

now:pensions

Stewardship Code 2025 submission



Executive summary *and introduction*

now:pensions Trustee Limited (the Trustee) manages the pensions savings of millions of members on behalf of tens of thousands of employers in the United Kingdom. Our mission is to help everyone save for a more financially secure future. We believe in a pension system that benefits everyone. By highlighting inequalities and campaigning for change, we're helping people who save get the retirement and financial outcomes they deserve. In this way we contribute to creating a more sustainable society.

In June 2024, Mercer, a business of Marsh McLennan, announced that it reached an agreement to acquire the Cardano Group, which includes **now:pensions Trust Limited** (the Trust) and the transaction completed in November 2024. With this acquisition, Mercer positions itself as one of the largest pension providers in the UK and the Netherlands and a leader in advisory and investment solutions for a wide range of institutional investors including pensions, master trusts, insurers, endowments and not-for-profits, and family offices globally. **now:pension Trustees Limited** remains the Trustee to the master trust.

This stewardship submission is made on behalf of **now:pension Trust Limited** as an asset owner. There has been no change in the investment strategy or beliefs of the Trustee as a result of the acquisition by Mercer of **now:pensions Trust Limited**. We believe that the Mercer acquisition will be positive for members as the capabilities and scale of the new combined Mercer-Cardano entity is better able to deliver investment solutions to our members.

The UK Stewardship Code defines stewardship as 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.

now:pensions Trust Limited is a UK Stewardship Code signatory since 2024 and this marks our second submission to the code. We thank the FRC for their thoughtful review of our previous submission and have sought to address all of the points of feedback in this year's submission.

The UK Stewardship Code is widely recognised as the leading stewardship framework globally and we believe that UK Stewardship Code signatory status validates the emphasis that **now:pensions** places on stewardship activities in driving outcomes for our members.

now:pensions has a commitment to strong investment governance informed by a deep understanding of our members. The Trustee believes that effective stewardship includes the integration of material environmental, social and governance risks, and the assessment of the real-world impact of our investments on the environment and society. We believe that integrating sustainability perspectives enhances real-world environmental and social outcomes, helping to mitigate long-term systemic risks—those that impact the broader economy. By doing so, we aim to serve the long-term interests of members through improved returns and reduced risk.



To provide focus, the Trustee has set three priority sustainability themes that act as guiding principles for its stewardship activities:

- **Gender equality:** all individuals should have equal rights, responsibilities and opportunities;
- **Living wages:** all companies should pay their employees a living wage; and
- **Climate action:** a speedy and fair transition to a low-carbon economy is the only way to address the climate crisis.

The Trustee believes that effective stewardship can improve member outcomes. Effective stewardship involves a consistent stewardship process, executed by our investment manager, Cardano, and by any third-party manager employed by the scheme, that includes:

- engaging with the underlying companies;
- exercising our rights as owners and shareholders, such as voting at AGMs;
- escalating engagement where concerns are not being addressed through a variety of tools; including consistent consequences in our portfolios. For example, where engagement and escalation have not been effective, this may lead to exclusions.
- engagement with regulators, policy makers, third-party asset managers and other stakeholders to tackle systemic risks impacting the long-term outcomes for the economy and hence our members' financial outcomes.
- collaborative action with like-minded investors, though our investment managers will always exercise their own independent judgement when it comes to voting and portfolio decisions.

This submission covers all aspects of our approach to stewardship, including where we have made progress in recent years. The report covers the scheme year from 1 April 2024 to 31 March 2025. (Where we refer to 2024 we mean the 2024 financial year ending March 2025).

As we detailed in our previous report, during 2023 the Trustee conducted a review of our default investment strategy. This resulted in several significant changes to the strategy at the start of 2024, including moving the vast majority of the portfolio away from most of the third-party manager funds to be managed through direct investments (including in listed equity and bonds) by our in-house investment manager, Cardano, which contributed to even stronger alignment with the Trustee stewardship objectives. These changes were implemented over the first half of 2024 and this stewardship report is the first to report following the full implementation of this new strategy.

The new strategy is off to a pleasing start, demonstrating far greater alignment of the strategy with the Trustee's stewardship beliefs and priority themes as demonstrated in this report.

Following the transition of equities to be managed in-house by Cardano in Q1 2024, only a small portion of the trusts total assets are managed by third-party managers. As a result, the components of this year's submission with regards to third-party manager oversight is significantly reduced.

As we demonstrate in this submission, we take our role in engaging with companies, policy makers, regulators and the industry seriously, and we hope that these contributions will further our vision of reduced social inequalities, an improving climate outlook and a pension system that benefits everyone.

We look forward to your feedback.

Sincerely,

Joanne Segars, OBE

Chair of the Trustee Board
NOW: Pension Trustee Limited



Incorporating FRC's feedback from 2024 Stewardship Code Submission

2024 FRC feedback

The report should describe the skills and experiences held internally within the organisation in relation to stewardship. The 2023 report mentions training, however improved reporting should be more specific about how **now:pensions** have encouraged relevant training in relation to stewardship during the reporting period.

Within Principle 4's disclosure, the 2023 report identified several market-wide and systemic risks. Sufficient disclosure was provided of **now:pensions** response to these risks in the reporting period. However, it is not clear how the scheme identified these risks in the first place.

'For Principle 5, **now:pensions** should identify what policies are reviewed, who is responsible for reviewing them, and how frequently they are reviewed. In the 2023 report it explains that The Trustee monitors external managers' reporting on stewardship. However, the Trustees should also explain how they have ensured that their Stewardship Report is fair, balanced and understandable'. (Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship.)

2025 report update

Additional details have been included in Principle 2, covering:

1. The experience and expertise of key personnel, including:
 - The Head of Investment
 - The Head of Sustainability
 - The internal 25-person sustainability team
 - The internal stewardship team
 - The Head of Stewardship
2. How, and examples of, the Trustee regular updates and training received by the Trustee, supported by both the investment manager and the Head of Sustainability.

Additional information has been included in Principle 4 summarising how market-wide and systemic risks are identified.

Additional information has been provided in Principle 5 which details:

1. How frequently **now:pensions** policies are reviewed and by whom; and
2. How **now:pensions** ensures all stewardship reporting is fair, balanced and understandable.

2024 FRC feedback

For Principle 6, **now:pensions** should provide further information on the profile of their membership, including number of members in the scheme and their average age.

For Principle 8, the 2025 report – could say more about whether the in-house manager, Cardano, and the external third-party managers have met the Trustees needs and any actions **now:pensions** may have taken as a result”. (Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs. Signatories should explain how the services have been delivered to meet their needs.

OR

Signatories should explain the action they have taken where signatories’ expectations of their managers and/or service providers have not been met).

‘For Principle 12, **now:pensions** does include examples of votes taken on equity assets on their behalf in the reporting period, but these examples should note whether the resolution passed or failed in each case, and any steps to be taken in future if the result was unsatisfactory’. (For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have. **AND** – for listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months).

2025 report update

Additional information have been included in Principle 6 detailing **now:pensions**’ member base.

Following the 2023 strategy review, additional information has been provided in Principle 8 which summarises how the strategy has evolved to meet **now:pensions**’ needs. Additional detail has been provided to provide clarity on how the Trustee monitors the investment manager to ensure they are meeting the Trustee’s requirements under the new strategy.

Additional information has been provided in Principle 12 to confirm the voting outcome of a resolution and whether any further steps were taken following unsatisfactory voting results.

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Principle 1:

Purpose and beliefs



Purpose and beliefs

The purpose of NOW: Pensions Trustee Limited (hereafter, “**now:pensions**”) is to manage the pensions savings of millions of members on behalf of tens of thousands of employers, and to prioritise the needs of these members. The mission is to help everyone save for a more financially secure future. We believe in a pension system that benefits everyone. By highlighting inequalities and campaigning for change, we’re helping people who save get the retirement and financial outcomes they deserve.

now:pensions has a commitment to strong investment governance and responsibility to meet members’ needs, informed by deep understanding and analysis of member profiles.

Our priority sustainability themes

As stated in the **Statement of Investment Principles**, the Trustee believes that effective stewardship includes the integration of material environmental, social and governance risks, and the assessment of the real-world impact of our investments on the environment and society. We believe that integrating sustainability perspectives enhances real-world environmental and social outcomes, helping to mitigate long-term systemic risks—those that impact the broader economy. By doing so, we aim to serve the long-term interests of members through improved returns and reduced risk.

As stated under the Trustee’s investment beliefs below, the Trustee believes that investors are expected to be rewarded for taking investment risk by earning a return, and that this risk and return will depend upon what has been invested in. To provide focus, the Trustee has set three priority sustainability themes that act as guiding principles for its stewardship activities:

- **Gender equality:** all individuals regardless of gender should have equal rights, responsibilities and opportunities.
- **Living wages:** all companies should pay their employees a living wage.
- **Climate action:** a speedy and fair transition to a low-carbon economy is the only way to address the climate crisis.

The Trustee believes that companies that act towards gender equality, living wages, and climate action are more resilient and will outperform companies that do not. By tackling these systemically important sustainability issues, long-term systemic risks are reduced, and member outcomes will be enhanced.

The Trustee refers to the actions taken to make progress on its three priority sustainability themes throughout this Stewardship Code report.

Context: Our evolving investment approach and strategy

now:pensions offers members a default investment strategy designed to meet the needs of the typical member profile. The default investment strategy integrates a lifecycle investment approach to grow member assets and to de-risk as members progress towards retirement. At the present time no alternative member choices are generally available, though the intention is to offer member choice later in 2025.

The default investment strategy begins by investing assets in a diversified multi-asset growth portfolio (the Diversified Growth Fund) and de-risks by shifting towards a lump sum focused retirement target which invests in a portfolio of cash and bonds (the Retirement Countdown Fund). A responsible investing approach and strong stewardship practices are implemented throughout these portfolios.

The Trustee conducts a triennial investment review of its investment strategy and all portfolios. The most recent review in 2023 resulted in several significant changes to the strategy which were implemented over a transition period spanning from Q3 2023 to Q2 2024. This submission, as of 31 March 2025, therefore includes all of these changes.

From a stewardship perspective, the most significant changes to the strategy include:

- 1** A significant increase in investments with a specific responsible investing objective, increasing from a minimum of 50% to a new minimum of 75%.
- 2** This is accompanied by a very significant increase in physical equity investments (previously implemented for efficient portfolio management purposes through derivatives). This allows for, amongst other benefits, greater stewardship impact through engagement and voting.
- 3** A shift of physical equity investments from third-party investment managers to a dedicated mandate managed directly by Cardano, our in-house investment manager (see Principle 2). This change was completed in Q1 2024 and was therefore in place throughout the 2024 financial year (to 31 March 2025).

The shift of a portion of the Retirement Countdown Fund into a short-dated credit mandate managed directly by Cardano and the introduction of a Direct Credit portfolio in the Diversified Growth Fund. Both these portfolios are managed by Cardano using the same sustainable investment framework as is applied to the physical equity portfolio.
- 4** These changes give the Trustee more direct control over the investment strategy, and they can ensure alignment between their stewardship and investment priorities and the execution of the strategy.
- 5** As the vast majority of third-party manager exposure was exited in Q1 2024, this year's Stewardship Code submission reduces emphasis on third-party manager engagement. The only assets in the default strategy managed by a third-party manager are the money market assets. This is a holding in a third-party manager money market fund where we view the opportunity to influence outcomes with as limited, and as a result it no longer counts towards the 75% responsible investment target. It is possible that in future new allocations to third-party managers will be made in which case our previously described approach will again be relevant and therefore we have left reference in to how we deal with third-party managers throughout the report as a result.

Our investment beliefs

The Trustee considers the following factors as important to achieving desired investment outcomes, as articulated in the Statement of Investment Principles (SIP):

Default: The Trustee believes that for the vast majority of members, the default will be the right choice and they will stay invested in it. It is therefore the Trustee's responsibility to ensure that the default plan reflects the requirements of the membership group it is designed for. The Trustee undertakes continuous development of the default investment strategy.

Prioritising members: The Trustee believes that investment solutions should be built around members' needs, informed by analysis of their profiles and their requirements.

Strong investment governance: The Trustee believes that strong and robust investment governance improves investment performance, wider member outcomes and protects member interests. This should include clear articulation of the governance in place with oversight of key investment suppliers, including the investment manager.

Whole of life savings journey: The Trustee believes that better member outcomes can be achieved by taking a whole of life approach to members' savings journeys.

Value for money: The Trustee believes that delivering value for money is best assessed net of costs and charges. The Trustee believes there must be a healthy balance between costs and charges incurred, and the value delivered for members. To deliver better net member benefits, the Trustee focuses on value rather than just low cost.

Operational robustness: The Trustee believes that well-governed systems and processes, accompanied by accurate member data, are necessary for delivering good member outcomes.

Lifecycle investing: The Trustee believes that a default plan should reflect a member's ability to take appropriate investment risk over their savings journey to and through retirement. This is achieved with a lifecycle investment profile. The default plan, and any other plans introduced, should be appropriately structured to incorporate a member's perceived ability to take investment risk throughout their investment lifecycle. This allows for taking more investment risk during the majority of a member's lifecycle transitioning to a lower level of risk as the member gets closer to retirement.

Time horizon: The Trustee believes that how much investment risk a member can take depends on how long they have to go until they can start to take their pension savings. This means the Trustee is mindful of a member's investment time horizon, which is expected to be long-term in the growth phase, decreasing in the glidepath phase, and shorter at the retirement phase.

Member choice: Some members may choose to move away from the default plan for varying reasons. The Trustee therefore believes it may be appropriate to offer a considered range of investment solutions to meet their needs and beliefs in due course.

Communication: The Trustee believes that to help members make an informed choice, the options and consequences of changing investments need to be clearly explained.

Investment risk and return: The Trustee believes that to earn an investment return commensurate with investment objectives, members must take considered investment risk. This means investing a member's pension savings and managing risk in a robust way. The Trustee also believes that not taking enough, or taking too much, investment risk can be a material risk for members.

Financial risks: The Trustee believes that not all financial risks are rewarded equally. Over time, investors are expected to be rewarded for taking investment risk by earning a return. The risk and return will differ depending on what has been invested in, such as traditional and alternative assets, as well as a potential risk premium for illiquidity. There are also financial risks that investors are not rewarded for taking – those risks should be considered, and potentially mitigated.

Illiquidity risk premium: The Trustee believes that less liquid assets can provide an additional return to compensate for the illiquidity. We are investing for our members for the long-term and allocating a considered amount to less liquid assets can be an attractive addition to the portfolio.

Asset allocation: The Trustee believes that asset allocation is the key strategic investment decision for long-term investment outcomes. By allocating to a range of different sources of investment returns, the combined investment risks can be reduced. In the long-term, a well-diversified portfolio will be more robust and deliver a higher risk-adjusted investment return.

Financial markets: Although financial markets are largely efficient, the world is volatile, uncertain, complex, and ambiguous. The Trustee believes this means that passive management should be the starting point, but the Trustee recognises that active management and alternative investments can, under certain circumstances, add value after cost and charges, and improve member outcomes.

Responsible investment: Incorporating environmental, social and governance (ESG) factors, as well as real-world sustainability impact, and stewardship, into the investment process is necessary as a long-term investor. The Trustee believes it mitigates risks, enhances returns and is in members' best long-term interests.

Stewardship: The Trustee believes that effective stewardship can improve member outcomes, and so the Trustee, its investment manager, and its advisors, should engage with companies, regulators, and stakeholder groups. Where applicable, the Trustee's investment manager and appointed third-party manager should use their voting power to engage investee companies to address sustainability risks, and make progress towards the Trustee's priority sustainability themes, living wage, gender equality and climate action, and act on the Trustee's categorisation of 'most significant votes'.

Climate crisis: The Trustee believes that a speedy, fair, and just transition to a low-carbon economy is the only feasible way to address the climate crisis. Therefore, the Trustee believes that investment solutions should be constructed to make progress towards net zero GHG emissions by 2050, with 50% emissions reduction by 2030 based on 2019 levels, consistent with the Paris Climate Agreement goal of limiting global warming to 1.5°C.

Beliefs about effective stewardship

The Trustee believes that effective stewardship can generally improve member outcomes, and so we should engage with companies, regulators, and stakeholder groups. Where applicable, we should use our voting power to encourage investee companies to address sustainability risks, and make progress towards our priority sustainability themes, living wage, gender equality and climate action, and our categorisation of 'most significant votes'. This process delegated to the investment managers employed by the Trust.

In addition, the Trustee believes that effective stewardship is best achieved through effective collaboration with like-minded investors. This is both efficient for us as asset owners, creating a more credible voice in discussions with companies and creating economies of scale when engaging; and it is more effective for companies who can conduct fewer conversations with more experienced, thoughtful investors. While the ultimate decision on voting or ownership will always lie with us as the asset owner (or our delegated investment managers), effective collaboration with others is more likely to drive effective engagement on behalf of our members.

In line with these beliefs, the Trustee has elected (at this time) not to adopt its own voting policy. Instead, the Trustee has reviewed the Stewardship and Voting policy of our in-house investment manager, Cardano, and has focused on the alignment of the investment manager (and of any third-party manager) with the Trustee's own responsible investment beliefs. Consistency across the various parts of the investment manager's investment process is an important part of the criteria in appointing the investment manager and in monitoring the managers on an ongoing basis. All of this is explained under principle 12 in more detail.

As a result of these beliefs the Trustee has rejected the approach of 'split voting' being followed by some market participants. The Trustee believes that such an approach necessarily divorces the engagement activity of an investment manager from voting, escalation and portfolio actions and this will lead to suboptimal outcomes for members and is inconsistent with our beliefs.

How we ensure our investment beliefs, strategy and culture enable effective stewardship

There are several ways **now:pensions** implements its investment beliefs, strategy, culture and values, and enables effective stewardship, such as:

- Incorporating the UK FRC's definition of stewardship into its policy documents. Both the FRC's and the UN Brundtland's definitions of sustainability inform the investment approach.
- Engaging members and clients through surveys and interviews on a range of topics, that includes sustainability and investment, ensuring their feedback is considered in our strategies, product and service delivery.
- Campaigning and educating for fair pensions for all, as well as sustainability, are at the heart of our culture and how we run our business. For example, the **now:pensions** 2024 Gender Pensions Gap **report** looks at the causes and consequences of the gender pensions gap and what we can do to tackle them.
- Helping all save for a more financially secure future, which is our mission, is showcased through our culture and values. To bring our mission to life for employees, we held full-day conferences and workshops, as demonstrated through our 'Next Chapter' event and strategy days. These events are opportunities to learn and articulate the part all play in delivering to our clients and members.
- Conducting an internal staff survey through Peakon which tracks our culture, values and people-led activity.
- Aligning our values with Cardano Group's values, highlighted below:
 - **Client focus:** We are problem solvers, driven by our desire to provide the best outcomes for our clients and members.
 - **Making an impact:** We're dedicated to making a positive impact for a fairer society and for our planet. We make a positive impact through the work we do in our teams and individually.
 - **Doing the right thing:** We are fair and want to do the right thing for our clients and members, people and society.
 - **Working together:** We are inclusive, open, collaborative and caring. We seek diverse perspectives and value the differences and expertise of others, working together to build the best solutions.
 - **Striving for better solutions:** We're always solutions-focused – innovative, inquisitive and entrepreneurial. We encourage open debate and challenge the status quo and each other so that we can make a difference. We continually learn and share our knowledge.



- Publishing its stewardship policy and incorporating its member focus group research in stewardship decision-making.
- Publishing its priority sustainability themes: gender equality, living wages, and climate action.
- Appointing the in-house investment manager and third-party manager on the basis of the consistency of their voting and stewardship policies, as well as collaborative approach with the Trustee beliefs.
- Engaging governments, key stakeholders, and companies on its priority sustainability themes, both proactively and responsively. This is evidenced throughout this report and includes:
 - engaging with companies through the in-house investment manager and third-party manager;
 - engaging in policy activities such as publishing Gender Pensions Gap reports, responding to the FRC stewardship code consultation or the Transition Plans Taskforce consultation and supporting industry calls for more proactive stewardship; and
 - participating and supporting a range of sustainability and stewardship initiatives.

- Engaging in advance, and monitoring in arrears (and if necessary, taking action), on the voting activities of the investment manager and third-party manager. This is evidenced in Principle 12. The Trustee believes its approach ensures that the investment manager conforms closely to standards consistent with its beliefs and priority sustainability themes.
- Being a signatory of the United Nations Principles for Responsible Investment (UN PRI) and member of the Institutional Investors Group on Climate Change (IIGCC), where both organisations support effective responsible investment implementation.
- Participating in or supporting the investment manager's participation in collaborative, investor-led groups, or initiatives such as Climate Action 100+, ShareAction's Good Work Coalition, and PRI's stewardship initiative for nature: Spring.

The Trustee believes that it has effectively aligned its investment strategy and stewardship activities with its investment beliefs, prioritising long-term value creation and active engagement to service the best interests of members. This is evidenced throughout this report and other reports, such as the Task Force on Climate-Related Financial Disclosures (TCFD) report, published on the **now:pensions** website.

