:

- Election of Directors and Boards
- Accounting and audit related issues
- Capital structure, reorganisation and mergers
- Compensation
- Environmental and social issues

As we invest in funds alongside other investors, we recognise that SSGA’s prioritisation of issues for engagement and voting may not always be identical to ours. But we do our utmost, through regular contact with them and a formal annual engagement process, to make sure SSGA is as aligned as possible with us – now and in future.
Monitoring and reporting on responsible investment

We receive, review and publish reports on SSGA’s:

- voting activity on our behalf
- engagement activity on our behalf.

We’re also looking into ways to measure ESG risk across all of our assets under management – rather than on a case-by-case basis. Our new scoring system will enable us to report on how elements of our investment approach reduce ESG risks relative to market averages.

We provide copies of this policy, our voting and our engagement records on our website.

In 2019, we’ll produce a responsible investment report that will include the following:

- How ESG and responsible investment principles have been integrated into our investment approach.
- Ownership of activities (voting, engagement, and/or policy dialogue).
- The outcome of our responsible investment research and the steps we’re taking as a result.
- What we’re working on or discussing with other stakeholders in the interests of members.

We are working on ways to allow our members to highlight or endorse ESG issues.

Investment options

We recognise that member attitudes and view on responsible investment varies. For example, we may not engage with companies that members with money in our Ethical Fund may prefer to exclude. This fund invests passively in the MSCI World ESG Universal Index which is made up of companies that demonstrate a robust ESG profile and a positive trend in improving that profile.
Appendix 2: The People’s Pension proxy voting and engagement principles

The People’s Pension expects its fund managers to vote and engage with companies in global markets. This protects and promotes good standards and practice and helps to safeguard long-term economic value for our members.

Principally, we believe the primary responsibility of the board of directors of each of the underlying companies held by our funds, is to preserve and enhance shareholder value and protect shareholder interests.

The most likely areas we expect our fund managers to engage with companies on are the structure of company boards, audit-related issues, capital structure, remuneration, environmental, social and governance-related issues.

Directors and boards of investee companies

We believe that a well-constituted board of directors, with a good balance of skills, expertise and independence, provides the foundations for a well-governed investee company.

Director independence and succession planning, board diversity, evaluations and refreshment, and company governance practices are all useful measures of board quality. We expect our managers to vote for the election/re-election of directors on a case-by-case basis after considering these factors.

We also expect boards of FTSE-350 listed companies to have at least one female board member.

In principle, we believe independent directors are crucial to good corporate governance and help management establish sound corporate governance policies and practices. A sufficiently independent board is better placed to effectively monitor management and perform the oversight functions necessary to protect shareholder interest.

The People’s Pension expects UK investee companies to consider the following criteria for director independence:

- participation in related-party transactions and other business relations with the company
- employment history with company
- excessive tenure and a preponderance of long-tenured directors
- relations with controlling shareholders
- family ties with any of the company’s advisers, directors or senior employees
- if the company classifies the director as non-independent.

Audit-related issues

Companies should have robust internal audit and control systems to manage potential and emerging risks to company operations and strategy. The responsibility for setting out an internal audit function lies with the audit committee, which should include independent non-executive directors, where possible.

Appointment of external auditors

We believe that a company’s auditor is an essential feature of an effective and transparent system of external supervision. We also believe that shareholders should be given the opportunity to vote on their appointment or re-appointment at annual meetings.

Managers should consider voting against members of the audit committee if they have concerns with audit-related issues or if the level of non-audit fees to audit fees is significant. In certain circumstances, managers should consider auditor tenure when evaluating the audit process.

Shareholder rights and capital related issues

Issuing new shares

The ability to raise capital is critical for companies to carry out their strategy, grow and achieve returns above their cost of capital. The approval of capital raising activities is fundamental to shareholders’ ability to monitor the amount of proceeds and to ensure capital is deployed efficiently. We support capital increases that have sound business reasons and that are not excessive relative to a company’s existing capital base.

Share repurchase programmes

We generally support a company’s proposal to repurchase shares. We would make exceptions when the issuer does not clearly state:

- the business purpose for the programme
- a definitive number of shares to be repurchased
- the range of premium/discount to market price at which a company can repurchase shares
- the timeframe for the repurchase

Managers should consider voting against share re-purchase if any of these criteria are not adequately satisfied or for requests that allow share repurchases during a takeover period.

