Stewardship Policy

NOW: Pensions

The future is now

1. Introduction

At NOW: Pensions we look after the pension savings of millions of members on behalf of tens of thousands of companies from a wide range of industries.

This document sets out the trustee's (here after, "NOW: Pensions") beliefs on stewardship. It has been prepared in alignment with the UK Stewardship Code.

As long-term investors, incorporating environmental, social and governance (ESG) issues and real-world sustainability impact into the investment process is integral to long-term success. Risks associated with ESG issues should be measured and managed.

We believe effective stewardship can generally improve member outcomes and so we should engage with companies, regulators and stakeholder groups, and, where applicable, use our voting power to encourage investee companies to address sustainability risks, and make progress towards our priority sustainability themes, such as, living wages, gender equality and climate action.

2. Sustainability

We believe there are compelling investment reasons to focus on sustainability. The evidence suggests integrating environmental, social and governance ('ESG') issues (including climate change) in investment decisions leads to better risk-adjusted investment returns and helps identify new investment opportunities. In other words, investing sustainably is in our savers' best financial interests.

In addition to incorporating ESG issues and real-world sustainability impact into our investment decisions, we, and our investment manager, engage with the companies in our portfolio, as well as regulators, policymakers, governments and stakeholders, with the aim of supporting them – and if necessary, in the case of the companies in which we invest, requiring them – to align with our sustainability beliefs. This is called stewardship and is an important part of our strategy.

3. Stewardship

We adhere to the UK Financial Reporting Council (FRC) definition of stewardship, which is as follows:

> **“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”**

Stewardship comprises engagement and voting:

- Engaging with governments, key stakeholders, or the management, investor relations or sustainability employees of companies in our portfolio. We define engagement as purposeful and constructive dialogue with companies on sustainability issues which may impact themselves or external stakeholders.
- Where we invest directly, exercising vote at shareholder AGMs on companies in which we invest. If necessary, co-filing shareholder resolutions on issues relevant to our beliefs. Where we invest indirectly (for example, via a third-party manager), inputting to, assessing and monitoring the investment manager’s votes undertaken on our behalf.

…engagements are conducted collaberatively, through investor-led groups or initiatives such as the Platform for Living Wage Financials or ClimateAction100+.

4. Engagement

We – and our third-party managers – conduct engagements which are proactive (initiated to discuss progress on a certain theme, material systemic risk or opportunity) or responsive (initiated after a controversy or incident has occurred and should be addressed immediately). Engagements may also focus on issues that will be subject to a vote at annual general meetings (AGMs).

Our preference is that engagements are conducted collaboratively, through investor-led groups or initiatives such as the Platform for Living Wage Financials or ClimateAction 100+.

We encourage our external managers to be involved in engagements on a wide range of sustainability topics that are relevant to our investments, but we have also defined three priority sustainability beliefs comprising gender equality, living wages and climate action. We have outlined these in further detail later in the report. We closely monitor the engagements conducted by our external managers to ensure our objectives are being met.

5. Voting

Voting is another core part of stewardship. We believe votes should be used to express our views on sustainability issues and influence how companies are governed. Voting includes using our shareholder rights to:

- Provide feedback on topics we think are relevant for the company to address by supporting shareholder proposals
- Communicate views on the oversight of material sustainability risks and opportunities by voting for or against individual board member re-election
- Escalate following an unsuccessful engagement

We believe voting in this way will have a positive long-term impact on a company's financial performance (addressing material sustainability risks and opportunities) and encourage a positive real-world sustainability impact.

Where we invest via third-party managers, we communicate our sustainability views, monitoring voting decisions and voting outcomes to determine whether votes are applied in line with our views. If necessary, we challenge our managers' voting decisions.

6. Stewardship principles

Our stewardship approach is framed around seven core principles:

1. **Quality over quantity** – we'd rather focus on a few meaningful quality engagements with strong reporting rather than the quantity of votes, prioritising the highest sustainability impact
2. **Long-term** – we always encourage long-term relationships with companies, external managers, counterparties, stakeholders and policymakers
3. **Real world impact** – our engagements focus on topics that can contribute to positive real-world sustainability impact, in particular, our three sustainability beliefs
4. **Transparency** – we always prefer transparency from our third-party managers as we acknowledge that a significant number of engagements will be unsuccessful
5. **Collaboration** – engagement is always more efficient when all stakeholders collaborate. We encourage external mangers to participate in collaboration initiatives, such as Climate Action 100+
6. **Innovation** – we consider innovation as crucial in order to mitigate the effects of climate change and welcome third-party tools to assess a company's conviction on sustainability topics
7. **Integrated** – we believe that successful stewardship should be integrated to other engagement activities, such as policy engagement

In Q1 2022, our investment manager, Cardano Risk Management Limited (hereafter, Cardano), applied an enhanced stewardship programme to NOW: Pensions' investments, in partnership with engagement provider, Sustainalytics.