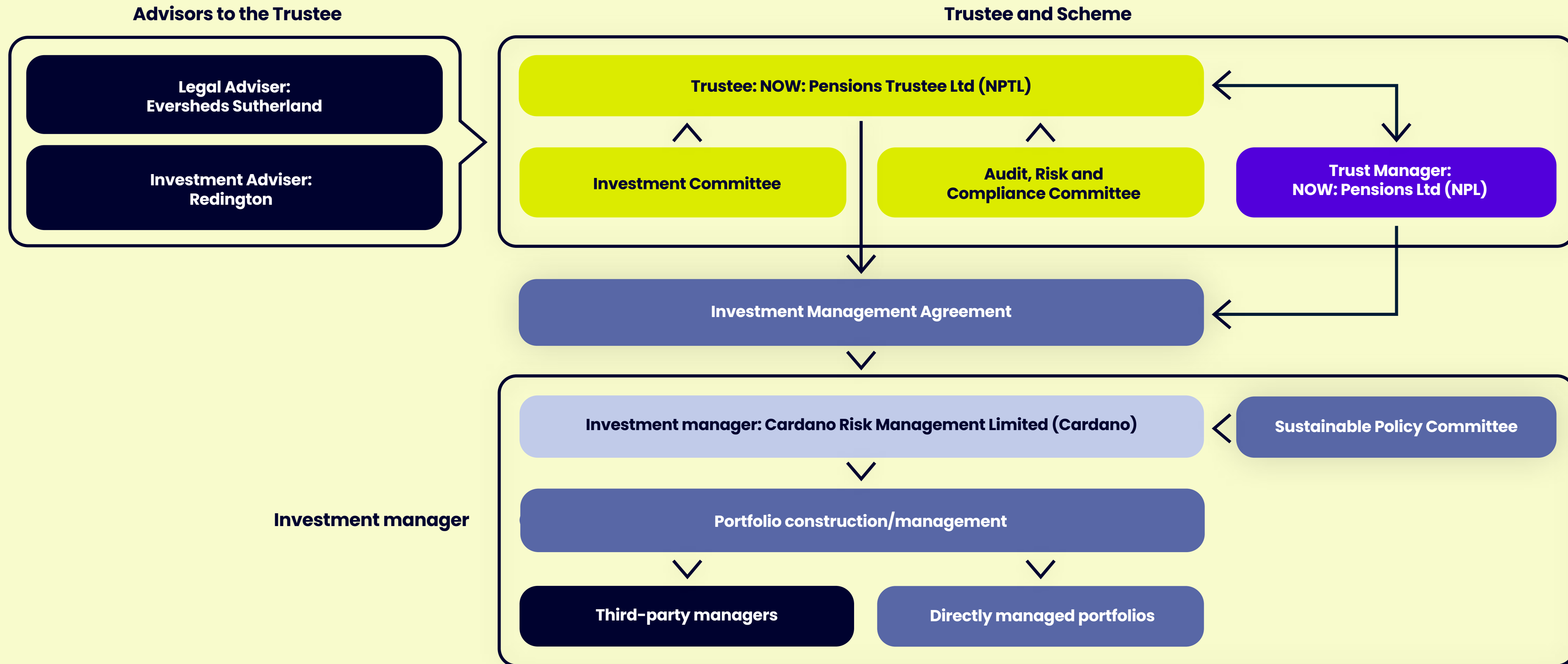
Principle 2:

Governance



Our governance structure

The investment governance structure is summarised in the following figure:



The Trustee: **now:pensions** Trustee Ltd

The independent Trustee Directors ensure our Scheme meets independent governance standards and is run in the best interests of our members. The Trustee Directors of **now:pensions** Trustee Ltd (“the Trustee”) oversees the Trust’s governance structure and subsequent governance activities to ensure that all decisions are in the members’ best interests.

The Trustee has several roles to ensure effective governance of the Scheme, such as:

With regards to development of investment strategy:

- considering the membership and developing the Trustee Investment Beliefs & Statement of Investment Principles accordingly;
- setting the investment strategy, including the approach to responsible investment and stewardship, on the advice of the investment adviser, Reddington, and delegating implementation of the investment strategy to suppliers, including Cardano as in-house investment manager.

With regards to the provision of choice of fund selection to members:

- approve/not approving and delegating implementation/ management to suppliers.

Appointment and monitoring of suppliers, including advisers, which covers:

- appointing suppliers
- the Supplier Management Board (SMB) (consisting of both Trustee and NPL members) reviews suppliers annually, including the investment manager. This review includes assessing suppliers’ ESG policies
- suppliers are tested for Value For Money
- the investment manager and investment adviser
- NPL is reviewed annually by the Trustee.

In practice, with regards to Stewardship, this means:

- Deciding how to invest the assets of the Trust, including setting the overall investment strategy, the lifecycle asset allocation, and setting investment objectives.
- Setting the responsible investment strategy, including the stewardship objectives, and determining the priority sustainability themes.

- Monitoring and challenging the investment manager to ensure the strategy is executed in accordance with these objectives and beliefs. This includes:
 - Oversight of investment decision-making.
 - Ensuring, through Trustee Investment Committee meetings, progress on sustainability themes.
 - Overseeing stewardship activities, and preparing this stewardship code report.
- Participating in regular (at least annually) sustainability training.
- Preparing all regulatory disclosure requirements, including an annual Implementation Statement and TCFD report.

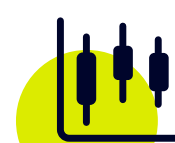
The Trustee ordinarily meets six times a year. The Trustee operates a formal governance agenda with a regular annual cycle of monitoring activity. A formal triennial strategic investment review is conducted to reassess the investment strategy over the prior period and to make any required changes to the overall strategy going forward. Ad hoc reviews are conducted as a result of the normal monitoring process whenever required.

The Trustee has appointed two sub-committees to which it has delegated responsibility for detailed monitoring of certain functions pertinent to stewardship activities. These committees report back to the Trustee Board which is responsible for all decision making:



Audit, Risk and Compliance Committee (ARCC)

The ARCC assesses performance of the Climate Change Risk and Opportunities governance policy and reports to the Trustee on material issues, overseeing the Scheme's internal controls, risk management processes and compliance with legal and regulatory requirements, ensuring the Scheme operates effectively and within set governance frameworks.



Investment Committee (IC)

The IC considers ideas, investment strategy proposals and sustainability ideas and makes recommendations to the Trustee on default investment strategies, lifecycles, the investment fund range, sustainability beliefs and policies.

The IC monitors the day-to-day decision-making by the investment manager and ensures this reflects the Trustee's investment beliefs, policies and objectives, and is responsible for reporting back to the Trustee.

In addition, the Trustee has two other subcommittees, the Operations Committee and the Communications Committee, but these are not involved in the stewardship activities.

The Trustee is supported by **now:pensions** Limited staff (NPL, see below), including investment and sustainability staff.

The Trustee has entered into an investment management agreement (IMA) with Cardano Risk Management Limited (Cardano, see below) as its investment manager, and has delegated to them all day-to-day investment functions, subject to regular monitoring and review.

The investment manager has a detailed stewardship policy and voting policy that articulates its approach to stewardship and voting on directly owned stocks that is aligned with delivering the Trustee's investment beliefs and priority sustainability themes.

The Trustee holds the investment manager accountable to apply the Trustee's investment beliefs as articulated in the Statement of Investment Principles and there are processes in place for the investment manager to notify the Trustee when this is not the case. This includes oversight of the sustainability and stewardship activities, including assessing investment manager's performance on sustainability and stewardship activities.

The investment manager is responsible for selecting and appointing third-party investment managers in consultation with the Trustee. An important part of the appointment criteria is the stewardship and voting approach of the third-party manager.

- The investment manager is responsible for monitoring and reporting that all third-party investments are done in a way that is consistent with the investment objectives of the Trustee, including their approach to stewardship.

Appointed investment adviser: Redington

Redington is a certified B-Corp (a verification of social and environmental performance, transparency and accountability) and a member of a range of responsible investment-related industry groups, supporting the Trustee with independent advice with regard to the investment strategy, in addition to climate change expertise.

Redington is responsible for advising the Trustee regarding the suitability of recommended investment strategies recommended by NPL or Cardano, including the SIP, including the suitability and competency of the investment manager Cardano in relation to the various functions delegated to it under the IMA. Redington prepare the annual Implementation Statement for Trustee review and approval.

Appointed legal adviser: Eversheds Sutherland

Eversheds Sutherland is a global law firm that provides legal services across a wide range of areas, including corporate, dispute resolution, employment, and finance. Eversheds Sutherland supports the Trustee in providing legal advice, ensuring members' best interests.

Trust Manager: **now:pensions** Limited (NPL)

now:pensions Limited (NPL) is responsible for the day-to-day administration of the master trust, including collecting contributions from employers in respect of members, keeping track of individual member information and accounts, reporting etc. NPL is part of the tri-party IMA agreement with the investment manager and monitors the investment manager on behalf of the Trustee on a day-to-day basis.

As the Trust Manager, NPL fulfils several roles to support the Trustee; these roles include:

Supporting the Trustee on investments and stewardship:

- supporting in the development of the Trustee's investment beliefs and the Statement of Investment Principles
- supports the Investment Committee (IC) in the development and delivery of its sustainability beliefs, policies and member engagement
- NPL will advocate the agreed sustainability beliefs and strategy within the industry (leveraging group resource as desired)
- proposing investment strategy ideas to the IC, with consideration of member demographic

- challenging Cardano's proposed investment strategy and sustainability ideas
- supports the Trustee in monitoring Cardano's delivery, both in terms of investments and stewardship
- prepares regulatory reporting, with input/support from suppliers, as agreed with the IC, for Trustee approval
- developing the commercial proposition
- supports on member and industry communication.

Support is provided by amongst others:

- The Director of Investment, responsible for supporting the Trustee with regards to investment decision-making. The Director of Investments has extensive experience in investment strategy design and implementation for DC Pension schemes having worked at Mercer for 22 years and specifically as a leader within their DC business.
- The Head of Sustainability is responsible for supporting the Trustee with regards to decision-making around the responsible investment approach and sustainability themes. The Head of Sustainability has over 25 years of investing experience and 7 years of experience specific to sustainable investments.

Activities include:

1. Acting as an NPL representative.
2. Supporting the Trustee with regular (at least annual) sustainability and stewardship training.
3. Supplementing the stewardship of the investment manager and third-party managers through additional engagement with the industry and policy makers on the Trustee's behalf.

Investment manager: Cardano

Cardano Risk Management Limited (Cardano) is responsible for all day-to-day investment functions in line with the Investment Management Agreement. This includes the appointment of third-party managers, as well as the stewardship of both directly managed and third-party assets.

Cardano will propose investment strategies and sustainability ideas, share relevant industry information and support the IC and NPL with analysis and views.

At Cardano, the approach to sustainability is overseen by the Sustainability Policy Committee, chaired by the CEO of Cardano Risk Management Limited, and includes senior commercial, investment and sustainability professionals. Cardano operates in line with a **Group sustainable investment policy**. This outlines the approach to exclusions, stock selection and stewardship. The policy includes a comprehensive **stewardship policy** and a **voting policy** linked here, which are both integral to the appointment of Cardano to manage direct portfolios on behalf of the Trustee.

Cardano have an in-house Sustainability team of 25 people which includes an in-house stewardship team of four individuals. The Head of the Stewardship Team has 11 years of experience in industry, including five years in stewardship.

The investment manager provides the Trustee with regular quarterly reports, detailing performance and progress against return and risk objectives, as well as sustainability and stewardship updates, and Shariah objectives (where applicable). The quarterly stewardship report provides details on voting statistics and company engagement activity over the quarter with a particular focus on the Trustee's three sustainable priority themes.

Over the next few pages we include an example of the Q4 stewardship updates.



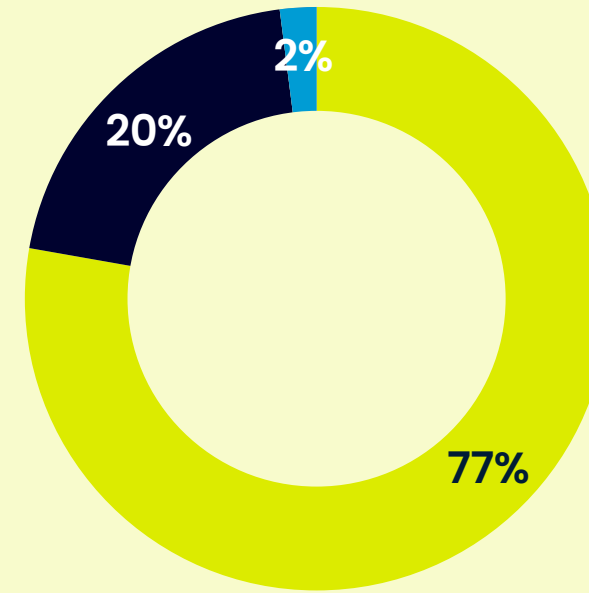
Quarterly stewardship report snapshot

Quarterly voting statistics

Voting data from 01/10/2024 to 31/12/24

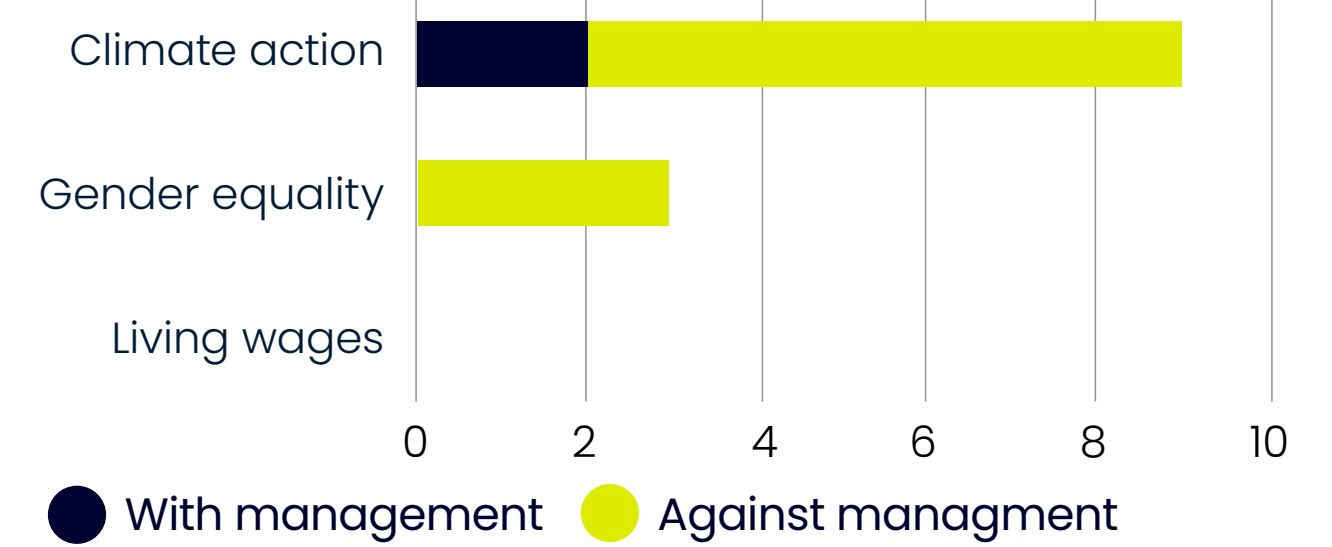
Votes vs Management

Voting Activity	Management proposals	Shareholder proposals
With management	1,346	11
Against management	329	30
Votes not cast	37	0
Total	1,753	50

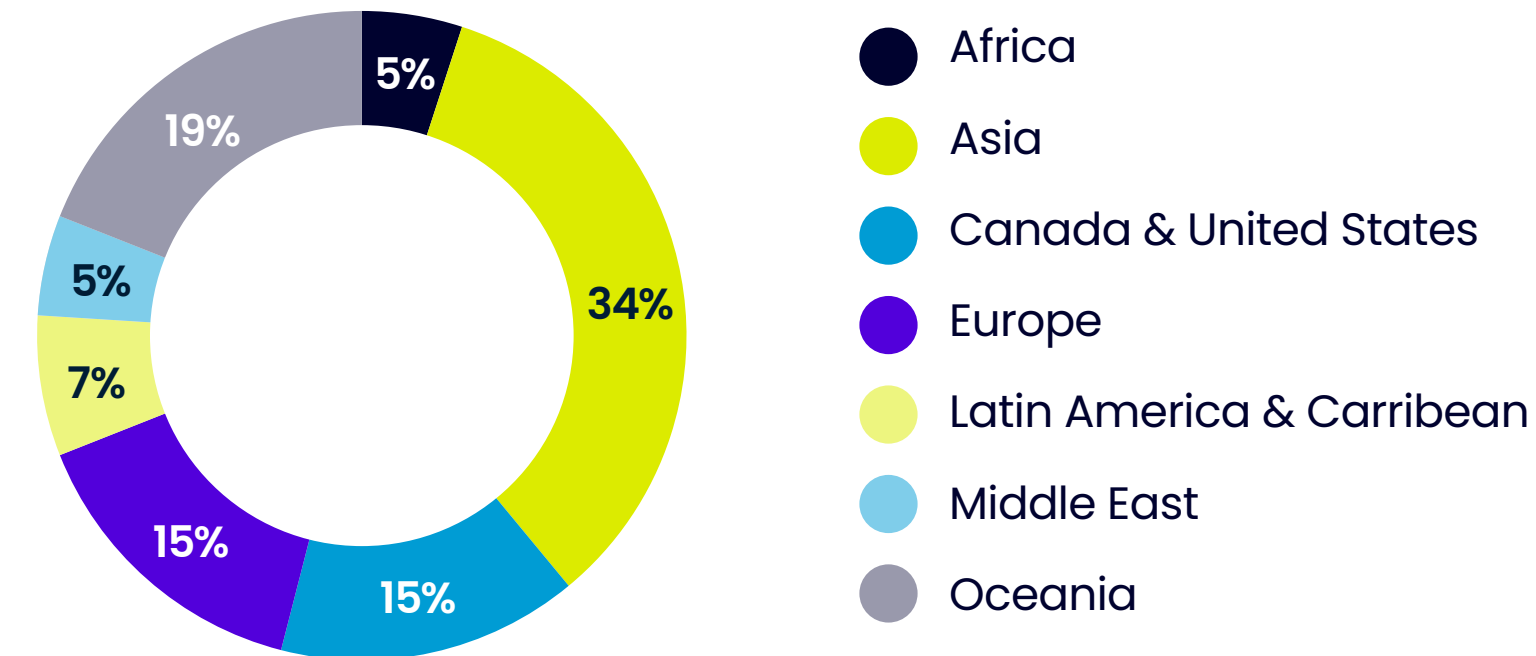


- With management
- Against management
- Votes not cast

Votes vs Management - now:pensions' themes



Meetings by region (where votes were casted)



Shareholder proposal votes relevant to themes

Proposals	With management	Against management
Produce diversity and inclusion pay reports	0	3
Address and report energy/environmental issues	2	6
Report and reduce GHG emissions	0	1

Most significant votes

The following votes took place over Q4 2024

Company	Sector	% of holding in Fund	Priority theme	Summary of resolution	Votes	Summary	Next steps/Outcome
Australia & New Zealand Banking Group Ltd.	Banking and financial services	0.1%	Climate action	Shareholder Proposal: Transition Plan Assessment	For the resolution (against management)	<p>Cardano not only focuses on high-emitting sectors but also on financing the transition to a low-carbon economy. We engage with banks to phase out financing for polluting activities while encouraging increased investment in low-carbon alternatives. This approach extends to our voting activities, where we support shareholder resolutions urging banks and financial institutions to enhance transparency on their financing policies, particularly in relation to the transition and alignment with the 1.5°C Paris Agreement goal.</p> <p>In the case of Australia & New Zealand Banking Group Ltd., we found their disclosures on this topic to be insufficient. As a result, we supported the shareholder resolution calling for greater transparency in their financing policies.</p>	28% of shareholders supported the resolution (did not pass)
Cintas Corporation	Industrials	0.2%	Climate action	Shareholder Proposal: GHG Target and Paris Alignment	For the resolution (against management)	<p>The resolution calls on Cintas to set near- and long-term, science-based GHG reduction targets aligned with the Paris Agreement's goal of limiting global temperature rise to 1.5°C and to outline a clear strategy for achieving them.</p> <p>Cardano supported this resolution as Cintas has yet to disclose a comprehensive plan addressing the physical and transition risks it faces. The company also lags behind its peers in climate-related disclosures and commitments.</p>	25% of shareholders supported the resolution (did not pass)

Engagement statistics

The investment manager supports the Trustee with engaging with the companies in the portfolio, as well as with regulators, policymakers, governments, and stakeholders, with the aim of enhancing sustainability activities, focusing on the Trustee's priority sustainability themes.