Dividends

We generally support dividend payouts that constitute 30% or more of net income. Managers may vote against dividend payouts if the dividend payout ratio has been consistently below 30%.
without adequate explanation or if the payout is excessive given the company’s financial position. Payments that are significantly out of line with previous dividend payments will be reviewed on a case-by-case basis. Attention will be paid to cases where the payment may damage the company’s long-term financial health.

Mergers and acquisitions

Company mergers or reorganisations often involve proposals relating to reincorporation, restructures, mergers, liquidations and other major changes to the corporation. We would generally expect managers to support proposals that are in the best interests of the shareholders, demonstrated through enhanced share value or by improving the effectiveness of company operations. In general, we wouldn’t expect managers to support provisions that are economically unsound or considered destructive to shareholders rights.

We would generally expect managers to support transactions that enhance shareholder value. Some relevant considerations include:

- whether premiums are offered
- strategic rationale
- board oversight of the process for the recommended transaction, including director and/or management conflicts of interest
- offers made at a premium and if there are any higher bidders
- offers in which the secondary market price is substantially lower than the net asset value.

Anti-takeover measures

We oppose anti-takeover defences such as authorities for the board, when subject to a hostile takeover, to issue existing shareholders with warrants that can be converted into shares.

Remuneration

Executive pay

The People’s Pension has a simple underlying philosophy: There should be a direct relationship between remuneration and company performance over the long term.

Shareholders should have the opportunity to assess whether pay structures and levels are aligned with business performance, including profit growth, balance sheet strength and risk management, and sustainable long-term shareholder value growth.

When assessing remuneration policies and reports, we generally expect managers to consider factors, including the following:

- Adequate disclosure of different remuneration elements.
- Absolute and relative pay levels.
- Peer selection and benchmarking.

- The mix of long-term and short-term incentives.
- Aligning pay structures with shareholder interest, as well as with corporate strategy and performance.

Equity incentive plans

We may not support proposals on equity-based incentive plans if insufficient information is provided on matters such as grant limits, performance metrics, performance and vesting periods and overall dilution. We don’t generally support options under such plans being issued at a discount to market price or plans that allow for re-testing of performance metrics.

Non-executive director pay

Authorities seeking shareholder approval for non-executive director fees are generally not controversial. So, as a rule, we support resolutions on director fees – unless disclosure is poor and we’re unable to determine whether they’re excessive in relation to fees paid by other companies in the same country or industry.

Where possible, managers should evaluate on a company-by-company basis any non-cash or performance-related pay to non-executive directors.

Risk management

We believe that risk management is a key function for boards of investee companies that are responsible for setting the overall risk appetite of that company and for providing oversight on the risk management process established by senior executives at the company.

Where possible, we expect companies to disclose how the board provides oversight on its risk management system and to identify key risks facing the company. Boards should also review existing and emerging risks that can grow or evolve with a changing political and economic landscape, or as companies diversify or expand their operations into new areas.

Environmental and social issues

We consider the financial and economic implications of environmental and social issues. In their public reporting, we expect companies to disclose information on relevant management tools, environmental and social performance metrics. We support the efforts made by companies to demonstrate how sustainability fits into their overall strategy, operations and business activities.

As far as possible, managers should evaluate risks and the shareholder proposal relating to them on an case-by-case basis. It’s important they understand that environmental and social risks can vary widely depending on a company’s industry, operation and where it’s located.

Managers should also consider opposing the re-election of board members if they have serious concerns over ESG practices and the company has not been responsive to shareholder concerns.
Taking account of ESG factors is an intrinsic part of our investment and engagement processes, as reflected in our investment belief.

Incorporating ESG factors in our investment not only has the potential to influence change in corporate behaviour, it also has the potential to generate positive returns over the long-term.

Pension scheme investments are long-term in nature and factors such as poor corporate governance or unsustainable business practices, together with other long-term risk factors such as climate change, can have a significant detrimental impact on returns. We believe it’s our responsibility to manage our investments to deliver a positive contribution to society and future generations where this does not negatively affect returns.