7. Underlying codes and standards:

We expect the engagements and voting decisions conducted on our behalf to reference and follow international codes and standards where relevant. These include:

- **OECD Guidelines for Multinational Enterprises**
- **UN Guiding Principles on Business and Human Rights**
- **International Labour Organization (ILO)**
- **Paris Climate Agreement**
- **Taskforce on Climate-related Financial Disclosures (TCFD)**
- **Taskforce on Nature-related Financial Disclosures (TNFD)**

8. Third-party stewardship provider:

In Q1 2022, our investment manager, Cardano Risk Management Limited (hereafter, Cardano), applied an enhanced stewardship programme to NOW: Pensions' investments, in partnership with engagement provider, Sustainalytics. Sustainalytics provides a menu of engagement themes, to which Cardano subscribes.

9. Our priority sustainability themes

We focus our stewardship activities on three themes: Gender equality, living wages and climate action.

Evidence shows that new jobs occupied by women are more likely to reduce poverty.

Gender equality

We believe in the equal rights, responsibilities and opportunities of women and men, girls and boys. The Trustee also believes that gender equality is necessary for a prosperous and sustainable world, and as such is a moral and economic imperative.

Furthermore, the Trustee believes that companies that take steps towards gender equality will, on average, outperform companies that ignore gender equality or exacerbate gender inequalities.

Among other benefits, companies that take steps towards gender equality will:

- Secure a more engaged and diverse workforce, employee retention, and human capital management leading to better decision-making; and
- Be less exposed to reputational issues, with increased client and customer loyalty contributing to growth, competitiveness and productive capacity, and be less exposed to regulatory intervention, such as maternity pay or gender pay gap reporting.
- Evidence shows that new jobs occupied by women are more likely to reduce poverty.

The Trustee believes that despite increased awareness of gender equality, progress remains slow:

- The UK gender pay gap is 8.3%;
- Just 9% of Fortune 500 companies are led by women (44 of 500);
- Women have less access to financing to start a business, are subject to gender-biased credit scoring and gender stereotyping in investment valuations, and more reliant on self-financing; and
- Women are more likely to be victims of discrimination, harassment and sexual violence.

The Trustee is satisfied that the data supports the Trustee's belief that companies that take steps towards gender equality will, on average, outperform companies that ignore gender equality or exacerbate gender inequalities.

NOW: Pensions staff, on the Trustee's behalf, will use the following data sets on gender equality (and others), provided by data provider MSCI, to monitor gender equality risks and opportunities across the investment portfolio, with a focus on physical equity investments:

- Board diversity
- Workforce diversity
- Gender pay gap
- Minimum wage
- Paid overtime
- A proprietary human capital score
- A proprietary SDG 5 (gender equality) alignment score

Living wages

The Trustee believes that companies should pay workers a living wage, as set out in the Universal Declaration of Human Rights.

The Trustee uses the Living Wage Foundation's definition of a living wage, as follows: The wage rate necessary to ensure that households earn enough to reach a minimum acceptable living standard as defined by the public.

Workers across a variety of global value chains are often not afforded a living wage. Underpayment occurs when their actual wage is lower than a living wage. If this wage gap between the living wage and actual wage is bridged, it would alleviate these workers out of poverty.

The Trustee believes that the provision of a living wage could have several knock-on effects such as reducing child labour, increased access to education and other positive social impacts.

The Trustee considers living wages in both companies' direct employment, their contractors, and their supply chains.

In the UK, the minimum wage is set by the government (which it has named the "national living wage"). The "real living wage", to which the Trustee subscribes, is set by the Living Wage Foundation.

The Trustee believes that the Trustee's beliefs on living wages and gender equality are mutually reinforcing.