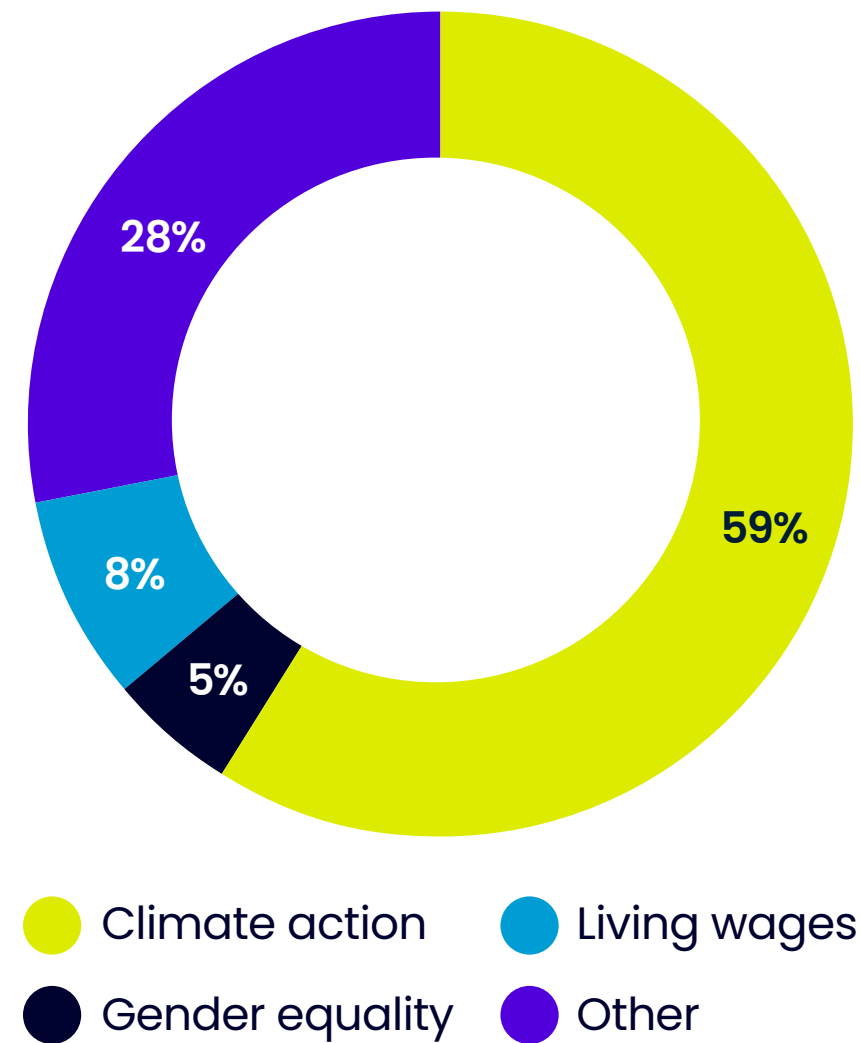
Active engagements

	Current	12m change
Number	286	-
Distinct companies	201	-

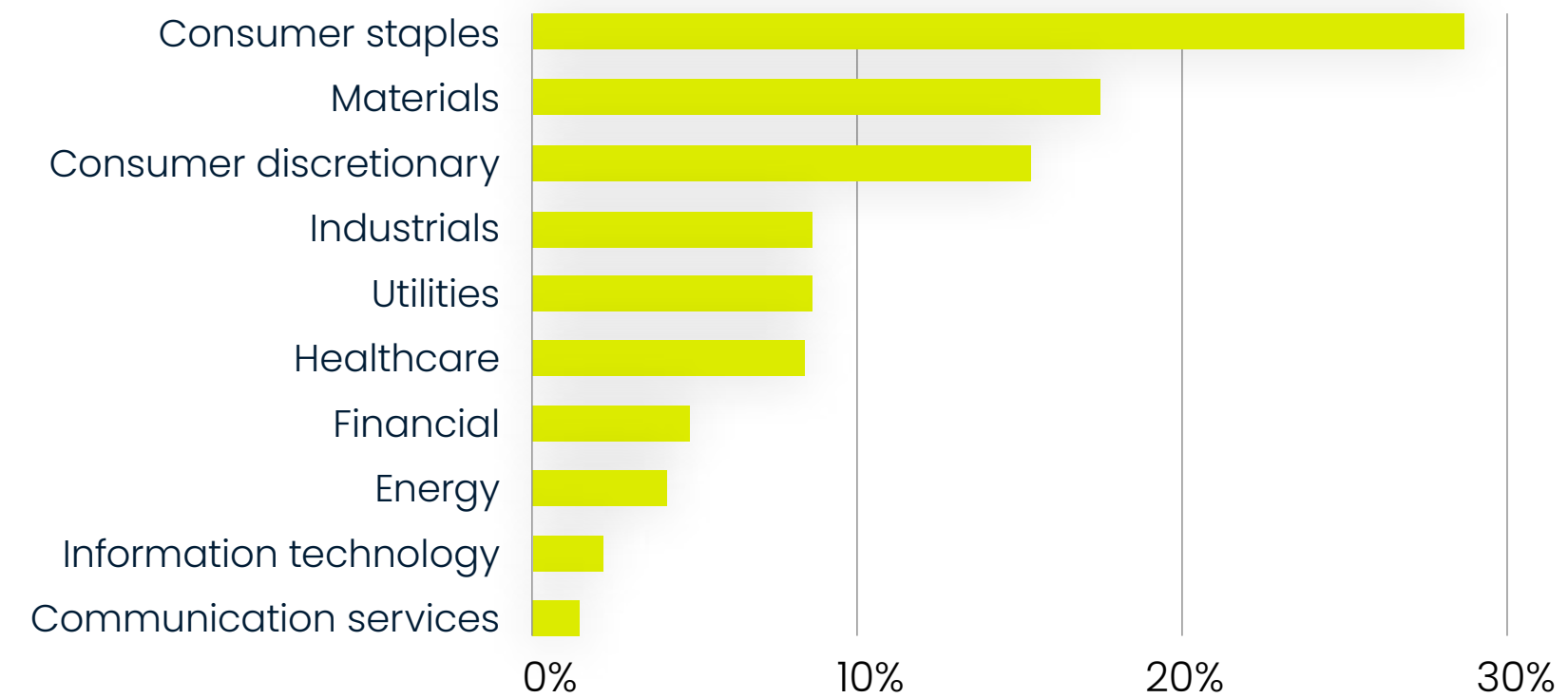
Q4 2024 activity

Milestone	Milestone progress	Latest milestone achieved
	<i>Number of milestones completed during Q4 2024</i>	<i>Snapshot of where each engagement stands (for the engagements where milestones are tracked)</i>
Contact company	8	11
Company understands / agrees engagement priority	9	77
Company takes action	3	53
Action successfully complete	4	6

Priority theme alignment



Sector engagements



Company engagements

Company	Engagement topic
Apple Inc	Tech and human rights
Amazon	FAIRR: Protein diversification engagement*
Microsoft	Tech and human rights
Nestle	Multiple incl. Pollution, deforestation and health
Tesla	Labour rights

Third-party investment managers

The investment manager is also responsible for the third-party investment managers they outsource, which includes engaging if necessary to ensure their alignment with the Trustee's beliefs and priority sustainability themes. This includes overseeing and ensuring third-party managers' stewardship of investee companies, for example through relevant voting and engagement. Further details can be found in Principle 12.

Third-party managers have been selected on the basis that they align (and are expected to continue to) with the Trustee's beliefs and priority sustainability themes. The Trustee oversees and monitors the investment manager's selection and appointment of third-party managers.

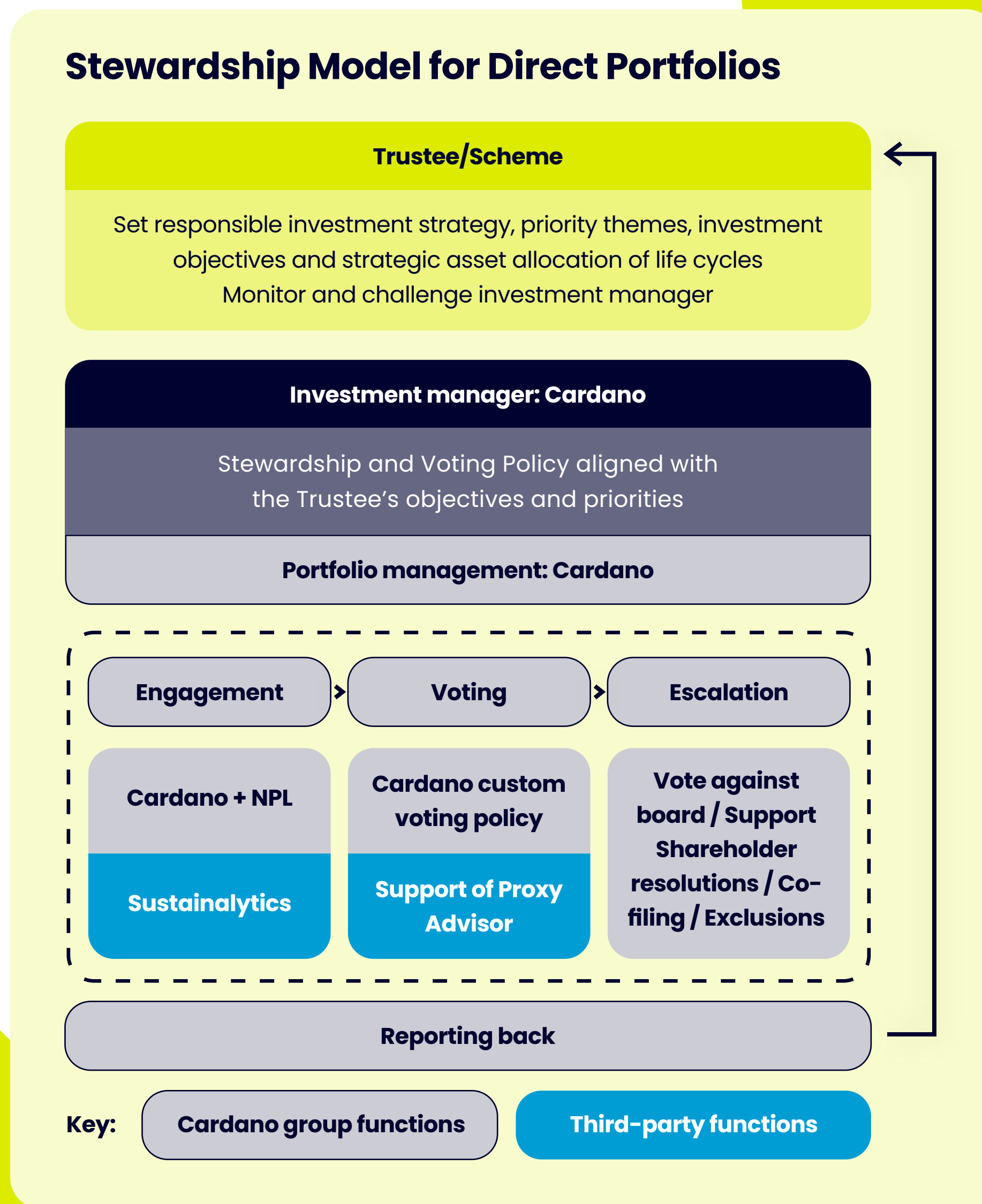
Third-party managers are expected to engage with investee companies, for example through voting and dialogue, in line with the Trustee's principles. Part of the investment manager's stewardship approach is to engage with third-party managers to raise the bar on stewardship practices, setting clear expectations for improvement in any areas of deficiency. The investment manager would (and has) exit a third-party manager if its sustainability and stewardship activities were not consistent with the Trustee's expectations, and the manager had not responded to concerns raised.



Our stewardship process

Following a 2023 triennial investment strategy review and moving into 2024, the physical equity portfolio was moved from being managed by third-party managers to being managed in-house by the investment manager in Q1 2024. The in-house investment approach allows a more joined up stewardship approach between engagement, voting and escalation in line with Trustee beliefs.

The diagram on the right illustrates the stewardship process model for Direct Portfolios, which is the main model used by the in-house investment manager; third-party managers, while managing a very small portion of overall assets, also continue to conduct stewardship of investee companies in a similar manner overseen by the investment manager and in line with the Trustee's principles.



As detailed in Principle 8, this decision will allow for stewardship that this more closely aligned with the Trustee's beliefs and priority sustainability themes.

Case-study: Our CCRO process

The Trustee has adopted a Climate Change-Related Risks and Opportunities (CCRO)-specific governance policy, to assess, oversee, review, and manage climate change-related risks and opportunities within the Scheme, as detailed in the Trustee's TCFD reports. This is an example of the Trustee's governance in practice.

The CCRO details how the Trustee oversees climate change-related risks and opportunities, the role of parties other than the Trustee such as the investment manager and third-party managers, and the timelines associated with TCFD reporting, and progress on decarbonisation; for example:

- **IC** - meets quarterly to receive reports from the head of sustainability and from the investment manager to assess sustainability risks and opportunities, including stewardship activities and significant votes pertaining to the priority themes such as climate change. On an annual basis, it reviews climate change-related metrics such as greenhouse gas emissions, climate scenario analysis and progress towards net zero targets.
- **ARCC** - assesses the performance of the governance policy at least annually and reports to the Trustee on material issues in relation to the CCRO.

- **Investment manager** - offers the Trustee regular training on climate change-related topics, informing activities related to our CCRO policy. They also report on climate related risks and opportunities within the portfolio Reporting. For example in 2024 the investment manager and NPL supported the Trustees in adopting a new qualitative approach to climate scenario analysis that lead to a clearer description of the climate strategy in our 2024 TCFD report.
- **Investment advisor and legal advisor** - provide the Trustee with advisory services and provide the skills and experience necessary to support the Trustee's implementation of CCRO policy.

The governance structure ensures that the investment processes are consistent with CCRO, through regular reviews and reporting, and that the Trustee is sufficiently equipped with resources dedicated to understanding and acting to the materiality of climate change-related risks, both transition and physical. For further details on the Trustee's approach to climate action, and how this informs stewardship activities, see the Trustee's TCFD reports.

Our rationale

The Trustee believes the governance structure ensures that investment decisions and strategies are consistent with the **now:pensions'** overarching sustainability and stewardship-related policies and objectives. The approach reflects the Trustee's focus on long-term rather than short-term performance and aligning the incentives of the investment manager with those of the members. The Trustee believes the frequent communication between the governance structure's stakeholders facilitates continuous learning and adaptation, necessary to address evolving sustainability issues, and staying informed on regulatory developments and best practices.

How we resourced our stewardship activities

Organisational and workforce structures

The organisational and workforce structures are detailed above.

Experience, qualifications, training, and diversity

To ensure the Trustee is well-informed to support the engagement on stewardship and the priority sustainability themes, the Trustee receives regular updates and training:

- In 2024 this involved a 2.5 hour training session in September dedicated entirely on Stewardship, supported by the investment manager and the **now:pensions** head of sustainability. The full Trustee board attended this training.
- We also covered climate stewardship in the TCFD training session to the full Trustee board during September 2024 where we adopted a qualitative approach to scenario analysis. A key outcome of that session was the importance of stewardship in driving real world outcomes for members on climate.
- In addition, the Investment Committee received quarterly stewardship updates from the investment manager, and the head of sustainability reviews stewardship activities in his quarterly report to the Investment Committee. Examples can be found above in Principle 2.

In-house, the team at **now:pensions** includes investment, sustainability, compliance, and communications professionals that collectively support stewardship activities. In particular, **now:pensions'** head of sustainability has expertise in participating in stakeholder groups and in investment manager engagement. They are responsible for monitoring the stewardship activity of the investment manager on behalf of the Trustee.

The Trustee has selected Redington and Eversheds Sutherland to provide advisory services, to bring additional expertise. The Trustee continues to assess advisors on their sustainability competences on an (at least) annual basis.

To guide stewardship activities, the Trustee has decided to focus on three sustainability themes that inform the Trustee's, and our investment manager's thematic engagement: gender equality, living wages, and climate action. These themes have been selected by the Trustee for the Trust to engage on a diversity of interlinking sustainability issues of long-term systemic importance to the outcome for members.

The approach is communicated on the **now:pensions** website, and the Trustee encourages feedback from members and stakeholders to inform and continue to enhance stewardship activities.



Our service providers: MSCI and Sustainalytics

MSCI is a global provider of investment decision-making support tools, including indexes, portfolio risk and performance analytics. The investment manager appointed MSCI for reliable external data coverage on climate change and to monitor gender equality risks and opportunities to ensure that the stewardship approach is holistic, and all-encompassing. MSCI provides **now:pensions** with general ESG-related data sets covering all of the investment portfolio's sustainable equity investments and a substantial portion of the credit portfolio. Using data collected by MSCI, the Trustee accesses data that is standardised and well-recognised across the industry, to track progress against the priority sustainability themes.

Sustainalytics provides stewardship services to investors, assisting them to improve on sustainability issues through constructive dialogue and collaboration. Sustainalytics is used by the investment manager for specialised engagement services and supplements the investment manager's in-house stewardship resources.

The investment manager also works with third-party managers to help assess whether their voting and stewardship activity reflect the Trustee's investment priorities.

Investment in systems, processes, research, and analysis

The governance structure and outsourcing of service providers ensure that the Trustee is well-informed on stewardship and with relevant expertise. The Trustee regularly reviews the investment strategy and completes an extensive investment strategy review every three years, to ensure effective stewardship and makes changes if necessary. Details on the changes made following the latest triennial review moving into 2024 can be found under Principle 8.

Performance management and reward programmes

now:pensions reviews performance and incentivises staff to integrate stewardship into investment decision-making through several steps, including:

- Regular performance reviews, where the Trustee and the IC determines if investment, including the approach to stewardship, engagement, and voting, is providing value for members.
- Assessment and monitoring of fees and expenses, including transaction costs, against expected levels, ensuring accountability for costs incurred in managing investments.
- Quarterly meetings between the IC and the investment manager that focus on fund performance (financial and non-financial) against objectives, with specific consideration of the investment strategy's implementation.
- Everyone in the company has a Sustainability objective as part of their annual appraisal. These are not directly linked to an award of a portion of the bonus.

Ensuring our governance structures and processes enable effective stewardship

The governance structures and processes have been effective in supporting stewardship goals, in particular in supporting the priority sustainability themes. The Trustee ensures effective stewardship through, for example:

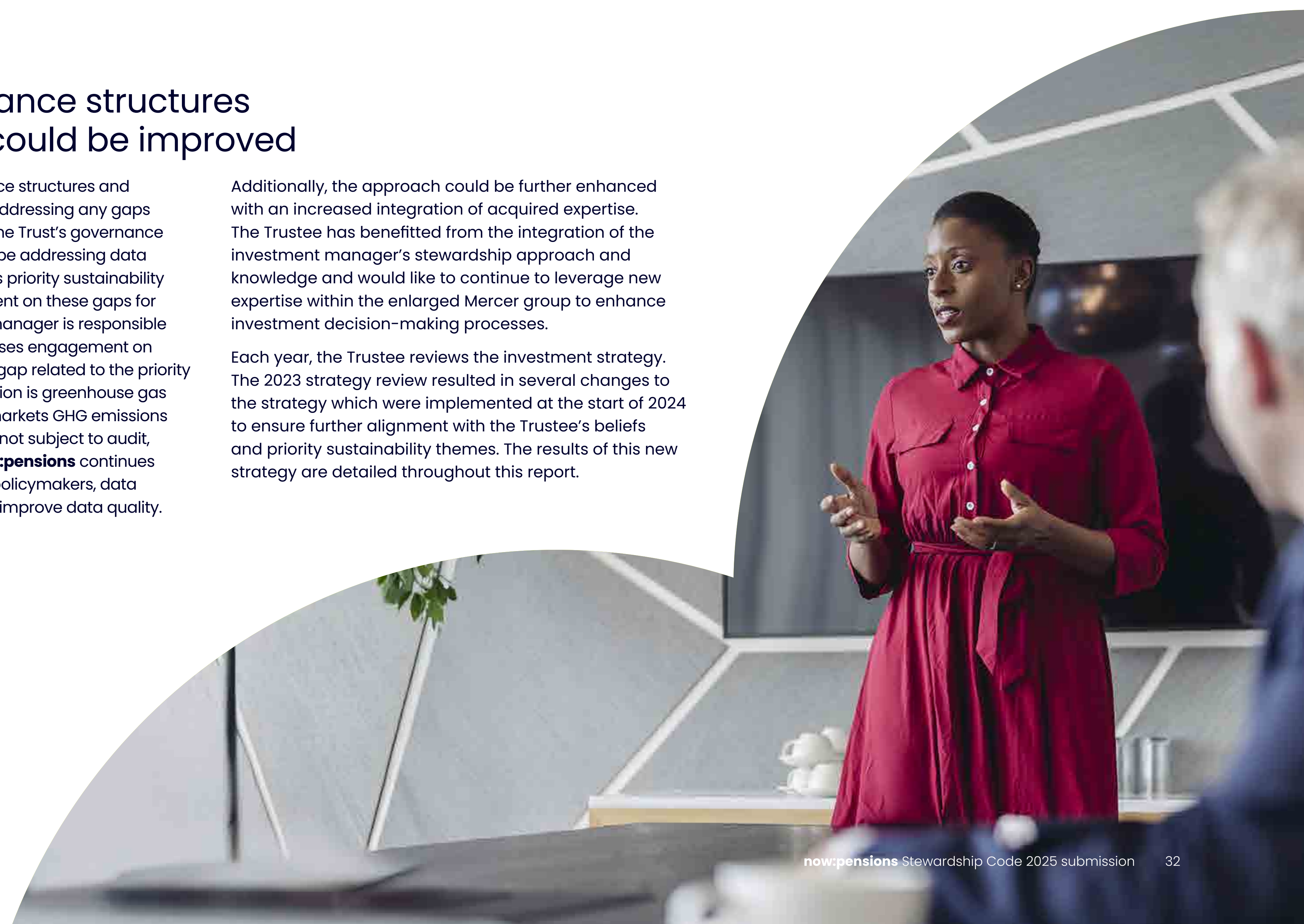
- Adoption of the CCRO governance policy, as detailed above.
- Regular reporting from the investment manager on climate change-related risks and opportunities, which are then reviewed during IC meetings.
- The IC reports outcomes of assessments to the Trustee, ensuring accountability and alignment with the stewardship goals.
- Updates to the investment strategy as necessary to ensure effective stewardship and alignment with the Trustee's beliefs and priority sustainability themes.

How our governance structures and processes could be improved

The Trustee believes the governance structures and processes could be improved by addressing any gaps in relevant data that could affect the Trust's governance approach. For example, this could be addressing data gaps related to any of the Trustee's priority sustainability themes, and prioritising engagement on these gaps for material impact. The investment manager is responsible for flagging these gaps and prioritises engagement on behalf of the Trustee. One notable gap related to the priority sustainability theme of climate action is greenhouse gas (GHG) emissions, where in some markets GHG emissions disclosures are not regulated, and not subject to audit, as detailed in the TCFD report. **now:pensions** continues to engage with standard-setters, policymakers, data providers and other companies to improve data quality.