We believe that:

- a company’s environmental actions can signal:
  - operational efficiency: higher or lower costs
  - environmental liability: reduced or enhanced
  - revenue sources: opportunities or threats

- a company’s social behaviours can signal:
  - human capital: effective or ineffective management of people
  - product/service safety: reduced or enhanced financial and reputational risks
  - customer base: expanding or declining

- a company’s governance practices can signal:
  - decision-making: shareholder value enhanced or reduced
  - controls: reduced risk from impaired reputation or weak financial controls
  - management: better or worse performance from reaction to and implementation of change.

Investment decisions should reflect environmental, social and governance considerations.
Appendix 2

The ESG issues we’re addressing

We’re serious about ensuring our portfolios reflect beliefs held by us and our members.

We talked about prioritisation earlier on in this policy. The first order of priorities for our work are issues relating to climate change and also items identified in the UN Global Compact.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
<th>Rationale</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change</td>
<td>Carbon footprint and reserves; exposure to climate change effects; exposure to the transition to a low-carbon economy.</td>
<td>Seeking compelling evidence that specific investment approaches offer material performance improvements</td>
<td>Working with research agencies to assess how to incorporate carbon reduction metrics into portfolio construction.</td>
</tr>
<tr>
<td>Controversial weapons</td>
<td>Securities issued by companies that manufacture controversial weapons, as defined by the UN Global Compact.</td>
<td>Material reputational issue. Immaterial financial impact – a small number of investments excluded.</td>
<td>Exploring how best to introduce exclusions into the portfolio, and the effect this has on the resulting portfolio.</td>
</tr>
<tr>
<td>Asbestos mining</td>
<td>Companies extracting and processing asbestos.</td>
<td>Material reputational issue. Immaterial financial impact – a small number of investments excluded.</td>
<td>Researching how to define and monitor exclusions of companies involved in any form of asbestos processing.</td>
</tr>
</tbody>
</table>

Once this research have been completed, we have highlighted the following issues for further research.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
<th>Rationale</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender diversity</td>
<td>Balance of genders by level of seniority.</td>
<td>Seeking compelling evidence that specific investment approaches offer material performance improvements</td>
<td>Researching the impact of gender diversity on company performance. Engaging with companies.</td>
</tr>
<tr>
<td>Pay inequality</td>
<td>Distribution of pay by level of seniority.</td>
<td>Seeking compelling evidence that specific investment approaches offer material performance improvements</td>
<td>Researching the impact of gender diversity on company performance. Engaging with companies.</td>
</tr>
<tr>
<td>Board diversity</td>
<td>Composition of board appointments and decision-making.</td>
<td>Seeking compelling evidence that specific investment approaches offer material performance improvements</td>
<td>Researching the impact of gender diversity on company performance. Engaging with companies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Version</th>
<th>Document name</th>
<th>Nature of change</th>
<th>Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Version 1</td>
<td>Initial creation</td>
<td></td>
<td>01/02/2018</td>
</tr>
<tr>
<td>Version 2</td>
<td>Update</td>
<td>Reflecting changes policy and strategy</td>
<td>01/10/2018</td>
</tr>
</tbody>
</table>
To find out more, or to register:

- www.thepeoplespension.co.uk
- info@bandce.co.uk
- Or call us on:
  - Existing clients: 0333 230 1362
  - New enquiries: 0333 230 1365

The information in this document is correct as at November 2018 and may be subject to change.
Climate change policy

September 2019
Introduction

The People’s Pension (the Scheme) is a defined contribution (DC) master trust open to all UK employers. We have over 4 million members and grow by more than £1bn in contributions annually. As an open and growing master trust, we have a long-term investment outlook.

This direction is over a longer period of time than many UK pension funds, given the majority of defined benefit plans are closed. Because of this we must consider and react appropriately to all risks that are likely to be material over the long term.

We have a policy on responsible investment which outlines our approach to all environmental, social, and governance (ESG) issues whether or not they’re financially material. In the policy we highlight the need to prioritise research on ESG issues by their materiality. This policy on climate change reflects that prioritisation. We accept that climate change is likely to be the most financially material of the ESG issues as it will affect every business sector and geographical area.

Climate risks

Climate change poses a number of risks to the value of our members’ pension pots. These have the potential to compound and lead to significant permanent losses. The Bank of England’s Prudential Regulation Authority reported on three primary risk factors that are likely to materialise as the temperature rises. They are:

- **Physical risk:** These result from the potential for more frequent or severe extreme weather events (droughts, flooding, prolonged hot and cold periods) as well as the steady increase in global sea levels and changing prevailing climate. These could cause disruption to businesses holding or relying on physical infrastructure.