The Trustee believes that companies that pay a living wage will, on average, outperform companies that do not pay a living wage. Similar to gender equality, the Trustee believes that companies that pay a living wage are, on average, more likely to:

- Secure a more engaged and diverse workforce, employee retention, and human capital management leading to better decision-making;
- Be less exposed to reputational issues, with increased client and customer loyalty contributing to growth, competitiveness and productive capacity, and
- Be less exposed to regulatory intervention.

The Trustee believes that the Trustee's beliefs on living wages and gender equality are mutually reinforcing.

NOW: Pensions staff, on the Trustee's behalf, will also use the following data sets from data provider MSCI to monitor risk and opportunities associated with living wages across the investment portfolio, with a specific focus on physical equity investments:

- CEO to worker pay differential
- Minimum wage
- Paid overtime
- A proprietary human capital score

Climate action

Climate change is now a widely established and socialised concept within financial markets – as a financial risk, due to transition and climate-related transition and physical risks, and as an investment imperative, because the way we direct capital will support (or hinder) climate targets.

The Trustee believes that:

- A speedy, fair and just transition to a low-carbon economy is the only way to address this crisis. It's likely to constitute the biggest change to the current global economic system in our lifetimes; and
- Our investment portfolio should be constructed to achieve net zero greenhouse gas ("GHG") emissions by 2050, with 50% emissions reduction by 2030 based on 2019 levels. This is consistent with the Paris Climate Agreement goal of limiting global warming to 1.5°C, compared to pre-industrial levels.

To achieve our commitments, our starting point is to stay invested and have influence, rather than disinvest. That said, in the same way we judge some investments as too risky however well they perform, we will judge some investments as having too detrimental a real-world impact – especially if there are systemic issues such as climate change or respect for human rights. This means we will exclude some investments where we think the real-world impact is too detrimental (thermal coal, for example).

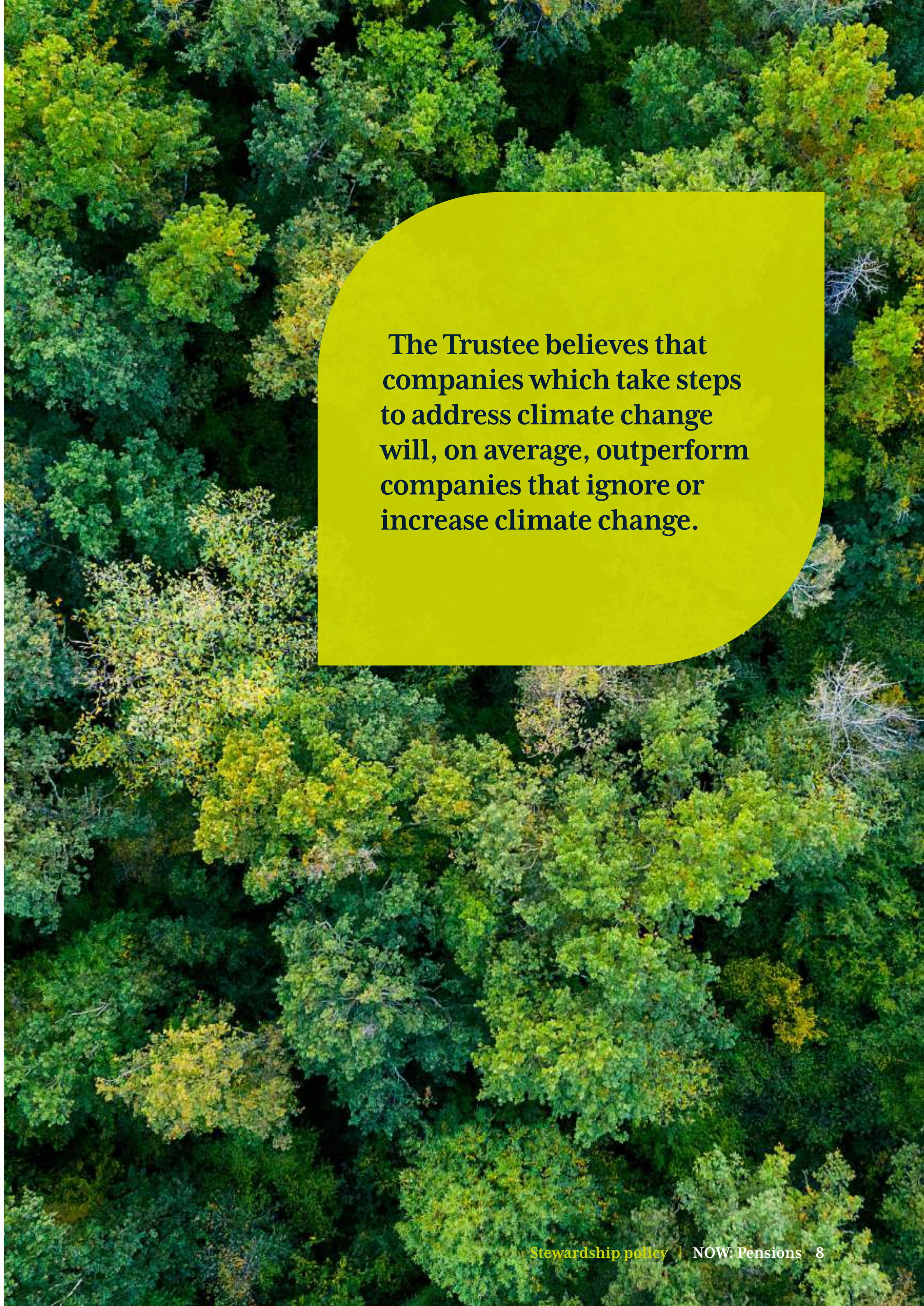
This reflects our view that climate change represents a long-term financial risk to our investment portfolio.