Additionally, the approach could be further enhanced with an increased integration of acquired expertise. The Trustee has benefitted from the integration of the investment manager's stewardship approach and knowledge and would like to continue to leverage new expertise within the enlarged Mercer group to enhance investment decision-making processes.

Each year, the Trustee reviews the investment strategy. The 2023 strategy review resulted in several changes to the strategy which were implemented at the start of 2024 to ensure further alignment with the Trustee's beliefs and priority sustainability themes. The results of this new strategy are detailed throughout this report.





Principle 3:

Conflicts of Interest

Conflicts of Interest

Our conflicts policy

The Trustee's Conflicts of Interest Policy sets out guidelines and procedures for identifying, monitoring, and managing actual, potential, and perceived conflicts of interest to enable conflicts to be identified and managed, and applies to all Trustee Directors. This policy has been reviewed by our external legal advisers and is reviewed by the Trustee annually.

In summary, the Conflicts of Interest Policy contains the following elements:

- Overview of Trustee Director conflicts of interest
- Understanding the importance of conflicts of interest
- Identification and categorisation of conflicts
- Monitoring conflicts
- Process for declaring conflicts
- Procedure for managing conflicts
- Confidential information
- Advisers, service providers and conflicts
- Monitoring compliance and reviewing the policy

At the start of every Board or sub-committee meeting, Trustee Directors are asked to declare any new conflicts of interest or any conflicts relating to any agenda item. Any such conflicts are recorded in the meeting minutes.

The Conflicts of Interest Policy was updated in November 2023 with no substantive changes from the previous version and there are no changes to update for 2024.

How our conflicts policy applies to stewardship

The Conflicts of Interest Policy applies to stewardship as the management of conflicts of interest is key to good scheme governance, and to acting in a manner that serves members' best interests. The Conflicts of Interest Policy allows the Trustee to identify, monitor, and manage potential conflicts of interest to ensure members' needs are met and prioritised.

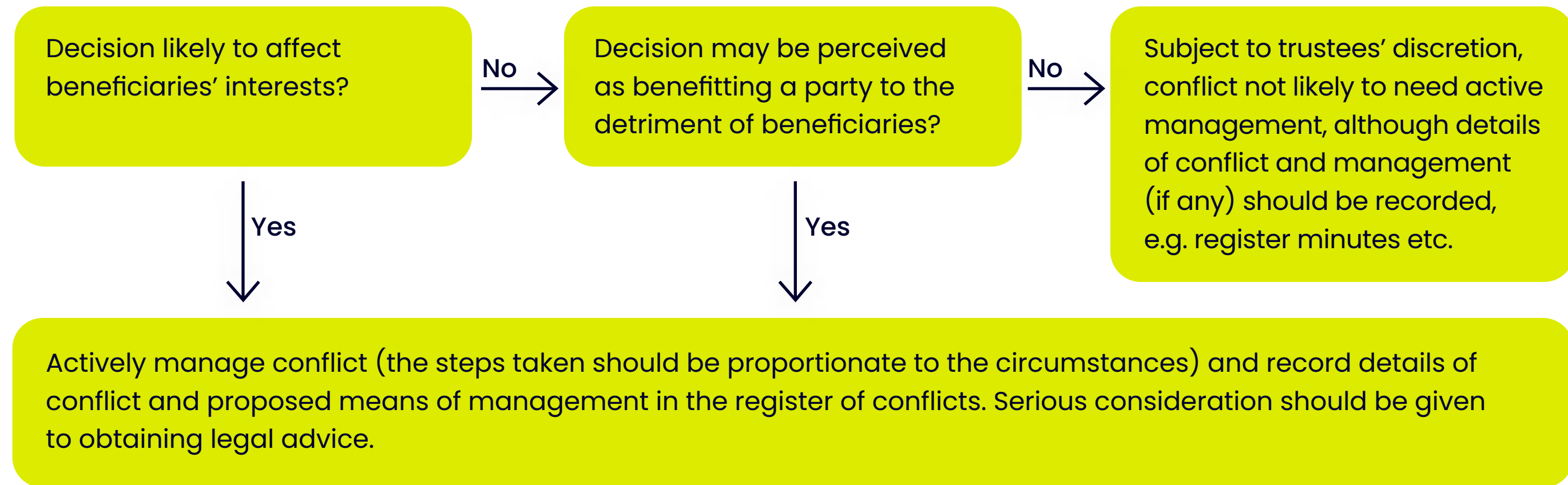


Identifying and managing stewardship-related conflicts

As detailed in our Conflicts of Interest Policy, each Trustee Director should identify stewardship-related conflicts:

- Identify and consider any conflicts that may arise in the future and notify the other Trustee Directors as soon as practically possible.
- Identify and consider any conflicts that have arisen and notify the other Trustee Directors as soon as practically possible.
- Be appointed under procedures that require them to disclose any conflicts of interest
- Confirm that they are not aware of any further conflicts that have not been disclosed to the other Trustee Directors.
- Maintain an up-to-date register of each Trustee Director's interests, for example financial interests and other appointments.
- Have a means of recording conflicts that have arisen or are likely to arise, by using the Register of Interests.

The actions that proceed after the identification of stewardship-related conflicts are described in detail in the Conflicts of Interest Policy. The following diagram, taken from our Conflicts of Interest Policy, details the Trustee's process to determine whether a conflict of interest should be actively managed:



Examples of conflicts

Whilst there have not been cases of conflict of interest during the reporting period, to mitigate potential conflicts of interest between **now:pensions** and the investment manager, the Register of Potential Conflicts states that any investment manager partners will not participate in any related decisions.

This policy was created in response to three board directors of NPL that are also directors of the holding company of NPL and CRML (the investment manager). The involved board directors may have a conflict of interest involving decisions made related to the investment manager and this is noted and will be managed appropriately.

An example of such a potential conflict that was mitigated by the governance structure is the decision made in 2023 to appoint Cardano to manage two new portfolios of equities and credit for the Trust as a result of the investment strategy review. To mitigate this risk of any conflict of interest the Trustee employed their independent investment advisor Redington to advise them on Cardano's suitability in managing these new portfolios for the Trustee and the investment manager directors were not involved in this decision.

4



Principle 4:

Identification and response to risks

Identification and response to risks

How we identify and respond to risks

The Trustee works with their in-house investment manager, Cardano, their investment advisor, Redington, as well as the in-house **now:pensions** staff to identify material risks to the scheme. Any new risks arising are raised for discussion in the quarterly Investment Committee meetings in the reports by the **now:pensions** head of investments, the **now:pensions** Head of Sustainability, the **now:pensions** Director of Risk and Compliance or input from the investment manager or Investment Advisor. Any risks that are deemed of significant will then be elevated to the Trustee.

The named staff above will also base their assessments of emerging risks on conversations with the broader industry in working groups for example at the IIGCC, the Asset Owners Council or the PRI (see later under principle 4 for our participation in those groups).

Portfolio risks

The Trustee has identified the following portfolio risks, which the Trustee assesses on (at least) an annual basis with support from the investment manager:

- **Concentration risk:** This is the risk of underperformance due to an investment having an overly large adverse impact on the return.
- **Counterparty risk:** This is the risk of loss caused by the portfolio trading with a financial institution that defaults on its obligations.
- **Credit risk:** This is the risk of loss arising from the default on expected cashflows.
- **Currency risk:** This is the risk of loss arising from the falling value of overseas investments due to the strengthening of GBP.
- **Leverage risk:** This is the risk that the value of the portfolio (or individual positions) will fall faster than it (or they) would without the use of leverage.
- **Liquidity risk:** This is the risk that there is a shortfall in easily accessible assets to meet the immediate cashflow needs.
- **Operational risks:** This is the risk of loss caused because of, but not limited to, fraud, acts of negligence or lack of suitable processes.

Portfolio-wide risks are overseen by the Trustee and consequently managed by the investment manager.

Systemic risks

Working with their investment manager, Cardano, and Investment Advisor, Redington, the Trustee has identified the following system-wide sustainability risks which the Trustee assesses on a semi-regular basis with support from their investment manager:

- **Climate change** – the risk of economic and social disruption due to long-term shifts in temperatures and weather patterns.
- **Environmental issues** – the economic and social risks of environmental issues other than climate change, such as those related to biodiversity loss, water usage, and materials sourcing.
- **Inequality** – the risk of destabilising social and economic systems due to growing disparities in income.
- **Human rights issues** – the potential for social and economic impact due to the violation of human rights.

- **Failure of a business/a group of businesses** – the risk of widespread economic consequences resulting from the collapse of key companies or sectors.
- **Cybersecurity threats** – the risk of damage or disruption to systems, data, or operations through digital attacks.
- **Systemic liquidity shortages** – the danger of a widespread crisis in financial markets due to a sudden lack of available funding.
- **Major regulatory changes or failures** – the risk of market instability or legal breaches due to significant alterations in, or the breakdown of, regulatory frameworks.

System-wide risks are overseen by the Trustee and consequently managed by the investment manager.

Systemic risks by definition can affect the entire economy and hence the long-term outcomes for members regardless of portfolio diversification. This is a key reason why the Trustee believes in engaging on the three identified priority areas of climate change, living wages and gender equality, of which the latter two address the risks that arise from inequality.

By way of example, we illustrate how the systemic risk of climate change is approached below.

Our identification and response to climate change

The Trustee has a specific policy and response to climate change. The approach includes the following steps:

- Overseeing the investment manager's and third-party managers' voting and engagement of portfolio companies.
- Undertaking TCFD reporting.
- Using scenario analysis as a starting point to forecast the systemic financial risk associated with varying degrees of warming from climate change. The Trustee undertakes three scenarios. In 2024 this approach was updated to adopt a new approach using qualitative climate scenario analysis that allowed the Trustee to explore more holistically the nature and impact of potential extreme scenarios. This included the impacts of shorter-term political outcomes and policy changes on the longer-term climate trajectory.
- Considering the impact of physical and transitional, including operational, risks. New to 2024 we also considered systemic risks.
- Considering related risks which interact with climate risk, such as biodiversity, deforestation and water risks.
- Publishing an annual Implementation Statement.
- Increasing investment in sustainable equity strategies that include management of climate change risks.
- Adopting a CCRO governance policy.

Case-study: How our revised investment strategy addresses interlinking sustainability risks

The 2023 strategy review resulted in implementing a new ESG Transition equity strategy. The strategy implemented by our in-house investment manager Cardano allows a more holistic integration of sustainability risks.

Cardano identify several interlinking sustainability themes that drive longer term systemic risk. These include climate change driven by fossil fuel use, deforestation through land use change and water usage in water scarce areas.

The Cardano framework will focus on assessing a company's material risk drivers to any of these different themes. The company is then classified based on its exposure to and management of each of these risks. Importantly they do not adopt an "average" score

across these items but rather look at where the worst performance is across these different risks. A company will then be classified as investable only if it meets the standard of being capable of adapting to address the specific risks. If it is considered to be "at risk" of failing on any of these areas, it may then be excluded from the portfolio. Companies that are capable of adapting will then be engaged under a variety of collaborative engagement initiatives to tackle the specific issues.

now:pensions' participation in these collaborative initiatives targets the systemic risk of climate change, therefore promoting the well-functioning of financial markets, and supports the climate action priority sustainability theme.



Working with stakeholders to promote well-functioning markets

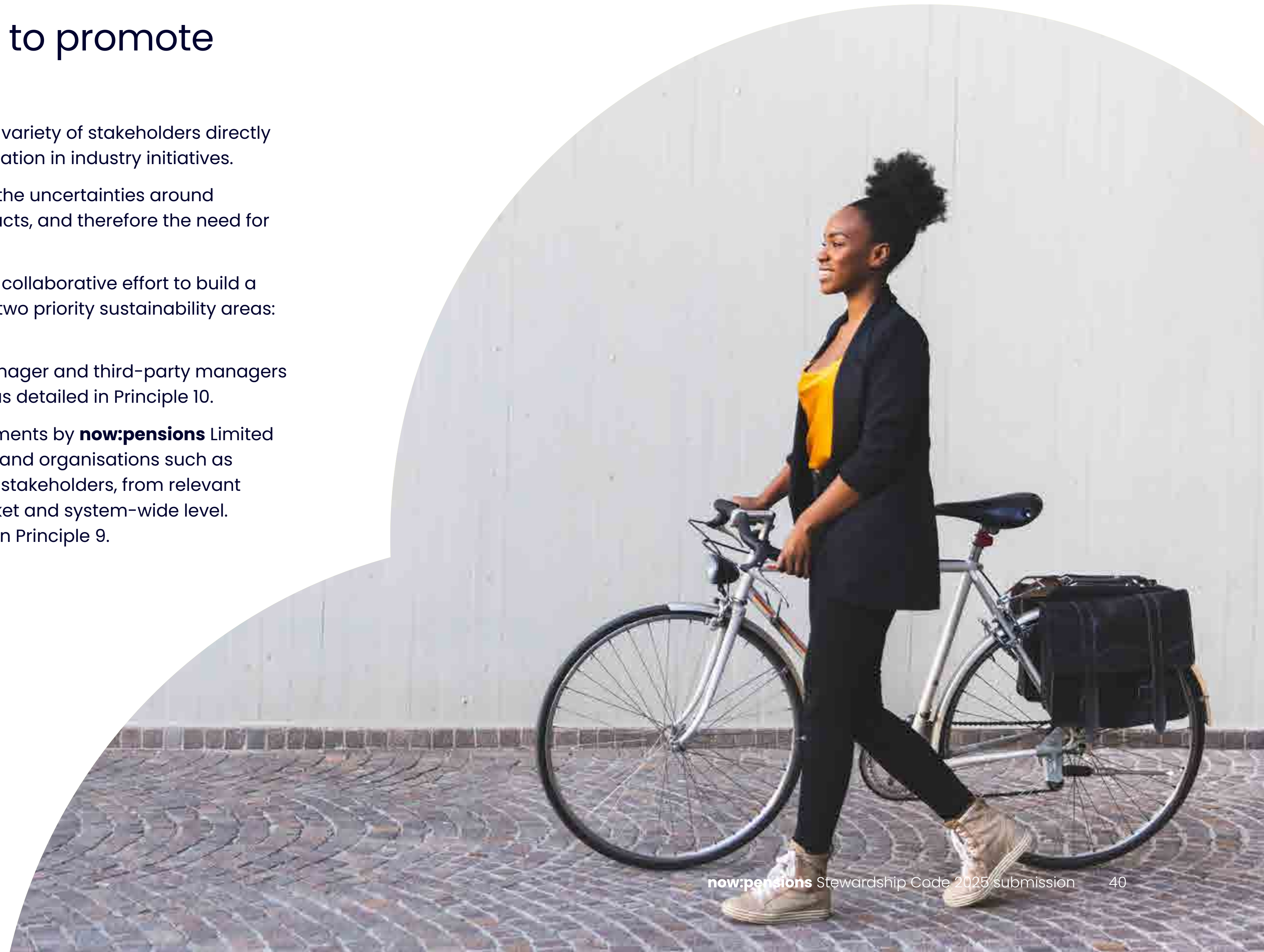
now:pensions has supported and collaborated with a variety of stakeholders directly and through the investment manager's active participation in industry initiatives.

In the case of climate change, the Trustee recognises the uncertainties around government policies and the potential economic impacts, and therefore the need for collaborative actions to address these risks.

The Trustee also recognises the power of an industry's collaborative effort to build a resilient market and to enact real change in the other two priority sustainability areas: gender equality and living wages.

As a standard, the Trustee expects the investment manager and third-party managers to engage on initiatives that **now:pensions** supports, as detailed in Principle 10.

The Trustee is, in addition, supported in direct engagements by **now:pensions** Limited staff who work together with the investment manager and organisations such as the IIGCC. This includes initiatives targeting a range of stakeholders, from relevant companies to policymakers, to address risks at a market and system-wide level. Specific engagements with stakeholders are detailed in Principle 9.



Participation in industry initiatives

Examples of **now:pensions'** participation in initiatives are below.

Initiative	About	Rationale and participation
Pensions for Purpose – now:pensions is a member	Pensions for Purpose is an initiative focused on promoting the flow of capital towards impact investments to generate positive social and environmental outcomes, leveraging a collaborative online platform to share best practices, case studies, and innovative solutions within the investment community.	now:pensions can collaborate on initiatives that aim to influence policy and market standards, such as advocating for transparency in how pension funds address climate risks, to amplify impact and drive systemic change in the industry. now:pensions can align investment strategies and priority sustainability themes with broader social and environmental objectives, benefiting from shared knowledge on impactful investing. The Trustee believes that as a member of Pensions for Purpose, now:pensions can better address priority sustainability themes and drive systemic change in the industry.
IIGCC – now:pensions is a member	The IIGCC is a leading European investor membership organisation dedicated to promoting investor action on climate change, with a focus on creating a net-zero and climate-resilient future. IIGCC pushes for transparency and better corporate disclosure on ESG, engages with policymakers and regulators to advocate for long-term stability of financial markets (e.g. through mitigation of the systemic risk of climate change), and promotes investor collaboration and best practice.	Through engagement with IIGCC, now:pensions can amplify policy engagement activities, have European influence, and address the priority sustainability theme of climate action. The collaboration with IIGCC is one way now:pensions can promote the well-functioning of financial markets.
PRI – now:pensions is a signatory	The PRI is a UN-supported initiative that encourages investors to incorporate ESG factors into investment decision-making and ownership to foster a sustainable global financial system.	Through collaboration with PRI, now:pensions can address the key issues of climate action, gender equality and living wages at a global level of influence. Additionally, the investment manager participates in PRI's stewardship initiative for nature: Spring (to which now:pensions is a signatory), an action that supports our priority sustainability theme of climate action.
Asset Owners Council – now:pensions is a member	The Asset Owners Council is a UK council of pension schemes focused on promoting and facilitating high standards of asset stewardship to support thoughtful and responsible investment practices.	Participation facilitates the Trustee's engagement in industry-wide sustainability and stewardship activities related to our priority sustainability themes. For example, now:pensions conducted focus groups by interviewing pension scheme members to learn their views on sustainability and responsible investment topics, and shared the results with DWP's Occupational Pensions Stewardship Council. Participation includes regular discussions with policymakers and regulators, including the DWP, TPR, FCA and FRC.

now:pensions is supportive of the investment manager’s involvement in industry initiatives and encourages collaborative efforts of engagement with other investors to contribute to the well-functioning of financial markets. Given the importance of the Trustee’s relationship with the investment manager, the investment manager’s involvement in initiatives has also been included in this report. Examples of the participation in initiatives overseen by the Trustee and participated in by the investment manager are listed below.

Initiative	About	Rationale and participation
<p>Climate Action 100+ – the investment manager is a lead investor</p>	<p>Climate Action 100+ is an investor-led initiative aimed at ensuring the world’s largest corporate greenhouse gas emitters take necessary climate change action, coordinating engagement with companies and pushing for governance reform, enhanced disclosure, and concrete actions to reduce greenhouse gas emissions in line with the Paris Agreement.</p>	<p>Through the Trustee’s support for Climate Action 100+, and the investment manager’s involvement as a lead investor in Climate Action 100+, now:pensions supports collaborative engagements on portfolio companies to address the priority sustainability theme of climate action.</p>
<p>Dutch Climate Coalition – the investment manager is a member</p>	<p>The Dutch Climate Coalition, led by the Dutch Climate Minister and involving Dutch institutional investors, advocates for phasing out fossil fuel subsidies, urging oil and gas companies to align with the Paris Agreement, and emphasises the collective responsibility of various stakeholders in combating climate change towards a sustainable and climate-resilient future.</p>	<p>Through engagement with IIGCC, now:pensions can amplify policy engagement activities, have European influence, and address the priority sustainability theme of climate action. The collaboration with IIGCC is one way now:pensions can promote the well-functioning of financial markets.</p>
<p>Platform Living Wage Financials – the investment manager is a member</p>	<p>PLWF is a coalition of financial institutions working together to promote and ensure the implementation of living wages and incomes within the supply chains of their investee companies.</p>	<p>The Trustee supports the investment manager’s active participation in PLWF to address the priority sustainability themes of gender equality and living wages at an industry-wide level.</p>
<p>ShareAction’s Good Work Coalition – now:pensions and the investment manager are members</p>	<p>The ShareAction’s Good Work Coalition is a collaborative effort focused on improving work conditions and corporate accountability.</p>	<p>The Trustee supports the investment manager’s active membership with ShareAction’s Good Work Coalition. Their participation enables now:pensions to expand its level of engagement and influence. For example, through ShareAction’s Good Work Coalition, the investment manager signed 11 company letters, participated in engagement calls and signed a letter to the UK government on the topic of workers’ rights and wages. In 2024 now:pensions also became a member of the coalition. In this capacity, it added the name of now:pensions.</p>

Initiative	About	Rationale and participation
Partnership for Carbon Accounting and Financials – the investment manager is a member	PCAF is a global collaboration of financial institutions focused on measuring and disclosing greenhouse gas emissions associated with their loans and investments, promoting transparency and accountability in alignment with the Paris Agreement.	The investment manager participates in PCAF to help create robust greenhouse gas measurement methodologies that the Trustee can use to improve climate risk and opportunity assessments, and consequently promote the resilience of financial markets.
Net Zero Asset Managers Initiative – the investment manager is a signatory	The Net Zero Asset Managers Initiative is a global coalition of asset managers committed to achieving net zero greenhouse gas emissions by 2050 or sooner, supporting efforts to limit global warming to 1.5 degrees Celsius, consistent with their fiduciary duty to clients and beneficiaries.	The Trustee expects the investment manager and third-party managers to engage collaboratively in this initiative, in alignment with the priority sustainability theme of climate action. Market developments on this front recently have led to the temporary suspension of the initiative. The Trustee remains committed to the principles that drive the initiative, specifically that investments should support the real world transition to a low carbon economy, and will seek comfort that these principles are applied even if the investment manager or a third-party manager appointed is not a signatory.