- **Transition risk:** These are associated with the economy moving towards a low carbon economy. Some sectors are going to require significant investment in new infrastructure or face penal incentives from government and civil society that will harm their current business model.

- **Liability risk:** These come from people or businesses seeking compensation for losses they may have suffered as a result of physical or transition risks. These may be third-party liabilities (those seeking compensation for damages of physical risks) or direct liabilities (those seeking compensation for financial losses).

While there are a number of ways to capture the range of risks, we believe these primary risks are useful and will adopt them for this and subsequent policies.

In addition to increased risk of loss, we also recognise the opportunities that will arise in businesses supporting the transition to the low carbon economy. Companies which are more successful in the research, development and scaling of climate-related technologies stand to gain in this transition. Likewise, companies with better environmental performance in their sector may lead to long-term cost savings relative to their peers. Climate risk encompasses both downside (loss) and upside (gain) events for business.
Appendix 3

Our fiduciary duty

The Trustee of The People’s Pension (Trustee) acts as fiduciary over the savings held in the Scheme. Our policy on responsible investment sets out at a high level the steps we need to undertake to carry out our fiduciary duty in respect of ESG issues.

The first step is an overall prioritisation of ESG issues to select the ones most likely to be considered to be financially material to member outcomes. Our initial focus on climate change through this policy is because we consider climate change to be the most likely to be material. The reasons for this are set out in the next section.

The second step is to research the issue and understand:
1. whether the issue is likely to affect asset values
2. whether we’ve sufficient confidence that data on companies will enable us to alter portfolios to improve member outcomes.

Where we believe the risk is material and that we’ve sufficient insight from data into how to protect or benefit member investments we’re obliged to act. This policy sets out why we’ve prioritised action on climate change and the research we’ll carry out to seek to improve member outcomes.

Where we don’t believe the risk is material, or where we don’t have confidence that data is available that will give us insight into improving returns, we can either:
1. exclude the issue from our portfolios if it affects a small proportion of our assets
2. engage with investee companies on the issue and changes we would like to see if it’s widespread.

The prioritisation of climate change risk

A greenhouse gas (GHG) is a gas that absorbs the thermal infrared radiation emitted by the Earth, warming the lower atmosphere. GHGs are generally measured in CO₂ equivalents, the quantity of CO₂ that would have the same warming potential, so that consistent assessments of temperature rises and other effects can be made.

Different gases have different warming strengths and will remain in the atmosphere for different lengths of time. Not all GHGs are equal and the finer detail of our approach may have to incorporate this point.

Human activities since the beginning of the industrial revolution have produced a large increase in the atmospheric concentration of GHGs, and CO₂ emissions are currently the highest in history. A wide range of scientific and governmental bodies have confirmed that this is the cause of the rising global temperature. Global temperature and climate risks are predicted to increase dramatically in the 21st century unless GHG emissions are reduced significantly. There is increasing consumer, corporate and regulatory pressure to shift business models in a way that allows for a smooth transition to a low-carbon economy. In response to this, numerous organisations have been established and existing organisations and regulators are now developing their own recommendations for those under their responsibility.

Intergovernmental Panel on Climate Change (IPCC)
The IPCC was formed in 1988 and is a global body of the world’s leading climate scientists. It’s a collaboration between the World Meteorological Office (WMO) and the United Nations (UN) Environment Programme (UNEP). It publishes regular reports gathering the current scientific literature reviewing climate science. Its current consensus is that global warming above pre-industrial levels should be kept below 1.5°C. The IPCC predicts that based on 2010 levels, emissions of CO₂ and its equivalents will need to decline approximately 45% by 2030 and be at net zero by 2050 to limit the warming to 1.5°C.
The prioritisation of climate change risk (continued)

The UN Framework Convention on Climate Change (UNFCCC)
The UN has convened an annual ‘Conference of the Parties’ (COP) since 1995 aiming to bring all governments around the world together to agree how to address climate change. This has resulted in a number of agreements, but the most recent and widest-reaching was the Paris Agreement signed in 2015. This is a major driving force in the conversation on how to begin to tackle climate change. The goal of policymakers who negotiated the agreement is for countries to submit carbon reduction pledges in an effort to keep global temperatures well below 2°C above pre-industrial levels.