The Trustee believes that companies which take steps to address climate change will, on average, outperform companies that ignore or increase climate change.

The Trustee has selected three climate change scenarios: 1.5°C, 2°C and 3°C degree scenarios. Each scenario consists of a degree of warming and a measure of financial risk (we set this out as a loss to the portfolio).

When considering a company's GHG emissions we use 'EVIC' (enterprise value including cash). This helps to calculate 'financed emissions' and is used to determine a company's and portfolio's GHG emissions - in other words, the emissions the investor is financing. EVIC includes a company's market cap (or equity) and a company's issued debt.

When considering alignment, the Trustee has selected percent alignment as determined by the Science-based Targets initiative ("SBTi").



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Appendix

To support the Trustee's beliefs, NPL staff have reviewed the following data sources:

- An Institutional Approach to Gender Diversity and Firm Performance, Zhang, 2020: https://pubsonline.informs.org/doi/10.1287/orsc.2019.1297
- Corporate Social Responsibility and Firm Risk: Theory and Empirical Evidence, Albuquerque, Kroskinen, Zhang, 2018: https://pubsonline.informs.org/doi/10.1287/mnsc.2018.3043
- Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach, Flammer, 2015: https://pubsonline.informs.org/doi/10.1287/mnsc.2014.2038
- ESG and Corporate Financial Performance: Mapping the global landscape, DWS, 2015
- Financial Performance of ESG Integration in US Investing, PRI, 2018
- Global Risks Report, WEF, 2022
- https://alexedmans.com/blog/investment-strategies/does-corporate-social-responsibility-improve-firm-value/
- https://carbonaccountingfinancials.com/
- https://eige.europa.eu/gender-mainstreaming/policy-areas/economic-and-financial-affairs/economic-benefits-gender-equality
- https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf
- https://globallivingwage.org/about/living-income/
- https://shareaction.org/investor-initiatives/good-work-coalition
- https://www.bankofengland.co.uk/climate-change
- https://www.carbonbrief.org/guest-post-why-does-the-arctic-warm-faster-than-the-rest-of-the-planet
- https://www.iigcc.org/resources/net-zero-investment-framework-implementation-guide
- https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/
- https://www.livingwage.org.uk/
- https://www.oecd.org/gender/data/do-women-have-equal-access-to-finance-for-their-business.htm
- https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2022
- https://www.prnewswire.com/news-releases/8-8-fortune-500-ceos-are-women---the-highest-of-all-indices--according-to-the-women-ceos-in-america-report-2022--301630455.html
- https://www.un.org/sustainabledevelopment/gender-equality/
- https://www.un.org/womenwatch/osagi/conceptsandefinitions.htm
- https://www.unwomen.org/en/what-we-do/ending-violence-against-women/facts-and-figures
- https://www.worldbenchmarkingalliance.org/publication/gender/about/
- Sustainable Reality, Morgan Stanley, 2020
- The Impact of Corporate Sustainability on Organizational Processes and Performance, Eccles, Ioannou, Serafeim, 2014: https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2014.1984?journalCode=mnsc.

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