Additionally, **now:pensions** is engaged and involved in policy, submitting and responding to policy submissions relevant to mitigating market and system-wide risks; responses over the last few years include:

Submission	About	Explanation
TCFD (Annually)	The aim of TCFD is to standardise climate disclosures and help financial markets understand and price the financial risks and opportunities posed by climate change.	The Trustee submitted reports following TCFD disclosure requirements in line with the Trustee’s regulatory obligations.
TNFD (Developing)	The aim of TNFD is to integrate nature into business decision-making processes, providing science-based recommendations consistent with global policy goals and sustainability reporting standards to guide organisations in disclosing their nature-related dependencies, impacts, risks, and strategic planning.	The Trustee expects the engagements and voting decisions conducted on its behalf by the investment manager and third-party managers to reference and follow TNFD where relevant, in addition to other international codes and standards. Addressing and identifying nature-related risks and opportunities is in line with the priority sustainability theme of climate action, as nature and climate-related risks are interrelated and reinforcing.

Submission	About	Explanation
DWP's Social Factors Taskforce (2023)	DWP Social Factors Taskforce, established by the UK's Department for Work and Pensions, aims to guide pension schemes on incorporating social factors, such as workforce conditions, community engagement, and consumer protection, into their investment decisions and stewardship policies.	Both the Trustee and the investment manager responded to the recommendations for asset owners, asset manager and investment consultants. The aim was to help facilitate effective practice of stewardship on social factors across the industry and promote the well-functioning of markets. The Trustee welcomed the draft guidance which supports its priority themes of living wage and gender equality.
Transition Plan Taskforce Disclosure (2024)	The Transition Plan Taskforce Disclosure Framework is a set of guidelines for companies to develop credible and robust climate transition plans, with the aim of reaching net-zero emissions and supporting the UK's goal for a net-zero economy by 2050.	The Trustee responded to the Transition Plan Taskforce consultation to maximise its usability for pension funds and ensure its applicability to the UK's decarbonisation objectives. The Trustee welcomed the taskforce recommendations that recognised the interconnections of climate with other environmental issues like biodiversity and social factors.
Value for Money Consultation (2024)	The Value for Money consultation set out detailed metrics, reporting and assessment process for the proposed new Value for Money Framework. This included a question on whether it was sufficient that ESG considerations be taken into account as part of the assessment process, but with no proposed framework, as currently specific ESG metric.	now:pensions response to the Value For Money consultation included highlighting that sustainability and stewardship should have a metric as part of the VFM framework in order to recognise the cost of undertaking good stewardship and the contribution of sustainable investing. It also highlighted the fact that this was difficult to quantify in a numeric indicator, but made some suggestions, for example, disclosing which assets are stewarded in line with the UK stewardship code.
FRC Stewardship Code consultation (2025)	The Financial Reporting Council Stewardship Code is the leading world standard defining good stewardship.	The Trustee has taken an active interest in responding to the consultation for a further update to the code. The Trustee believes that the definition of stewardship in the code, particularly with its emphasis on benefits for the economy, the environment and society is world leading and wishes to avoid seeing this diluted. At the same time we welcomed recommendations to streamline reporting to allow more time to focus on executing stewardship activities.

Assessment of initiative involvement effectiveness

now:pensions and the investment manager are involved in a variety of initiatives that promote resilience in financial markets, with a strong emphasis on climate action and social inequality. Collective engagement in these initiatives reflects a strategic approach to sustainability that aligns with fiduciary duties and supports the long-term stability of the markets in which the Trustee invests. The investment manager assesses

the efficacy of initiative involvement and may extend participation and engagement where possible. For example, the investment manager joined the Dutch Climate Coalition as an extension of Climate Action 100+ to accelerate progress towards the Trustee's priority sustainability theme of climate action. The Trustee works closely with the investment manager, critiquing and supporting initiative participation, decision-making, and approaches, to promote effective and impactful initiative involvement.

Aligning investments with the Trustee's sustainability beliefs

now:pensions has set sustainability and stewardship objectives for both the Diversified Growth Fund and the Retirement Countdown Fund (see Principle 1 context for how these strategies fit into the overall strategy) to align investments to mitigate climate change-related risks:

- Net zero greenhouse gas emissions by 2050, with a 50% emissions reduction by 2030, based on 2019 levels.
- For the Diversified Growth Fund, to have at least 75% of the portfolio's net asset value in investments with specific sustainability commitments, such as green bonds or low carbon physical equity.

In addition, the Trustee identifies the three priority themes of climate action, living wage and gender equality, which contribute to systemic risks.

The Trustee has aligned and adjusted the investment strategy to achieve these goals; steps taken include:

- Discussing whether these risks should result in shifts in asset allocation between asset classes or on sector or geographic basis.
 - Working with the investment manager, the Trustee has identified that these systemic sustainability issues give rise to greater risks of future inflation because the transition to a sustainable economy will result in increased demand for certain commodities. As a result, the investment manager has implemented a c5% allocation to a basket of

commodities selected for their role in diversification or a climate transition, specifically excluding any direct investment in oil.

- For other asset classes, the Trustee has concluded at this stage that these risks should not alter the strategic asset allocation strategy, but that the risks are best mitigated and incorporated at the asset class level.
- The new approach to qualitative climate scenario analysis implemented in 2024 led to a range of conclusions (see our 2024 TCFD report for more detail) including:
 - The importance of stewardship in tackling real world change.
 - The growing need to account for the rising frequency of physical risks across all asset classes.
 - The recognition that climate change will have significant medium- to long-term impacts across all asset classes—particularly in the absence of coordinated global climate policy. This underscores the urgent need to limit global warming.

- The new equity and credit strategy implemented in 2024 incorporate both climate change and a wide range of additional systemic sustainability risks, including biodiversity, deforestation, water, materials use and social issues such as gender diversity and living wage. These issues are primarily tackled through collaborative engagements by the investment manager tackling the underlying issues and driving for real world change.
- Improving internal processes and data quality to better manage climate risks and align investments accordingly.
- In most cases, remaining invested and engaging portfolio companies (driving the transition towards a more sustainable society) rather than disinvesting.
- Disinvesting when an investment appears to be too detrimental a real-world impact, despite performance e.g. thermal coal.

Assessment of our effectiveness in identifying and responding to risks and promoting well-functioning markets

The Trustee believes that it has taken a proactive approach to understanding and managing risks integral to promoting the stability and efficiency of financial markets. **now:pensions** has implemented processes to mitigate known limitations in data quality and coverage, and supports and influences the investment manager's engagement in initiatives with policymakers, data providers, and companies. This is done to improve data quality and the well-functioning of financial markets so that **now:pensions** and the industry can continue to improve risk identification and mitigation processes.

Looking forward, the Trustee would like to further address systemic risks to continue to promote a well-functioning market and mitigate longer term financial risks to our members.

- In 2024 steps were taken to further support this with the Head of Sustainability participating in discussions with the Asset Owners Council regarding the expectations of asset owners regarding stewardship by asset managers.
- In addition, the Head of Sustainability participates in the Investment Consultants Sustainability Working Group Influence Workstream that focuses on engaging with regulations to streamline reporting requirements and focus more effort on achieving practical and effective sustainable investment practices.



5



Principle 5:

Policies

Policies

How we review our policies to ensure effective stewardship

The Trustee reviews its stewardship related policies on a regular basis over a triennial cycle. This includes:

- Quarterly monitoring of the progress on stewardship through reports to the Trustee from the investment manager and from the Head of Sustainability.
- Annual review of the investment manager's stewardship policies and their oversight of third-party managers' voting records, with qualitative and quantitative information collated to enable the Trustee to conduct yearly reviews. The Trustee ensures that the investment manager's stewardship practices and their management of third-party managers are aligned with its sustainability and stewardship approaches, and challenge any misalignments.
- An annual review of the Statement of Investment Principles which include reference to our approach to responsible investments, our investment beliefs and beliefs around stewardship.
- An annual review of the **Stewardship Policy** which is published on the website and, which sets out our approach and priorities. This document is key to ensuring that our approach to Stewardship is clear and understandable.
- An annual review of the Stewardship Code submission which includes detail of how stewardship is being exercised both by the Trustees and the investment manager. As this document is the key detailed document describing stewardship, this review by the Trustees seeks to ensure that the report is fair, balanced and understandable.
- An ad-hoc review of the priority sustainability themes and whether these remain relevant.

These reviews are produced by NPL staff or the investment manager and presented to the Investment Committee first and then findings and recommendations are raised with the full Trustee meetings for final decision.

Examples of recent actions taken to review the policies include:

- The Trustee's challenging of the investment manager in their monitoring of third-party managers to ensure activities aligned with its sustainability and stewardship beliefs and approach, including scrutinising stewardship, voting and engagement policies before initial investment. In 2023 this led to major changes to the investment strategy.
- In 2024 as part of the annual stewardship training with the Trustees, a discussion was had around whether the three priority themes should continue or be modified. The decision was taken to continue with the three priority themes already discussed: Climate Change, Gender Equality and Living Wage.
- Updating the Stewardship Policy to be published on the website in 2025 to reflect the latest thinking on the systemic importance of the priority sustainability themes.

Stewardship assurance

Internal Assurance

The Trustee performs internal assurance through a variety of means, including:

- Integrating the priority sustainability themes and real-world impact into Trustee investment decisions, to enhance risk-adjusted returns and identify new opportunities.
- Integrating an assessment of manager alignment around stewardship beliefs, engagement, voting and escalation into the criteria applied by the investment manager when appointing new third-party managers.
- Receiving regular updates on stewardship activities from the investment manager and third-party managers, scrutinising stewardship activity to ensure consistency with the priority sustainability themes, and conducting Trustee stewardship training.
- Reviewing the investment advisers and the investment manager on their sustainability and stewardship-related capabilities, ensuring processes are comprehensive and aligned with the priority sustainability themes.
- NPL, on behalf of the Trustee, monitors the investment manager in terms of investment and sustainability execution.
- NPL internal audit review certain functions as necessary.

External Assurance

now:pensions has undertaken external assurance in addition to internal assurance, to ensure that stewardship activities of third-party managers are in line with our stewardship approach and our priority sustainability themes. For example:

- For third-party managers the investment manager has an extensive annual ESG process that includes an assessment of the third-party manager's stewardship activities.
- For direct investments the investment manager engages the services of Sustainalytics for engagement overlay activities to supplement its own internal stewardship resourcing. This gives the assurance of sufficient resourcing to deal with stewardship needs across the portfolio in-line with the Trustees stewardship approach and priorities.

Rationale

The Trustee believes its internal assurance process, enhanced with external assurance provided by Cardano and Sustainalytics, allows it to effectively practise stewardship aligned with its priority sustainability beliefs.

Ensuring stewardship reporting is fair, balanced, and understandable

The Trustee ensures that its stewardship reporting is fair, balanced, and understandable through the following steps:

- Reviewing the investment manager's and third-party managers' stewardship activities and reporting, including assessing key votes and engagements
- Seeking external advice.
- Acknowledging gaps in data and assumptions. For example, in the data limitations in climate change disclosures, particularly in markets where greenhouse gas emissions disclosures are not regulated.
- Engaging with policymakers, data providers, and companies to facilitate data quality and coverage improvements.
- Reviewing the Annual Stewardship code submission
- Ensuring transparency on both successful and unsuccessful engagements.

The Trustee attempts to address and minimise data gaps to improve the quality of stewardship reporting through several means, including:

- Participating in, and supporting the investment manager's participation in, industry groups developing and enhancing greenhouse gas emissions methodologies, such as IIGCC and PCAF.
- Assessing the investment manager's oversight of third-party managers' sustainability-related data, flagging potential gaps and prioritising data of importance.
- Reviewing the investment manager's appointment of MSCI to provide external data coverage on the priority sustainability themes. For example, for the priority sustainability theme of gender equality, MSCI provides the following standardised, industry-respected datasets: board diversity, workforce diversity, gender pay gap, minimum wage, overtime, a proprietary human capital score and a MSCI proprietary Sustainable Development Goal Five (gender equality) alignment score.



How our review and assurance have led to the continuous improvement of stewardship policies and processes

The review and assurance processes have led to the continuous improvement of stewardship policies processes, for example:

- The Trustee receives regular updates and training on stewardship, ensuring that the Trustee is well-informed to support the engagement on stewardship and the priority sustainability themes. This process includes developing sustainability beliefs to inform the stewardship activities, and integrating the priority sustainability themes into investment decisions.
- The Trustee has developed and published a stewardship policy, available on the **now:pensions'** website, in response to the Trustee's reviews of its stewardship processes and stakeholder feedback.
- The Trustee scrutinises the investment manager's engagement on a quarterly basis to ensure its activities continue to align with the priority sustainability themes.
- The Trustee continues to engage with various stakeholders to improve data quality and coverage in areas identified in response to an internal audit and external legal advice.
- The review of the experience with third-party managers has led to the development of the new in-house investment strategy managed directly by Cardano that provides greater alignment with the Trustee policies.





Principle 6:

Meeting Member Needs

Meeting Member Needs

Our scheme structure

now:pensions is a master trust defined contribution pension scheme used by multiple employers. The trust is managed by the Trust Manager **now:pensions** Limited (NPL) and overseen by the Trustee, **now:pensions** Trustee Limited. The role of the Trustee is to look after the best interests of members of the Master Trust.

The size and profile of our membership

now:pensions is the third-largest master trust in the UK (by number of members) and serves 2.7 million member and 31,200 employers.

The membership comprises substantially of those people that auto enrolment was designed for: Often young members, working for small businesses, potentially working in the gig economy and many changing employer often, who will be saving for many years to come for their pensions.

1.Types of employers (by size)

Employer Size by number of members	No. of businesses
Micro Employer (1-9)	8,539
Small Employer (10-49)	7,030
Medium Employer (50-249)	3,931
Large Employer (250+)	11,743

2. Age breakdown of members

Age	No. of members
Up to 29	308,052
30-39	874,948
40-54	973,086
55-64	431,144
65+	109,566

Assets under management

now:pensions operates three different investment funds (all managed by the investment manager), with different asset classes and allocations described in the table below in more detail.

Diversified Growth Fund (93.3% of total scheme assets)

In the Diversified Growth Fund, the investments are managed across various asset classes to deliver return, risk and real-world impact including stewardship on the priority sustainability themes.

Asset class, geographic exposure and stewardship approach	Allocation
<p>Equities</p> <p>Geographic Exposure: The equity exposure is broadly in line with MSCI All Country World index which is a global index including Emerging Markets weighted by Market Capitalisation. As of 2025 the approximate asset allocation includes US equities 63%, 3% in the UK and 9% in Emerging Markets.</p> <p>Stewardship approach: c64% is in direct equities (managed by our investment manager using their Sustainable Investment Framework and which we own directly and can vote on the shares) and c11% of the equity exposure is in derivative instruments used for efficient portfolio management (where we cannot vote due to the indirect nature of the exposure).</p>	55%-85%
<p>Global green and sustainable bonds, and sterling investment-grade corporate bonds</p> <p>Geographic Exposure: c7.5% is in a global portfolio of Green, Social and Sustainable (GSS) Bonds issued by entities in the UK, Europe, Canada, the US and Australia amongst others c7.5% is in a sterling corporate bond portfolio. This consists entirely of bonds issued in Sterling.</p> <p>Stewardship approach: The GSS Bonds are “use of proceeds” bonds. That means that the proceeds of these bonds are used to finance specific projects inline with either climate (Green) social or general sustainable transition needs.</p> <p>The sterling corporate bond portfolio is managed using the same Sustainable Investment Framework and Stewardship and Engagement framework as the direct equities with investee companies engaged by our investment manager’s stewardship team.</p>	0%-30%
<p>Private market investments (including debt and equity instruments not publicly listed). Investments will be selected based off of their potential alignment and contributions to the priority sustainability themes. We are still in the process of developing our allocation to private markets but there will be an allocation to Affordable Housing mid-April 2025.</p>	0%-10%.
<p>Other (cash, government bonds, commodities, inflation swaps, high yield bonds and foreign currencies)</p> <p>Geographic Exposure: Approximately 5% is exposed to EU and US High Yield Bonds via derivatives.</p> <p>Approximately 5% is exposed to a basket of commodities including Gold, EU Carbon Futures and Industrial Metals necessary to the transition to a low carbon economy.</p> <p>Stewardship approach: Because exposure is indirect via derivatives there is limited ability to engage with underlying issuers in this part of the portfolio.</p> <p>Cash supporting the derivative exposure is held in an article 8 cash fund.</p>	0%-20%.

Retirement Countdown Fund (6.6% of total assets)

The Retirement Countdown Fund is typically invested in short-dated bonds, money markets and cash deposits denominated in Sterling, including a cash article 8 fund.

Asset class, geographic exposure and stewardship approach	Allocation
Short-dated bonds Geographic Exposure: c.60% is held in a corporate bond portfolio which consists entirely of bonds issues in sterling. Corporate geography is a global portfolio with approximately 14% in US, 44% in UK and 1% in emerging markets. Stewardship approach: The bond portfolio is managed using the same Sustainable Investment Framework and Stewardship and Engagement framework as the direct equities with investee companies engaged by our investment manager's stewardship team.	0%-60%
Other (money markets & cash) Geographic Exposure: Cash is 100% denominated in sterling Stewardship approach: Limited to no ability to engage with cash instruments.	0%-40%.

Shariah Fund (0.1% of total assets)

For their members with specific beliefs, a Shariah compliant equity fund is made available by one participating employer. The Shariah Fund is invested, via a third-party manager, in Shariah compliant investments. The portfolio is a global equity mandate, which is adjusted for a Shariah compliant universe. For the Shariah fund, the responsible investment principles and goals, set out by the Trustee, are encouraged to be applied where it is reasonably practicable to do so (e.g. voting frameworks), but the fund still invests in line with the overarching principles of the Shariah Fund.



Our investment time horizon to meet the needs of our members

now:pensions' investment time horizon is long-term, by which we mean multiple decades (for example in our TCFD report we consider the time horizon out to 2050), considering the expected long-term return against investment risk. The investment manager's strategy is based on long-term risk and return assessments of different asset classes, diversification, economic conditions, sustainability, and stewardship factors, in alignment with our priority sustainability themes.

Rationale

Given the membership demographic and a long time horizon, long-term economic outcomes are of fundamental importance.

Long-term investment is an integral component in the investment strategy, as detailed in Principle 1. The Trustee believes long-term investment is essential for managing risks associated with the priority sustainability themes and for enhancing returns over time, to meet the needs of members. The Trustee incorporates sustainability considerations into all aspects of the investment strategy because they are relevant over this long-term time horizon.

As illustrated in our **TCFD report** in 2024, systemic risks like climate change, biodiversity loss or inequality can and will affect economic outcomes and therefore whole portfolio outcomes. While strategic asset allocation is perhaps the most important determinant of overall portfolio outcomes, these systemic risks are likely to affect all asset classes meaning we cannot rely on asset class diversification. Within asset classes, security selection should also incorporate physical and transition risks. However, none of these portfolio decisions will change the real world outcomes.

For this reason, our stewardship approach emphasises the need for real-world progress in systemically important sustainability themes. The choice of our priority themes of gender equality, living wages and climate action links specifically to some of the issues that we believe will be most important to our members.

Over the long-term time horizon, these systemic issues will drive member outcomes. We are realistic that our actions cannot on their own change these outcomes, but we believe that by collaborating with others to focus on real world change our voice can contribute to shifting thinking and action in the right direction and hopefully reducing these risks for members.

How we collect members' views

In Q1 2023, **now:pensions** sought feedback from individual members regarding their views via focus groups. The Trustee captured relevant findings in the annual TCFD report and shared the results with the DWP's Occupational Pensions Stewardship Council (OPSC).

Participants first completed a questionnaire on their views on finance and specifically their pension. Then 75-minute focus group sessions were run to better understand members' views on sustainability topics, including climate change and responsible investment.

Focus groups were conducted based on key principles to ensure effective engagement, clear communication, and accessible content for members. Guided by the OPSC Member Engagement Guide, these principles include: active listening, concise and clear communication, simple, everyday language, relevant and instructive content, use of preferred communication channels, meaningful engagement that drives impact, inclusivity, a positive, engaging, and approachable tone ("light and bright").

Rationale

The focus groups were aimed to establish whether members understood their pension, the importance of various investment and sustainability topics, and to understand areas where they would like to see progress.

How members' needs are reflected in our stewardship and investment approaches

Investments are managed to deliver long-term returns, aligning with the investment risk trade-off, and reflecting the long-term interests of members. To achieve this, **now:pensions** has two different funds for different life stages, with varying levels of calculated investment risk: the Diversified Growth Fund (the 'default') and the Retirement Countdown Fund (a lower risk fund focused on short duration cash and credit instruments as members come close to using their savings). The two funds are used at varying levels depending on the life stage of the member and consequent needs, to maximise positive outcomes.

now:pensions considers non-financial factors (such as members' ethical or religious views and those relating to quality of life and social and environmental impact) if expressly requested by the employer in deciding whether to offer any self-select funds to members, for example, the Shariah Fund.

now:pensions publishes an annual **Implementation Statement** and **TCFD report** that consider members' needs and communicate engagement activities and outcomes. Progress on stewardship and priority sustainability themes are monitored regularly and reported to members annually in the Stewardship Code submission. A members' summary alongside the publication of our TCFD report is produced to increase the accessibility.