The Committee on Climate Change (CCC)
The Climate Change Act (2008) made the UK the first country to establish a long-term legally binding framework to cut carbon emissions. It contained a target requiring emissions reductions of 80% by 2050 compared to 1990 with five-yearly carbon budgets acting as stepping stones towards this target. The Act also created the Committee on Climate Change (CCC) to advise the UK government and devolved administrations on tackling and preparing for climate change. The CCC is independent of government to ensure a long-term apolitical process is in place. Since the introduction of the CCC, there have been policy proposals globally to combat climate change and this is likely to continue. According to the CCC, as of 2017, the UK has met or is on track to meet the first three carbon budgets but not the fourth, which covers 2023-27. In 2019, based on recommendations from the CCC, the UK passed laws that contained a revised target of net zero GHG emissions by 2050. To meet the carbon budgets and an updated 2050 target, further reductions are needed which may lead to more challenging requirements on UK industries within the next few years. The CCC regularly reports on the progress made in reducing GHG emissions and has a prominent role in advising further UK strategy.

UK government and regulators
The Bank of England has highlighted the fact that climate change, and society’s responses to it present financial risks which impact upon the Bank’s objectives. The Financial Conduct Authority (FCA) has confirmed that it believes climate change to be a material factor in the financial performance of pension funds and has proposed plans to require all financial services entities to report publicly on how they manage climate risks. In addition to this, it’s consulting on how best to ensure issuers of securities disclose appropriate climate related information.

In 2018, the Department for Work and Pensions (DWP) announced plans for all trust-based schemes to be required to explain how they take account of financially material considerations including, but not limited to, those arising from ESG considerations, including climate change.

Task Force on Climate-related Financial Disclosures (TCFD)
The Financial Stability Board launched the TCFD in 2017 and proposed a list of voluntary risk disclosures in four key areas:
- governance
- strategy
- risk management
- metrics and targets.

The TCFD has over 500 supporters consisting of companies, industry associations and governments. The companies represent a broad range of sectors including financial firms responsible for assets of nearly $100 trillion as of September 2018.
Our climate change policy

The Trustee relies on expert opinion from IPCC, UNFCCC, CCC and UK government and regulators in concluding that climate change poses a material financial risk to the value of members’ savings. While the scientific evidence is compelling, we acknowledge that there is still debate around the politics and process of addressing climate change.

We acknowledge that while potentially challenging, we support the objective set through the UNFCCC, COP and IPCC processes of keeping warming compared to pre-industrial levels below 1.5°C and our policy is aligned to this objective. Likewise, we recognise the role of the IPCC in defining the emissions pathways that should achieve this target. In future, should the objective be altered by the UNFCCC or IPCC we will review this policy.

We have a fiduciary duty to consider all material financial risks when making investment decisions and we make no distinction in this between our default and self-select funds. We must manage climate change risks across all member options as best we can, recognising our greatest scale and ability to influence investments ourselves is in the default funds.

In addition to the financial costs associated with the transition to a low carbon economy, we accept that there is also a potential social cost for workers, communities, and countries as this shift takes place. We will make efforts to ensure that this social cost is shared fairly by integrating the workforce and social dimension into our processes. For this reason, we have signed the Statement of Investor Commitment to Support a Just Transition on Climate Change that has been prepared by the Principles of Responsible Investment (PRI).

Process

We’re able to approach climate risk recognising we’re a growing fund whose size is still primarily driven by contribution inflows rather than pension payments or returns. Assuming our membership stays similar in the future, this means:

- By 2030 when the IPCC states emissions need to have dropped by 45% relative to 2010 levels, we’ll have received contributions of circa £40bn compared to around £5bn today.
- By 2050 when the IPCC states the global economy needs to be not emitting any GHGs at all, we’ll have received contributions of circa £100bn compared to around £5bn today.

This means that the sooner we can research and find investments for net zero emissions portfolios, the fewer legacy assets we’ll have to deal with in achieving the IPCC’s recommended emissions pathways.