Evaluating the effectiveness of our methods to understand members' needs

The Trustee believes the findings of the focus group activity were helpful and have helped to reinforce the approach to sustainability and stewardship. The focus groups allowed us to obtain primary data on members' understanding and attitudes towards pensions, responsible investing, and what matters to members and employers in terms of investment and sustainability topics.

How we have taken account of members' views

now:pensions works to understand members' views to ensure that, as far as legally permitted, these are reflected in investment decisions and service delivery.

The focus groups activity revealed that members need help to understand their pensions and investment strategies. There is a lack of clarity among members and employers about what constitutes a good investment and whether and how the Trustee influences pension investment decisions. While the focus groups represented a small subset of the membership, the Trustee found the exercise useful and have considered the results in detail.

The focus groups activity did not lead to a change in investment strategy, although it was recognised that more could be done to explain responsible investment. The Trustee believes this is an issue relevant to the broader industry. It has informed the decision to join IIGCC, PRI and Pensions for Purpose and encourage their attention at addressing industry communication challenges. The findings of the focus groups were also shared with the Occupational Pensions Stewardship Council (OPSC) and will be considered further by the Trustee to enhance member understanding and engagement in responsible investment.

Where we have not followed stewardship and investment policies

There have been no instances where the Trustee has not followed the stewardship and investment policies, with exception of the Shariah Fund (see below).

In the case of the Shariah Fund, the Trustee's responsible investment policies have not been applied and considered in the selection of the investment strategy as the primary consideration is ensuring a Shariah-compliant fund is provided to members. The other parts of the responsible investment policy including reviewing the stewardship approach applied by the manager continue to be applied. This choice of whether to invest in this fund is made by members to reflect their Shariah aligned beliefs and therefore it is in their best interests.

However, there were historic instances where third-party managers appointed by the investment manager have acted in ways that the Trustee believes is not consistent with the priority sustainability themes. It is the investment manager's responsibility to assess and report to the Trustee the actions of third-party managers to ensure they are in line with priority sustainability themes. This is explained in the case-study to the right.

Case-study: A case of misaligned expectations

At the 2023 general meetings of two oil and gas companies, **now:pensions** engaged and expected third-party managers to vote in favour of a climate resolution, in line with the climate action priority sustainability theme. This was not the case for all the third-party managers, and so the investment manager followed up to understand the third-party manager's decision-making.

The instance of when a manager has not voted as expected informed the investment manager's ongoing assessment of that manager and was reported to the Trustee. In one case, the overall voting and engagement activity of one of the third-party managers assessed over several years, prompted a downgrading of their sustainability rating by the investment manager.

The Trustee believes stewardship involves alignment on more than simply voting. The managers' engagement with the companies, voting, escalation, and portfolio actions should ideally be aligned with the Trustee's beliefs. This was one factor in the 2023 investment strategy review that led to disinvesting from this manager in 2024.



Principle 7:

**Integration
of stewardship,
sustainability,
and investment**

Integration of stewardship, sustainability, and investment

Issues we have prioritised for investment assessment

The Trustee's priority sustainability themes: gender equality, living wages, and climate action are considered at all stages of investment. Explanations for each priority sustainability theme are below, and set out in further detail on the **now:pensions** website. These themes were selected because of their systemic importance to the financial outcomes for the **now:pensions** membership in the long term.

Theme	Explanation
Gender equality	<p>now:pensions believe in the equal rights, responsibilities and opportunities of individuals regardless of gender. We believe that gender equality is necessary for a prosperous and sustainable world, and as such is a moral and economic imperative. The contribution to reducing long term systemic risks that arise as a result of inequality will be to the financial benefit of our members.</p> <p>According to the European Institute for Gender Equality, improving gender equality could increase GDP to 9.6% per head by 2050. That's an increase of 6.1%, amounting to around €1.95-€3.15 trillion in the EU.</p> <p>This could lead to 10.5 million more jobs, benefiting individuals, families and society. Countries that improve gender equality can expect an increase in GDP of about 12% by 2050.</p> <p>So, gender equality is really important for economic growth and financial outcomes for pension savers.</p> <p>Furthermore, we believe that companies that take steps towards gender equality will, on average, outperform companies that ignore gender equality or exacerbate gender inequalities. We believe that companies that make improvements on gender equality will secure a more engaged and diverse workforce, be less exposed to reputational issues, and will help to reduce poverty.</p> <p>The UK gender pay gap is 7.7%. This was 7.6% in April 2022 and 9.0% in April 2019. Just 10.4% of Fortune 500 companies are led by women in 2023. That's 52 of 500.</p>

Theme	Explanation
Living wages	<p>now:pensions believe that companies should pay workers a living wage, as set out in the Universal Declaration of Human Rights. We believe 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 contribution to reducing long term systemic risks that arise as a result of inequality will be to the financial benefit of our members.</p> <p>The Living Wage Foundation says:</p> <ul style="list-style-type: none"> • Raising the pay of even a quarter of the UK’s low-paid workers to the level of the real living wage could put an extra £1.7 billion back into the UK economy. • The real Living Wage (at £12) is worth £1,092 more a year than the current National Living Wage (at £11.44). The London Living Wage (at £13.15) is worth £3,334.50 a year more than the National Living Wage (at £11.44). <p>We believe that companies that pay a living wage will, on average, outperform companies that do not pay a living wage. We believe that companies that pay a living wage will secure a more engaged and diverse workforce, be less exposed to reputational issues, and be less exposed to regulatory intervention.</p> <p>The Living Wage foundation says:</p> <ul style="list-style-type: none"> • 87% of Living Wage employers say it’s improved the reputation of their business, and • 62% of Living Wage employers say it’s improved their recruitment of employees.

Theme	Explanation
Climate action	<p>now:pensions believe that companies which take steps to address climate change will, on average, outperform companies that ignore or increase climate change. Climate change is now a widely established and socialised concept within financial markets, and is a real, systemic risk.</p> <p>There is increasing scepticism in current politics about a transition to Net Zero. The question is not whether we will transition to Net Zero but when. The science is unequivocal: while human activity related greenhouse gas emissions continue the earth’s atmosphere will continue to warm with more and more severe consequences for our environment, societies and economies. The question is simply whether we will reach Net Zero by 2050 and limit global warming to less than 2 degrees, or whether it will be later, with higher levels of warming and more severe economic consequences.</p> <p>The transition to the low carbon economy will be one of the most significant economic transitions in our lifetimes.</p> <p>In this way, climate action is one of our priority sustainability themes as we believe that a fast, fair and just transition to a low-carbon economy is the only way to address this crisis and risk. The contribution we can make to reducing long term systemic risks that arise from climate change will be to the financial benefit of our members.</p>

These themes inform the Trustee’s engagement activities, including the exercise of voting rights on behalf of the Trustee.

Before appointment (for third party managers)

Before the investment manager appoints a new third-party manager, the investment manager assesses the third-party manager's alignment with the Trustee's priority sustainability themes and how the third-party manager engages investee companies and policymakers. The investment manager's Manager Research Team completes detailed due diligence through questionnaires and onsite due diligence, rating the manager on policies, process integration, stewardship and reporting. An independent due diligence is conducted by the investment manager's Operational Due Diligence team. This includes an assessment of policies such as the diversity policies of the third-party manager with staff diversity collected at this stage.

Sometimes, the Trustee may direct the investment manager to allocate to investments with specific sustainability objectives (such as net zero GHG emissions by 2050) to facilitate risk management and progress around one of the priority sustainability themes.

Case Study: A third-party manager appointment for the scheme involved appointing a manager to deliver a Shariah compliant fund to be made available to certain members in line with their religious beliefs. The third-party manager was assessed to have good stewardship policies but this appointment involved an active discussion by the Trustees regarding the priority themes in the case of this investment. It was decided that in this case it was in these members' interests to provide an option compliant with their religious beliefs and this would take precedence over the priority themes that are applied more broadly to other investments. The third-party manager is still expected to engage with the businesses to manage financial risks, climate risks and other ESG risks.

During holding (Direct investments)

During holding the investment manager engages with companies to address risks and make progress associated with the priority sustainability themes. For example, to meet objectives related to the climate action priority sustainability themes, the Trustees will challenge the investment manager on their engagement with investee companies to address climate change-related risks. Examples of such engagement can be found under Principle 9.

Exiting (Direct investments and third-party managers)

Whilst the Trustee's preference is to engage, rather than divest, the Trustee may choose to exclude investments where the real-world impact is deemed too detrimental, especially regarding systemic issues like climate change or human rights. In relation to the climate action priority sustainability theme, the Trustee may deem an investment unfit for the investment portfolio, if it is inconsistent with the goal of net zero greenhouse gas emissions by 2050 and a 50% reduction by 2030 (based on 2019 levels), and the portfolio company has not demonstrated its appetite or ability to transition.

For example, in the new strategy implemented in equities in 2024, the investment manager excludes from the physical equity portfolio companies that it deems too harmful or in violation of international standards. This includes companies in breach of the UN Global Compact, thermal coal producers (subject to various phase out dates), controversial weapons manufacturers, and tobacco companies. The investment manager will also disinvest from companies that it considers to be "non-adapting" or "at-risk" of failing to transition on the required transition pathway having previously engaged with those businesses.

How integration of stewardship and investment has differed across funds, asset classes, and geographies

Up until the 2023 strategy review, certain equity investments were managed by third-party managers. As part of their responsibilities, the investment manager ensured that stewardship, voting and engagement policies of the third-party managers were aligned with the Trustee's stewardship policy and priority sustainability themes prior to initial investment. During investment, third-party managers were expected to apply stewardship principles consistent with those of the Trustee and provide appropriate disclosures to show alignment. When allocating to third-party managers the emphasis for stewardship is on how the investment manager engages with the third-party asset managers following an ESG rating process.

Moving into 2024, as detailed in Principle 8, the new strategy moved away from certain third-party equity managers, in part due to a perceived misalignment of these managers' actions with the Trustee's stewardship beliefs.

The new strategy implemented in H1 2024 has an increased exposure to direct physical holdings of equity and credit managed in-house by the investment manager, allowing the Trustee to have a more closely aligned stewardship role compared to the previous strategy.

This is implemented using the stewardship and voting policies of the investment manager. This applies to both equity and credit investments with the same stewardship and exclusions approach taken on both (with the exception that there is no normal voting on the credit investments). Geographically these are global and sterling investments respectively.

The same voting and engagement approach is taken globally by the investment manager on all public market investments driven by focusing on the most systemically material issues and companies. Geographically local nuance is applied. For example: the investment manager applies slightly different local voting rules on board diversity in different geographies. They also apply different expectations on Emerging Market vs Developed Market companies when assessing their transition plans: Emerging Market companies are sometimes given more leeway to transition, though this depends on the sector and their impact.

The Trustee believes that engagement with bond issuers is as important as equity engagement. The same portfolio management and stewardship approach is adopted (without the voting) by the investment manager. For example: this means that companies might be excluded if they fail to demonstrate sufficient commitment to transitioning, thereby denying their funding when new bond issuance comes to market. Similarly, the Stewardship team will be raising the same concerns on environmental or social issues as they would for equities.

The portfolio of green sustainable and social "use-of-proceeds" bonds follows the investment manager's sustainable bonds framework focused on whether the green bond in question meets the investment manager's standards for an appropriate green bond allocation. This is in general more strict than normal market standards. For example green bonds issued by companies considered to be "non-adapting" or "at-risk" would not normally qualify for the portfolio. The investment manager applies a process to monitor the use of these bonds and if they fail to be used in accordance with expectations there is then an escalation process.

The investment manager's sustainable investment framework prioritises specific sustainability themes that are considered to be systemic to economic, society and environmental outcomes. These include climate change, biodiversity loss, water use in water scarce areas, materials use, pollution and a circular economy; and social issues such as basic needs, a fairer society and good governance. Many of these themes align closely with the Trustee's priority themes. In particular the focus on deforestation, water use and biodiversity loss are closely linked to the Trustee theme of Climate Change. The investment manager has adopted the Trustee's priority social themes of Gender Equality and Living wage under their "Fairer Society" theme and highlight to the Trustee specific activities with regards to these two themes.

These themes are then targeted through collaborative engagements focused on the specific themes with escalations using various tools were appropriate (See Principles 9, 10, 11 and 12).

The strategy is implemented in places through derivatives (commodities, high yield and a small amount of the equity exposure). This is usually done for the purposes of efficient portfolio management. Because the derivative exposure is typically to a broad market index and does not allow direct ownership of the underlying securities, this does not usually allow engagement with underlying companies. In these cases the investment manager does incorporate ESG risk assessment and engagement with the counterparties to the derivatives, typically investment banks.

Third-party manager engagement in public and private markets

Stewardship will be an important principle in appointing any third-party private market managers in future and remains relevant to components of the portfolio such as the Shariah Fund which is managed by a third-party manager. At this stage there are no private investments but these are actively under consideration and will likely involve third-party asset managers.

Following the new strategy implementation at the end of the previous financial year, our exposure to third-party asset managers was greatly reduced. Because the remaining third-party manager exposure (0.1% of total scheme assets) outside of cash funds now represent a very small portion of the total scheme assets we have reduced the amount of reporting on our engagement with third-party managers in this year's submission.

In future, different strategies within the master trust may have different priorities because of the differing funds' member demographics and needs. Consequently, the integration of stewardship may be different.

How we ensure that tenders have included a requirement to integrate stewardship and investment

The stewardship policy was prepared in alignment with the UK Stewardship Code, which emphasises the integration of ESG issues into the investment process as a crucial component to long-term success. The third-party managers' policies must comply and align with the Trustee's policies. The investment manager ensures that tenders include these requirements.

How we ensure the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of members

The investment mandates include requirements to integrate stewardship and investment to align with the investment time horizons of members. In public markets **now:pensions** expects our investment manager to be a signatory to industry initiatives relevant to our priority sustainability themes, ensuring that awarded mandates meet the expectations for collaborative engagement and ESG integration.

Processes we have used to integrate stewardship and investment to align with the investment time horizons of members

The Trustee delegates the responsibility for day-to-day investment decision making, including ESG integration and stewardship activities, to the investment manager while retaining oversight and receiving regular reports, and determining priority sustainability themes, and stewardship activities. The investment manager's focus on long term systemic sustainability themes matches the Trustee's beliefs and time horizon. The Trustee monitors how the investment manager integrates priority sustainability themes into the investment process, ensuring alignment with the long-term interests of members.

Processes we have used to ensure service providers have received clear and actionable criteria to support integration of stewardship and investment

now:pensions regularly and directly communicates with the investment manager to provide clear and actionable criteria to support integration of stewardship and investment. On **now:pensions**' behalf, the investment manager communicates and engages with third-party managers in line with the Trustee's beliefs and priority sustainability themes.

Overseen by the Trustee, the investment manager annually reviews all third-party managers on their ESG approach across four dimensions: Policies, Integration, Stewardship and Reporting. This compares managers against minimum standards and best practice. Managers falling short will have active engagement plans focused on creating improvements with specific milestones. The investment manager writes to third-party managers annually setting out sustainability improvement priorities. This engagement ensures that third-party managers continue to act on and/or evolve their approaches towards relevant ESG issues.

The investment manager employ Sustainalytics as a support and additional resource for engagement activities.

As a standard, the Trustee expects the investment manager and third-party managers to be signatories to the UK Stewardship Code and engage collaboratively on initiatives that **now:pensions** supports, such as Climate Action 100+ and the Net Zero Asset Managers Initiative, as detailed in Principle 4.

How information gathered through stewardship has informed acquisition, monitoring and exit decisions to best serve members

Information gathered through stewardship activities has informed investment decisions in numerous ways, such as:

- Stewardship engagement, including dialogue with key stakeholders and companies on sustainability issues, plays a key role in influencing investment decisions and ensuring alignment with our priority sustainability themes.
- The investment manager, guided by the stewardship policy, considered in detail the sustainability and stewardship policies of the third-party managers. These are monitored on an ongoing basis and their stewardship activities have led to decisions to exit managers where these are misaligned with the Trustee's beliefs.
- The investment manager's stewardship team set milestones for engagements, including around the Trustee's priority themes. Progress is monitored. When engagements fail to produce a required response various escalation tools are considered which do include downgrading the company that may then lead to exclusion from the portfolios. The Trustee receives regular reports on this stewardship activity and this can in turn influence the Trustee's decisions on the investment mandate.

- In regular quarterly updates on stewardship and at the annual stewardship training the Trustee has and does challenge the investment manager regarding their stewardship activities.

Through the stewardship approach, the Trustee aims to create long-term value for members, with stewardship and engagement applied across all aspects of the Trust to enhance member outcomes. The investment manager's engagement and monitoring of third-party managers ensured that the managers' activities reflected the Trustee's investment priorities and policies, serving the best interests of the members. The integration to of the priority sustainability themes which tackle long term systemic issues, is a way to add value after costs and charges, thereby serving members by improving long-term financial outcomes.





Principle 8:

Monitoring of managers and service providers

Monitoring of managers and service providers

Monitoring service providers to ensure services meet our needs

now:pensions monitors service providers to ensure services meet the Trustee's needs through a variety of means, such as:

- Due diligence before the appointment of any new service provider and undertaking an annual review of all key suppliers. This includes an assessment of sustainability-related expertise and the ESG policies of suppliers which are reported to the Trustee.
- Monitoring key suppliers with operational risk, fund administrator, and the master trust administrator, and the investment manager to ensure sustainability risks are managed appropriately.
- The Trustee receives quarterly reports and a monthly dashboard highlighting important changes, which includes material changes to the portfolio and any material issues impacting the portfolio, including sustainability issues.

Actions we have taken where our expectations have not been met

The Trustee expects the investment manager to ensure that all Scheme assets are managed in accordance with the policies.

Actions the investment manager has taken in the case where expectations have not been met include:

- Challenged a third-party manager on their assessment of their own ESG performance.
- Challenged third-party managers on their voting and engagement activities with investee companies. This was supported by an understanding of engagement of these companies through Sustainalytics, a firm contracted by the investment manager to provide engagement overlay services.
- Stressed the importance of participating in sustainability initiatives and of the Trustee's voting priorities, when necessary.

- Scrutinised third-party managers when expectations and performance on priority sustainability themes were not met, and continued to engage.
- Downgraded managers who have failed to act in line with the Trustee's beliefs, and that has ultimately led to certain managers being exited.

Examples of third-party manager engagements

Following the 2023 strategy review, which led to almost all assets being managed in-house, our engagement examples with external managers have significantly decreased. Currently, we have only one external manager—the Shariah Fund, which represents just 0.1% of the portfolio. The only other third-party manager oversees money market assets.

Given the small size of the Shariah Fund and its primary investment priority – ensuring alignment with Shariah-compliant principles – the Trustee has chosen to focus its engagement efforts on investments within the main default strategy. As a result, there are no notable third-party engagements to report.

The 2023 strategy review and outcomes

In 2023, the Trustee undertook the triennial strategy investment review. As a result the Trustee agreed a revised investment strategy with the investment manager. Several significant decisions were taken as a result of the review in the context of experience over recent years; specifically the new strategy:

- The investment manager took the decision to move away from certain third-party managers (including the two third-party equity managers) due in part to a perceived ongoing misalignment of their stewardship and voting action with the Trustee's beliefs.
- This meant that the majority of equities and bonds are now directly managed in-house by the investment manager.
- The increase to direct physical holdings has enabled the Trustee to have a more active stewardship role compared to the previous strategy.

The new strategy, implemented during the first quarter of 2024, has allowed for a much closer alignment with the Trustee's priorities and beliefs in terms of engagement with companies, escalation when companies are not responding appropriately, voting actions and, if necessary, portfolio actions such as divestment.

Assessing the effectiveness of the new investment strategy

The strategy has been effectively and efficiently implemented for both the Diversified Growth fund and the Retirement Countdown Fund.

While it is a relatively short period of time over which to judge the effectiveness of the new strategy the initial experience with the portfolio being managed in-house by our investment manager has been a positive one.

- During the Trustee training day on stewardship, supported by the investment manager's Stewardship team, the Trustees were able to probe and challenge in a much deeper way the stewardship actions of the investment manager than had been the case with the third-party managers in the previous strategy. This covers both the direct equity and credit portfolios in the Diversified Growth Fund and Retirement Countdown Fund.
- The regular stewardship reporting gives more detailed information on the progress of individual engagements through different milestones.
- There is now a much stronger connection between the stewardship activities of the investment manager and the Trustee's priority themes.

- The voting results on the direct equity portfolio are demonstrably more inline with the Trustee's beliefs. For example, voting consistently in line with climate proposals that support the transition to Net Zero where these are aligned with long term value creation, or voting against boards that demonstrate insufficient gender diversity.
- The investment manager is involved in numerous collaborative engagement initiatives, each of which can be mapped to the Trustee's individual engagement themes, providing a clearer path to understanding how companies are being engaged on material issues aligned with the Trustee's priority themes.

We also continue to assess the remaining third-party fund, the Shariah fund. Over the year we raised questions on how this provided assurance of continued compliance with Shariah principles and received satisfactory answers to this. We believe this continues to meet the needs of those members.



Principle 9:

Engagement with issuers

Engagement with issuers

Methods of engagement

The Trustee has structured an approach to maximise their ability to engage. The Trustee oversees and monitors the investment manager in their engagement and staff from NPL are also involved in monitoring the investment manager's stewardship as well as supporting the Trustee on policy engagement efforts.

There are three levels of engagement:

- 1** NPL's Head of Sustainability and staff work on behalf of the Trustee, together with the investment manager, Cardano, to engage policy makers and regulators directly and through collaborative initiatives, on behalf of the Trustee. For example, a letter to a regulator or a policy response may involve **now:pensions** as a signatory.
- 2** The investment manager, Cardano's, engagement of issuers, policy makers and regulators directly and through collaborative initiatives. Cardano's stewardship team are also supported by Sustainalytics on some specific engagements. For example, the letter to the company will include Cardano as a signatory.
- 3** Third-party managers, appointed by the investment manager, conduct engagement and voting with underlying issuers, both directly and through collaborative initiatives. For example, a letter to the company may include the third-party asset manager as a signatory.

In the first level of engagement **now:pensions** plays a leading role and lends credibility directly to the engagement through its role as asset owner. See the example of engaging with Sainsbury's in the table later in this section.

In the second level of engagement, the investment manager, Cardano, plays the leading role. NPL staff may also choose to support some of these investment manager-led engagements directly. The investment manager's role in the engagement can also differ with four different potential roles:

- a)** Direct – through collaborative engagement initiatives, where the investment manager plays a leading role in the engagement discussions with the company.
- b)** Direct – discussions undertaken individually with the issuer, without being part of a collaborative initiative (includes listed equity and fixed income).
- c)** Indirect – through collaborative engagement initiatives, where the investment manager is a supporting engager, and another member of the initiative leads discussions.
- d)** Indirect – via the investment manager's third-party stewardship provider, Sustainalytics where the Sustainalytics team undertake the lead role in discussions with the company.

In summary, the investment manager may engage by four different means (see examples later in the table later in this section):



The third level of engagement is indirect, where the investment manager oversees third-party managers' activities, on behalf of the Trustee. This includes:

- a) An annual ESG assessment of managers, including completion of a detailed questionnaire and calibration of their activities versus peers. During this assessment, milestones for engagements with the third-party manager are set for the coming period, specific to their circumstances.
- b) An annual assessment of third-party managers' stewardship and voting activities.
- c) Periodic meetings with third-party managers on their broader sustainability activities, including monitoring of any priority engagement objectives.
- d) Ad hoc engagement during the proxy-season on individual votes.

As the proportion of the portfolio managed by external managers has been substantially reduced this last route is now of smaller significance though the process remains in place for the remaining external manager of the Shariah Fund.

Our expectations for others that engage on our behalf

The Trustee expects the investment manager and third-party managers to apply stewardship principles consistent with the Trustee's beliefs and provide appropriate disclosures. The Trustee encourages collaborative engagements through investor-led groups or initiatives, such as those mentioned in Principle 4, and expects the third-party managers to be signatories and active supporters of relevant industry sustainability initiatives.

How we select and prioritise engagement

now:pensions focuses on proactive engagement on the priority sustainability themes: gender equality, living wages, and climate action, as well as responsive engagement following controversies or incidents.

While the priority themes are a particular focus, **now:pensions** also support broader engagement by the investment manager on a range of sustainability issues. These include:

- Other systemic themes prioritised by the investment manager such as biodiversity loss, water use and materials use.
- Controversies that arise at underlying businesses.
- Material issues that will be subject to a vote at AGMs.

How we developed our well-informed and precise engagement objectives

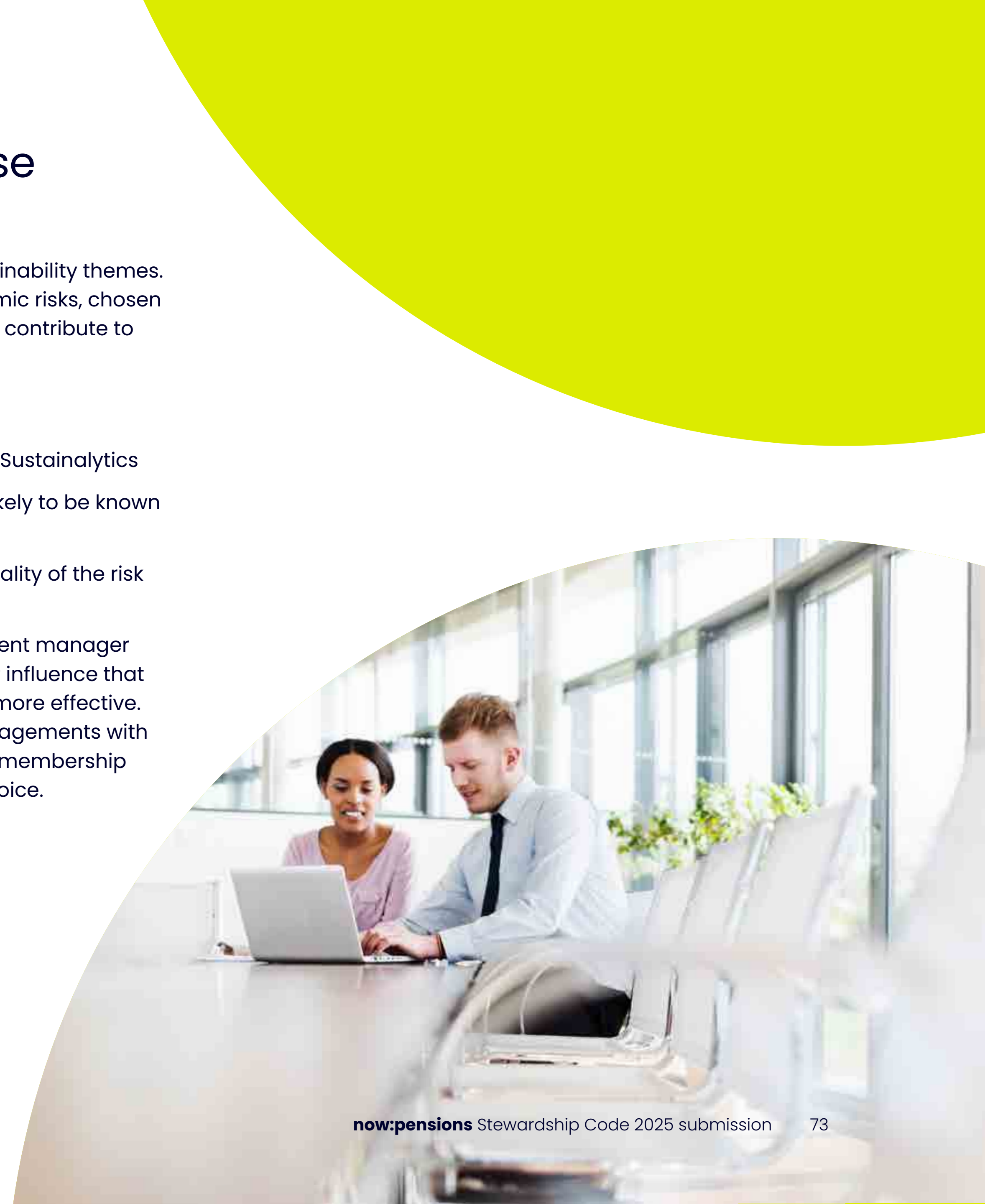
The engagement objectives are informed by the Trustee's core investment beliefs and priority sustainability themes. By managing investment risk through sustainability and stewardship approaches focused on systemic risks, chosen because they have direct relevance to our membership base over the long term, we believe we can contribute to reducing risks and enhance long-term portfolio risk-adjusted returns.

Examples

The investment manager, under the guidance of the Trustee, goes through a selection process to determine the engagements most appropriate for **now:pensions** and **now:pensions'** members. This starts with the collaborative engagement initiatives most suitable to addressing long term systemic risk themes and in particular that relate to the Trustee's priority themes. Within each collaboration the investment manager then proposes specific companies which they will take the lead on engaging on behalf of the Trustees. Factors considered include:

- the quality of the collaborative initiative
- the other investors involved in the collaboration and their alignment
- the organisation leading or providing research to the collaboration (for example Share Action, the PRI or the IIGCC)

- engagements undertaken through Sustainalytics
- whether the investee company is likely to be known by members
- the level of influence, size, or materiality of the risk in the investment portfolio
- Whether the Trustee or the investment manager has any unique positioning, data or influence that may make a certain engagement more effective. For example, in the living wage engagements with Sainsbury's, **now:pensions'** unique membership base gives it a particularly strong voice.



Our engagement methods

The engagements are conducted directly, through the investment manager, and through their involvement in industry initiatives, as detailed in Principle 4, with the support of Sustainalytics in some cases. Engagements are both proactive, on specific themes or systemic risks, or responsive to controversies or incidents. We may use a variety of tools to escalate if initial engagement is not successful as detailed in Principle 11.

Our rationale for our approach

Where possible, **now:pensions** encourages collaborative engagement as this is where the Trustee believes it can have the most impact and influence on the priority sustainability themes of gender equality, living wages, and climate action (as detailed in Principle 1). The Trustee believes that by addressing the priority sustainability themes through collaborative engagement, **now:pensions** can maximise member outcomes (as detailed in Principle 6).

How our engagement has differed for funds, assets, or geographies

The investment manager's engagement is tailored based on the form of investment (direct or via a third-party fund), asset classes invested, geographies invested, and which of the priority sustainability themes is relevant to the investment.

The 2023 strategy review has led to a recent increase in direct exposure managed directly by the investment manager. It is anticipated that in future there will continue to be a mix of direct exposures and indirect exposures held by third-party managers albeit the latter will be a much smaller portion of the portfolio.

For example, the third-party funds' processes for engagement are different than those of direct investments held by the investment manager. For third-party funds, the objective of engagement with the manager is usually focused on improving their standards of stewardship and ESG integration.

For direct investments, the investment manager applies a common framework for all investments globally across debt and credit. This framework recognises that, for example, different sectors will be able to achieve decarbonisation at different paces. An area of active debate is how engagement and expectations should vary between emerging market and developed market companies to allow a just transition for emerging markets. This may lead to varying milestones set for companies specific to their geography and industry.

For direct holdings in sovereign bonds a different framework is applied when compared to credit and equity but following similar principles. Given the portfolio's only remaining sovereign bond exposure after the investment review is to UK gilts, the primary focus here is engagement with the UK government, policy makers and regulators.

Outcomes of ongoing and recent engagement

Examples of outcomes of the investment manager’s recent and ongoing engagement with direct investments, overseen by the Trustee, in 2024 are below:

Investee sector	Priority sustainability theme	Engagement activity
<p>Chemicals</p>	<p>Climate action</p>	<p>The chemical sector is responsible for about 6% of the global greenhouse gas emissions. The sector therefore plays a critical role in enabling the low-carbon transition.</p> <p>To accelerate decarbonising the sector and to make the portfolio more robust across the different climate scenarios, the investment manager has been participating in a ShareAction coordinated collaborative engagement since early 2023. The goal of this initiative is to encourage European chemical companies to implement a 1.5°C aligned climate transition plan with short-, medium- and long-term goals.</p> <p>During 2024, several engagement meetings were held with these companies, including dialogues with the CEOs or senior management at three companies.</p> <p>One company has made notable progress on the coalition’s key objectives and proactively offered the investor coalition a meeting with the company’s new CEO. Discussions centered on the company’s CSRD-aligned transition plan, specifically strategies for transitioning its asset base over the next decade and moving away from fossil fuel feedstocks.</p> <p>We have seen slower progress at two of the other companies but the coalition still has had open communications with them and continues to push for progress.</p> <ul style="list-style-type: none"> • One of the world’s largest nitrogen fertilizer producers has demonstrated limited progress on key objectives, particularly in setting a Scope 3 emissions target. Following the filing of a shareholder resolution earlier this year, the investor coalition sent two letters to the company’s CEO addressing the company’s refusal to adopt the resolution and requesting a meeting. During the CEO-level meeting, the coalition discussed the three core asks and emphasized their expectations for progress. • Similar concerns were raised with one of the largest industrial gases providers globally. Discussions mirrored those described above, focusing on the company’s lagging efforts in aligning with the coalition’s expectations. <p>Follow up letters were sent to all three companies, and the engagements will continue in 2025.</p>

Investee sector	Priority sustainability theme	Engagement activity
UK retailers	Living wages	<p>The investment manager engages companies on the topic of living wage through different investor coalitions, including the ShareAction-led Good Work Coalition, which focuses its work on insecure work, workforce disclosure, living wage, and diversity and inclusion in the UK retail sector. When looking at living wage, the coalition has set the below objectives for companies under engagement:</p> <ul style="list-style-type: none"> • Go beyond legal minimum wage requirements and pay a Real Living Wage as set by the Living Wage Foundation to all direct employees. • Improve oversight of regular third-party contracted worker staff pay levels and work towards implementation of the real Living Wage for these workers. • Become accredited as a Real Living Wage Employer with the Real Living Wage Foundation. <p>In 2024, the coalition was active in different ways:</p> <ul style="list-style-type: none"> • Sainsbury's: The investment manager co-filed a shareholder resolution for Sainsbury's' 2022 AGM, asking the company to become an accredited living wage provider. The engagement attempt was partly successful in that the company is committed to making progress but did not commit to joining the Living Wage Foundation. Although not yet accredited, the progress made by Sainsbury's on its direct staff as well as part of its third-party contractors places it now as one of the better performers in the sector on the topic of living wage. In 2024, we kept engaging with Sainsbury's by sending an investor letter signed by now:pensions as well as the investment manager. • An engagement letter was sent to all 11 companies under engagement, acknowledging where each company is at and reiterating the goals of the coalition and the next steps each company is expected to take. The coalition requested meetings with each company. • Meetings were held with most of the UK retailers under engagement. The discussions focused on understanding the company's base pay structure, oversight of third-party contractors and barriers to accreditation for those who already pay their staff the real living wage. One retailer, who now pays the real living wage to its direct workforce mentioned that satisfaction and retention has never been so high, although it is hard to only and directly link this to pay practices. • In October, the coalition coordinated a letter sent to Angela Rayner, the UK Deputy Prime Minister and Secretary of State for Housing, Communities & Local Government, which both the investment manager and now:pensions signed. The letter was sent following the change in government in the UK and the new Labour government's commitments under their 'Plan to Make Work Pay'. The aim of the letter was to encourage the government to hold its promises and push for ambitious upgrades to workers' rights. <p>In 2025, the coalition will continue its engagements with companies and conduct further public policy engagements where appropriate.</p>

Investee sector	Priority sustainability theme	Engagement activity
US entertainment software	Gender equality	<p>An American entertainment software company in the portfolio, has faced discrimination and harassment issues. In July 2021, the California Civil Rights Department (CRD) found evidence that the company discriminated against its female employees in their employment terms and that female employees were subjected to constant sexual harassment by male co-workers, supervisors and high-ranking executives. In its initial response, the company denied the accusations; however, soon after, the company's CEO announced a third-party review of the company's procedures. The investment manager has been following the engagement opened on the topic by its engagement provider Sustainalytics. Over 2023, the company demonstrated via its new ESG report that a cohesive strategy had been developed to manage diversity, equity, and inclusion (DEI) initiatives. In April 2024, a conference call was held between the company, Sustainalytics and investors regarding a more systematic approach to DEI progress within the overall management plan.</p>

Q2 2024 onwards represents the first period for which the investment manager was able to directly vote on these shares as described and undertake escalatory actions on behalf of the Trustee.

For examples on engagement by the Trustee and investment manager with third-party investment managers please see Principle 8 and Principle 12.

10



Principle 10:

Collaborative engagement

Collaborative engagement

Our participation in collaborative engagement

In summary, the Trustee's collaborative engagement is as follows:

Initiative	Priority sustainability theme	Involvement
Pensions for Purpose	Gender equality, living wages, climate action	Member
IIGCC	Climate action	Member
PRI	Gender equality, living wages, climate action	Signatory
Asset Owners Council	Gender equality, living wages, climate action	Member
PRI: Spring initiative	Climate action (deforestation)	Supporter
ShareAction's Good Work Coalition	Living wages	Member

Overseen by the Trustee, the investment manager's participation in collaborative engagement is as follows. The investment manager has an active role in all the below collaborations:

Priority theme	Initiative	Sector/Topic
Climate action (net zero)	Dutch Climate Coalition	Oil & Gas, Chemicals: Climate transition
	Sustainalytics Net Zero program	Metals, Utilities, Airlines, Oil & Gas: Climate transition
	IIGCC Net Zero Engagement Initiative (NZEI)	Utilities: Climate transition
	ShareAction: Chemicals decarbonisation program	Chemicals: Climate transition
	ShareAction: EU banking program	Banks: Climate transition
	Climate Action 100+	Agriculture: Net Zero and climate transition
	FAIRR Protein Diversification	Food & agriculture supply chain: Climate transition strategies

Priority theme	Initiative	Sector/Topic
Climate action (Biodiversity)	Satellite-based deforestation program (Cardano-led)	Consumer Goods: Deforestation in the supply chain
	PRI Spring	Agriculture, Mining: Lobbying related to public policy to prevent deforestation and biodiversity loss
	Nature Action 100	Specialty Chemicals: Biodiversity
	Sustainalytics Biodiversity and Natural Capital program	Banks: Biodiversity oversight and transition
	Share Action Pesticides initiative	Chemicals: Pesticide production and biodiversity loss
	FAIRR Waste & Pollution	Packaged Foods and Meats: Biodiversity risks from waste

Priority theme	Initiative	Sector/Topic
Climate action (water)	Valuing Water Finance Initiative	Restaurants: Water scarcity and water quality
Climate action (materials use)	Nature action 100	Specialty chemicals: Biodiversity
	Investor Initiative on Hazardous Chemicals (IIHC)	Chemicals: Phase-out of hazardous chemicals
	Plastic Solutions Investor Alliance (PSIA)	Consumer goods: Plastic reduction
	VBDO plastics initiative	Consumer goods: Plastic reduction
Living wage / gender equality	Platform for Living Wage Financials	Garment and footwear: Living wage in the supply chain
	ShareAction Good Works coalition	Retail: Labour rights
	Interfaith Center on Corporate Responsibility	Online retail: Workers' rights, freedom of association, living wage
Human rights, including gender equality	PRI Advance	Renewable energy

See Principle 4 for further details on the participation and rationale of the Trustee's and the investment manager's involvement in the initiatives.

The Trustee directly participated in industry initiatives such as PRI, IIGCC, Pensions for Purpose and Asset Owners Council to engage policymakers and investee companies on the priority sustainability themes and stewardship.

In addition, the investment manager participates in a substantial number of collaborative engagements, this being at the heart of their stewardship approach. In these initiatives the investment manager will tend to take the lead on certain companies in the portfolios complementing the engagement efforts of other investors in the initiatives.

Case study: FRC Stewardship Code Consultation

The FRC launched a consultation to review the stewardship code in 2024 and 2025.

The UK Stewardship code is, we believe the leading international standard for stewardship and has formed the basis for much of the approach taken by **now:pensions** and the investment manager with regards to stewardship.

now:pensions head of sustainability participated in the FRC early round tables seeking views prior to the launch of the consultation. Once the consultation was launched he then participated in further round tables with the FRC representing **now:pensions** as an asset owner, and in the IIGCC (Institutional Investors Group on Climate Change) working group inputting into their response to the consultation, the Asset Owner Council conversations on the proposals, a conversation with the ICGN (International Corporate Governance Network), the ICSWG (Investment Consultants Sustainability Working Group) and conversations with Mercer and Cardano on their responses. This has allowed us to triangulate industry responses and respond with our own response on behalf of the Trustees that reflects what we believe is in the best interests of our members.

In addition to the collaborative engagements through stakeholder groups and initiatives, the Trustee participated in and responded to government consultations such as the FRC Stewardship Code review in 2024/2025, see the case study below. We also encouraged our third-party managers to participate in collaborative initiatives.

Case study: PRI

In support of PRI, **now:pensions** addresses all three priority sustainability themes.

PRI supports and suggests investors to integrate the following stewardship principles:

- 1.** Incorporate ESG issues into decision-making
- 2.** Practice active ownership
- 3.** Focus on human capital.

With PRI, **now:pensions** can advocate for gender equality and living wages, two themes that the Trustee believes have not received sufficient attention by the responsible investment industry. **now:pensions**' investment manager is also a supporter of Spring, PRI's collaborative engagement initiative, with the goal of halting and reversing biodiversity loss by 2030. Biodiversity loss and climate change are closely interlinked. Through tackling biodiversity loss, the Trustee can address and mitigate climate change-related risks.

Outcomes of collaborative engagement

Here are two examples of outcomes of collaborative engagement.

Case study: Nature Action 100

Nature loss causes negative economic repercussions globally. Depleting natural capital creates significant near-term operational costs for companies, threatens the supply of critical resources, and puts more than half of global GDP at risk. The theme is also directly linked to climate action, a priority theme for **now:pensions**. To address these issues, the investment manager participates in Nature Action 100, a global investor-led initiative working to drive the necessary corporate action to reverse nature loss.

Investors participating in the initiative engage companies in key sectors deemed systemically important to reversing nature and biodiversity loss by 2030. Investor participants in Nature Action 100 signed initial letters to companies in September 2023, outlining six investor expectations around the companies' ambition, assessment, targets, implementation plan, governance and value chain engagement related to nature.

The investment manager has taken on the co-lead role for two companies in the chemical sector. Calls with the investor groups to strategize and develop the engagement plans for both companies have taken place. The engagement objectives align with the six investor expectations. Key topics include the assessment and disclosure of impacts, dependencies, risks and opportunities on nature, the management of hazardous chemicals, waste and water and product innovation. An initial call with company A took place where the investor group discussed the companies ambition, risk assessment, product innovation and governance around nature related impacts and dependencies. The dialogue was constructive and the group followed up with questions and recommendations. A new meeting will be scheduled in 2025. Company B's investor group has reached out to the company several times over 2024 and although the company has responded a few times, the group has not yet been able to schedule an introductory call with the company. The group will continue its efforts in 2025.