We’ve taken initial steps to reduce fossil fuel reserves and carbon intensive companies by investing in a multi-factor fund which screens out higher exposures to these, but this is only a start. We know because of our growth that we don’t need to over-react and risk financial value in the short-term, but at the same time we recognise the significant amount of research that needs to be carried out by all stakeholders to create a broad and diversified portfolio representing the whole economy with net zero GHG emissions. This is our task over the coming years.

In keeping with our Policy on responsible investment, the broad steps we intend to take are:

- research on the risks and opportunities highlighted by better data
- engage with investee companies and exchanges to ensure our data requirements are met
- progressively make low carbon investments, firstly by focussing on getting investments that could make the contribution flow into a net zero emissions portfolio. Secondly, by dealing with legacy high-carbon assets in the portfolio.

Any approach we develop and implement now is likely to need adjusting and evolve as we grow, the market develops, and as new evidence is published. We’ll keep this policy under review as our research process proceeds, and in any case every three years.

Net emissions reduction

There are several ways in which a net emissions reduction can be achieved. We will research the best option(s) for achieving this. One possibility is to apply a tilt to create a low carbon fund.

Tilting is the practice of increasing or decreasing the weighting of a specific factor within the fund compared to the parent index. An example of this would be where the index is roughly followed but there is a slightly higher percentage given to companies with low carbon emissions and a lower percentage invested in high carbon emitters.

The first step in the reduction began in December 2018 with a percentage of the portfolio being allocated to a multi-factor ESG + low carbon fund. This fund will both improve the ESG profile of the funds (climate change forms part of the ‘E’ component) and also use a tilt to reduce fossil fuel
Our climate change policy (continued)

reserves and carbon emission intensity. The low carbon tilt results in a reduction in the carbon emission intensity and potential emissions of at least 50% compared to the parent index.

Setting the timeframe
We believe it’s important the portfolio eventually represents net zero carbon emissions. However, we don’t believe that complete divestment from all carbon intensive sectors at this time would be in the best interest of our members, as it could negatively impact the eventual size of their pension pots.

We expect the portfolio to grow dramatically in the next few years and this will primarily come from contributions. In keeping with the IPCC’s current emissions pathways our current aim is that from the mid-2020s we’re able to make all future contributions into investments that have net zero GHG emissions. This will help us achieve the reduction of emissions by 45% relative to 2010 levels. As contributions go to net zero GHG emissions, this will reduce the overall percentage of the portfolio invested in companies that are high/medium GHG emitters. By reducing the carbon intensity of the portfolio in this way, it reduces the percentage of returns linked to carbon emissions and should allow for a smoother transition to a net zero emissions portfolio without some of the risks associated with mass divestment over a short period of time.

Engagement with security issuers, regulators and exchanges
There is currently a lack of disclosure of appropriate climate-related metrics in financial filings and we’ll encourage disclosure becoming mandatory for all issuers of investment products. The recommendations of the TCFD provide a useful framework for this. Obtaining consistent quantitative data on GHG emissions is currently a difficult task especially with indirect emissions that occur in the value chain (GHG Protocol’s Scope 3 emissions). Data collection methods and sources are continuously improving, and we’ll work with data providers and asset managers to gain their insight on how to best address this issue and assess how we can manage climate change risks in the most effective way to improve the overall risk and return characteristics of the portfolio.

Our engagement is, therefore, on two topics:
1. We engage with providers of data and disclosure codes on the appropriate metrics of emissions and other features of climate change risks.
2. Through our investment managers we engage with the investee companies on the actions they’re taking to address climate change risks.

As a large investor, we’re likely to be currently invested in some of the companies that have assets that are at risk of becoming stranded in a low carbon scenario. ‘Stranded assets’ are assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities. Examples of the climate change risks that could alter asset values include:
• changes to regulations
• changes in costs/prices of fossil fuels and alternatives
• evolving social norms (changing consumer demand)

We’ll look to identify those companies we believe have not taken the necessary steps that would allow them to provide sustainable financial returns in a low carbon economy and will attempt to work with them on issues that could have a material financial impact. Engagement is not always successful, and companies are not always willing to engage with shareholders on solutions to what they view as an issue. In the case of failed engagement with companies, further action may be required such as voting against current board members, reducing the amount invested, negotiating a change to the dividend, or removing them from the portfolio entirely.
Review & bibliography

We’ll review this policy at least every three years or as our research produces outputs.