Case study: Platform for Living Wage Financials

The investment manager engages is an active member of the Platform for Living Wage Financials (PLWF), a group of financial institutions engaging companies to address the non-payment of living wages and incomes in their global supply chains. This collaboration ranks companies using an assessment methodology, which is based on the UN Guiding Principles on Business and Human Rights. This methodology allows investors to measure progress over time. In 2024, the below updates can be highlighted:

- The overall findings for the garment working group of the platform are highlighted in its annual report published [here](#).
- The investment manager is the lead investor for two companies in the garment and footwear sector. In 2024, it conducted the assessment for both companies and held an engagement call to discuss progress. Despite a tightening of the methodology, one company kept its score from 2023 and the other increased its score by 3 points.
 - The first company is now providing more details on its work with multi-stakeholder initiatives and unions and how these are having an impact on wages for workers.
- Year-on-year the second company is showing progress. A couple of years ago, the company setup a multi-disciplinary committee to oversee their progress on living wages. They are now working on a living wage roadmap and other updates to their living wage approach, including revisiting their definition of a living wage to incorporate more components, in line with widely accepted definitions of a living wage.
- Finally, in 2024 some PLWF members signed a letter to another company assessed, responding to a controversy in the supply chain relating to non-payment of wages to workers. The investment manager signed the letter, supported a couple of shareholder resolutions on the topic and reached out directly to the company on the topic. There has been a lack of responsiveness of the company on this and it is therefore planned to continue reaching out in 2025.

11



Principle 11:

Escalation

Escalation

Our expectations of asset managers that escalate stewardship activities on our behalf

Asset managers are expected to be signatories of the UK Stewardship Code and exercise voting rights in alignment with the Trustee's beliefs, including priority sustainability themes. If engagement fails to achieve meaningful impact, the Trustee expects the investment manager to take action. This could include exercising voting rights (against specific directors, for example), other forms of escalation such as co-filing shareholder proposals, reducing investment, or considering divestment.

How we have selected and prioritised issues and developed well-informed objectives for escalation

The selection and prioritisation of issues for escalation are based upon the Trustee's engagement priorities, including the priority sustainability themes, as well as the size of the holding and the potential to influence. The third-party managers' engagement activities, including escalation, are expected to align with the Trustee's priorities.



When we have chosen to escalate our engagement, including the issue(s) and the reasons for approach

The chosen approach is designed to protect and enhance the value of assets in a meaningful way, consistent with the Trustee's priority sustainability themes and stewardship beliefs. The investment manager may choose different routes to escalate an engagement depending on what is believed to be most effective in the specific circumstances.

Examples

The investment manager's voting policy closely links voting decisions to engagement progress. Where a company is lagging peers and not responding in a satisfactory way to engagement efforts, a vote against can be cast as an escalation. Below are examples from 2024.

- American headquartered restaurants company that owns a set of widely-known brands, present in multiple markets globally: a vote against the re-election of the members of the Nominating & Governance Committee was cast as they oversee the Planet pillar of the company's sustainability strategy. The decision was made because of the environmental supply chain challenges the company faces, related to climate change, water use, and biodiversity. These environmental supply chain issues are crucial to their operations and long-term sustainability and the company lags peers in terms of their practices on the topic and has been reluctant to engage with the investment manager.
- At an American multinational technology company, the investment manager voted against the members of the Nominating and Corporate Governance Committee, which has oversight of environmental and social issues. Engagement with the company has been ongoing on concerns relating to their practices on freedom of association with controversies relating to unfair dismissals, use of captive audience meetings to deter employees from unionising, and the use of anti-union consultants. These concerns represent legal, financial, and reputational risks to the company. Although the company has improved in the past couple of years on disclosure relating to human rights policies, the continued controversies remain a concern. Despite several investor letters to the board and the co-filing of a shareholder resolution, concerns remain. In this context, the investment manager escalated with votes against the above mentioned board members and informed the company of this decision. In 2025, the investment manager is continuing its efforts to engage both companies.

How escalation has differed for funds, assets, or geographies

For direct holdings, the methods of escalation employed by the investment manager differ depending on geography. For example, the filing of shareholder proposals is not possible in all geographies and escalation may need to take the form of voting against certain directors instead.

Outcomes of escalation

Through **now:pensions** and the investment manager's stewardship policy, the Trustee can escalate with greater influence when an identified priority is not receiving sufficient attention. As well as the case studies provided above, examples of the investment manager's escalation activities include:

Type of activity	Theme	Case study
Voting against board members	General oversight of ESG	Voting against board members where the company lacks oversight of ESG issues. Following the investment manager's voting policy, a vote against the re-election of members of the governance and nomination committee and/or the chairman company when there is no board committee with a remit to oversee the company's implementation of the board's policy on relevant social, environmental and ethical matters, or where there is weakness in board oversight. In 2024, this was done for example at the Annual General Meeting of a Dutch-based healthcare company as the company has not provided explicit disclosure concerning the board's role in overseeing environmental and social issues. The targeted director was re-elected and received 90% of shareholder support. This percentage is lower than other board members who were re-elected with 95-99% of shareholder support.

Type of activity	Theme	Case study
<p>Writing a joint letter to the company / supporting a shareholder resolution</p>	<p>Living wage</p>	<p>The investment manager engages an American-headquartered garment and footwear company on the topic of living wage as part of the Platform Living Wage Financials. The PLWF provides a framework for evaluating corporate practices and encourages companies to implement sustainable wage policies across their supply chains. In the assessment methodology of the platform, the company has been stagnating in the middle category for several years, showing that although the company is not lagging on the topic, it is not improving and more can be done, including on the accessibility and monitoring of grievance mechanisms.</p> <p>As well as the ongoing engagement, in response to the non-payment of wages controversy, in October 2023 the investment manager signed a joint investor letter to the company asking it to facilitate effective access to remedy. The letter urged the company to resolve outstanding wage payments owed to garment workers in its supply chain in Cambodia and Thailand. These workers were collectively owed US\$ 2.2 million in unpaid wages and benefits following factory closures in 2020. Unfortunately, the company never provided an answer to the investor letter.</p> <p>At the company's 2024 AGM, the investment manager supported two shareholder resolutions relevant to the topic: one requesting a report on supply chain management and one on worker-driven social responsibility. Ahead of the meeting, the investment manager communicated to the company its voting intentions and expressed the expectation that they respond to the investor letter and do more on the topic. The company acknowledged the correspondence. The shareholder resolutions mentioned above did not get a majority supported but received respectively 13% and 12% support of shareholders. The company will remain under engagement within PLWF and further escalations will be considered by the investment manager if the company continues to show lack of progress and unresponsiveness.</p>

Type of activity	Theme	Case study
Co-filing of a shareholder resolution	Climate action	<p>To accelerate the decarbonising of the chemical sector, the investment manager has been active in a Shareaction coordinated collaborative engagement since early 2023. The goal of this initiative is to encourage European chemical companies to implement a 1.5°C aligned climate transition plan with short, medium and long-term goals. The underlying key objectives for these companies are to fully electrify their chemicals production processes, transition to renewable energy before 2050 and the substitution of petrochemical feedstocks by carbon neutral feedstocks before 2050. At one of the companies in the program, progress had been lagging, particularly on setting a comprehensive scope 3 target. Scope 3 emissions account for about 75% of the company's total emissions, primarily from the production and application of fertilisers to agricultural fields, but the company does not have a comprehensive 1.5°C aligned scope 3 target. The group has appreciated the company's willingness to engage with investors. However, after two years of engagement the company has not provided a credible reason for not setting an ambitious scope 3 target and could not give assurance that the company will be operating in line with a 1.5°C degrees pathway, despite investors raising this concern repeatedly in meetings.</p> <p>Various investors, including the investment manager, therefore decided to escalate the engagement by co-filing a shareholder resolution, supporting the AGM statement, engaging the Norwegian government and sending a letter to the CEO to address the group's concerns. The resolution received a support of around 17% from non-state votes. The investment manager believes this is a good result in a sector which as yet has received little attention for its sizeable contribution to climate change. Following these actions, the company set up a meeting with the group of investors, where the CEO was present. The coalition discussed the three core asks.</p>



Principle 12:

Rights and responsibilities

Rights and responsibilities

The investment manager exercises the Trustee's rights and responsibilities directly in the case of directly managed portfolios and has oversight of third-party managers when it chooses to appoint such a manager.

Our voting policy

Having reviewed the stewardship and voting policies of the investment manager, the Trustee has appointed the investment manager to act on the Trustee's behalf and instructed it to apply its standard stewardship and voting policies. **now:pensions** has chosen to adopt the investment manager's approach to voting and does not have a separate voting policy at this time. The voting policy is in line with the stewardship beliefs set out in Principle 1 (manager alignment).

This is because:

- 1** The Trustee has conviction that the investment manager's sustainability beliefs, stewardship approach and voting and stewardship policies are comprehensive and are well aligned to the Trustee beliefs and policy.
- 2** The investment manager's voting policy is progressive, implementing voting in line with the Trustee's expectations around priority themes of climate, gender equality and living wage.
- 3** The Trustee believes the engagement, voting and portfolio actions of the investment manager should be tightly aligned to support effective engagement. The Trustee wishes to avoid a situation where, by creating its own policy, it may unintentionally override the voting policy of the investment manager in an ad-hoc case-by-case basis, with no marginal benefit to doing so and at times potentially leading to contradictory results.
- 4** The Trustee is able to directly engage the investment manager on their stewardship voting and engagement policy for direct assets and seek ongoing effective alignment with its priority sustainability themes and stewardship objectives.

The Trustee will monitor the investment manager's actions for consistency against its beliefs and keep this decision under review for ongoing alignment with our beliefs.

The Trustee's policies apply to all asset classes, including listed equity and fixed income

The investment manager applies the same sustainable investment and stewardship framework to both the global equity and the two corporate Sterling fixed income portfolios (one in the Diversified Growth fund and one in the Retirement Countdown Fund). This involves excluding companies or issuers that may not meet the minimum thresholds or have been downgraded perhaps due to failed engagement. The stewardship team will similarly engage with companies on the same systemic issues whether they are owned through debt or equity. The stewardship team works together with the investment teams (both equity and credit) on some of those engagements.

The Trustee expects the engagements and voting decisions conducted on its 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)

At present the scheme does not allocate to private markets. That is expected to change in 2025 and will involve allocations through third-party managers which are addressed below.



Use of proxy advisors

For directly managed portfolios, the investment manager makes use of a third-party proxy advisor to execute their voting decisions. GlassLewis, one of the leading providers, was appointed by the investment manager in 2023 to provide voting recommendations in line with the investment manager's custom voting policy. The stewardship team of the investment manager will review specific votes, mainly for companies under engagement and take a closer look at the agenda. GlassLewis's application of the voting process is closely monitored by the investment manager to ensure that the policy is executed as intended. The voting policy is reviewed on a yearly basis by the investment manager, who then works with GlassLewis to implement it.

An enhancement made in 2024 has been the use of a 'letter writing service' provided by GlassLewis. This allows the investment manager to write to companies explaining why we have voted in a particular way and is useful in more clearly communicating the priority themes. For example, we may vote against the appointment of a newly proposed board member because the board has insufficient gender diversity. The letter would explain this rationale to the company and invite the company to have a dialogue on the topic. An example of this is laid out in the previous principle 11 describing the engagement with an American garment and footwear company.

The third-party manager for the shariah fund uses a leading voting, research and platform provider, Institutional Shareholder Services (ISS), to assist with the global application of its voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene these guidelines. The manager reviews voting policy recommendations according to the scale of the overall holdings. The bulk of holdings are voted in line with the recommendation based on the manager's guidelines.

Extent to which clients may override a house policy

The investment manager has a high-quality stewardship and voting policy. At present it is not envisaged that there would be circumstances where the Trustee would seek to override the investment manager's voting policy. The Trustee does review and challenge the investment manager on their votes to ensure continued consistency with their beliefs.

Proportion of shares that were voted in the past year

For the 2024 financial year (1 April 2024 to 31 March 2025) all voting was carried out by Cardano, the investment manager with the exception of the shariah fund which was voted by a third-party manager in line with their policies.

	Proportion of eligible resolutions voted
Direct investment manager 1 (Cardano)	99.9%
Third-party investment manager 2 (HSBC)	93.0%

Our voting records

The Trustee's voting (via the investment manager) on directly managed assets.

	Manager response
Number of meetings the manager was eligible to vote at over the year	1,941
Number of resolutions the manager was eligible to vote on over the year	25,270
% of eligible resolutions the manager voted on	99.9%
% of votes with management	74.0%
% of votes against management	23.4%
% of resolutions the manager abstained from	1.1%
% of resolutions did the manager vote contrary to the recommendation of the proxy adviser?	As Cardano uses a bespoke policy with our voting provider, there are no votes against the recommendations of the proxy advisor. We always vote with our policy.
% of resolutions voted, what % were linked to climate action?	0.5%
% of resolutions voted, what % were linked to living wages?	0.1%
% of resolutions voted, what % were linked to gender equality?	0.2%

The Trustee's voting activity (third-party manager's voting activity) with regards to third-party managers over the financial year of 2024.

	Manager response
Number of meetings the manager was eligible to vote at over the year	105
Number of resolutions the manager was eligible to vote on over the year	1,719
% of eligible resolutions the manager voted on	93.0%
% of votes with management	78.0%
% of votes against management	21.0%
% of resolutions the manager abstained from	0.0%
% of resolutions did the manager vote contrary to the recommendation of the proxy adviser?	1.0%

Rationale for voting decisions, particularly where there was a vote against the board, were votes against shareholder resolutions, a vote was withheld, the vote was not in line with voting policy

Below we list a selection of cases where we voted against management in the direct investment portfolio together with rationales and outcomes.

Company name	Saputo Inc	Shanghai Pharmaceuticals Holding Co. Ltd.	Procter & Gamble Co.
Meeting date	08/09/2024	19/03/2024	08/10/2024
Summary of the resolution	Shareholder proposal regarding say on climate	Elect YANG Qihua	Shareholder proposal regarding median gender and racial pay equity report
Vote cast	For (against management)	Against (against management)	For (against management)
Rationale for the voting decision	Say-on-climate resolutions can drive change in corporate behaviour through accountability and transparency as shareholders have a chance to analyse transition plans and provide their view on the level of ambition of these plans. It allows shareholders to have a say on how the company is addressing its climate risks and how it is managing its role in the transition.	Per the investment manager's policy to increase diversity within boards, a vote against this director was cast as the board has failed to appoint any female members to the board.	Procter & Gamble has not yet committed to disclosing median, adjusted, and unadjusted gender and racial pay gaps as requested in the proposal. The investment manager believes such level of reporting will strengthen the company's diversity and inclusion efforts and represents an important step towards ensuring pay equity.
Outcome	The resolution did not pass and received 93% shareholder dissent.	The resolution passed and the director was re-elected.	The resolution did not pass but got 30% of shareholder's support.
Link to priority theme	Climate action	Gender equality	Living wage and gender equality

Expectations we have set for third-party asset managers that exercise rights and responsibilities on our behalf

The investment manager exercises the Trustee's rights and responsibilities directly in the case of directly managed portfolios and has oversight of third-party managers when it chooses to appoint such a manager.

The investment manager is responsible for the selection and appointment of third-party managers. The investment manager assesses and reports to the Trustee the voting policies of third-party managers to ensure they are in line with the priority sustainability themes. The investment manager is expected to achieve this through several steps, such as:

- assessment of the third-party manager's stewardship approach, voting policies and proxy advisor voting arrangements.
- engagement of managers on default voting positions.
- engagement of third-party managers ahead of key votes on our priority sustainability themes.
- participating in working groups.

In the appointment of third-party managers that the investment manager proposes to invest in, the Trustee likewise scrutinises their voting policies and stewardship approaches. The Trustee ensures continuous alignment with its beliefs through the monitoring and scrutinising of the voting activity of third-party managers and relies on the investment manager to escalate any issues by engaging with third-party managers on an ongoing basis. This includes re-ratings, and potentially, reallocations and as examples above demonstrate, the approach has resulted in active decisions to disinvest.

Extent to which voting decisions were executed by another entity, and how we have monitored any voting on our behalf

The investment manager engages and monitors third-party managers on the Trustee's behalf to ensure that managers' engagement and voting activities (including their view of what constitutes the most significant votes) reflect the Trustee's investment priorities and policies as detailed in the SIP. The Trustee, via the investment manager, expresses its support for specific shareholder proposals. The Trustee does this both in advance of shareholder AGMs, and afterwards.

The three priority sustainability themes inform the Trustee's position on voting and identifying most significant votes. The Trustee's engagement activities are supported by the investment manager and the investment manager's appointment of Sustainalytics. The Trustee receives reporting on a quarterly basis to show the most significant votes' alignment with those themes, from the third-party managers.

Most significant voting examples – third-party manager

Company name	Meta Platforms	Eli Lilly and Company	Exxon Mobile Corp.
Meeting date	29/05/2024	06/05/2024	29/05/2024
Summary of the resolution	Report on framework to assess company lobbying alignment with climate goals.	Report on effectiveness of diversity, equity and inclusion efforts.	Report on median gender/racial pay gaps.
Rationale for the voting decision	Believe that the proposal would contribute to the better management of climate issues, particularly relating to lobbying.	Believe that the proposal would improve transparency on equality issue.	Believe that the proposal would contribute to improving gender inequality.
Outcome	The shareholders' resolution did not pass.	The shareholders' resolution did not pass.	The shareholders' resolution did not pass.
Link to priority theme	Climate action	Gender equality	Gender equality

Voting records are reviewed at least annually by the investment manager, who in turn discusses them with the third-party managers. Records are reviewed each year to ensure they align with the Trustee's expected stewardship approach. The Trustee, and the investment manager, scrutinise voting activities of the third-party managers to influence portfolio company corporate governance and sustainability practices.

How we have monitored what shares and voting rights we have

The Trustee received qualitative and quantitative information on the stewardship activities and voting records of the investment manager on a quarterly basis. These are reviewed by the Trustee and questions are regularly raised. A snapshot of the investment manager's quarterly Stewardship reporting is provided in Principle 2. An assessment of the overall Stewardship activity takes place during the annual Stewardship training session held with NPL and the investment manager.

Monitoring of the third-party managers is performed by the investment manager and reported annually in the Implementation Statement.

Examples of the outcomes of resolutions we have voted on over the past 12 months

The most significant votes, as determined by the Trustee, can be found below.

Company name	Amazon	Nike	Apple
Meeting date	22/05/2024	10/09/2024	25/02/2025
Summary of the resolution	Shareholder proposal regarding the human rights impacts of facial recognition technology.	Resolution to report on supply chain management and shareholder proposal regarding worker-driven social responsibility.	Shareholder proposal regarding abolishing inclusion and diversity program and policies.
Vote cast	For (against management)	For (against management)	Against (with management)
Did we communicate voting intent when against management ahead of meeting?	Yes, a letter was sent to Amazon.	Yes, a letter was sent to Nike.	n/a

Company name	Amazon	Nike	Apple
Rationale for the voting decision	There are human rights risks linked to the use of facial recognition technology. We therefore believe that a third-party assessment of Amazon's recognition technology would help mitigate potential reputational, regulatory and legal risks arising through customers' misuse of Amazon's technology. Misuse of systems monitoring and mass surveillance could contribute to human and civil rights violations.	Nike is part of our engagements on living wage within the Platform for Living Wage Financials, where garment and footwear brands are assessed and engaged on their practices relating to enabling a living wage in the value chain. Nike has been the subject of a controversy linked to the non-payment of workers in Cambodia and Thailand by factories in the Nike supply chain. Cardano signed a joint investor letter in October 2023 to Nike relating to these controversies but our group did not receive a response. Given the lack of response along with now:pensions' ongoing commitment to improving human rights and living wage in the value chain, we supported two relevant shareholder resolutions at the company's September AGM and wrote to Nike to explain our rationale. Nike acknowledged our email but we are still waiting for concrete answers.	The proposal filed by the National Center for Public Policy Research, asked Apple to consider abolishing its Inclusion & Diversity program, policies, department and goals. Cardano voted against the proposal, in line with management recommendations. There are several federal laws prohibiting various types of job discrimination (including the Civil Rights Acts of 1964 and 1991 and the Equal Pay Act of 1963), which the company must adhere to. Additionally, now:pensions believes that inclusive and diverse workplaces benefit companies by creating a more innovative, productive and equitable environment, ultimately improving business performance. Asking the company to abolish its existing practices on the topic is contrary to these beliefs.
Outcome	The resolution did not pass, only 18.9% of shareholders supported the resolution.	Both resolutions did not gain majority support (13% and 12% respectively).	The proposal was rejected by 97.7% of shareholders.

For further detail on our approach to voting and engagement, including how our policies are applied in practice, please refer to the most recent **Implementation Statement** available on our website. This provides transparency on our voting activities, key decisions taken, and how these align with our stewardship objectives.

Appendix 1

Glossary

AOC

Asset Owners Council

CCRO

Climate change-related risks and opportunities

DMO

Debt Management Office

DWP

Department for Work and Pensions

ESG

Environmental, social and governance

FRC

Financial Reporting Council

IIGCC

Institutional Investors Group on Climate Change

IMA

Investment Management Agreement

MSCI

Morgan Stanley Capital International

NPL

NOW: Pensions Limited

NPTL

NOW: Pensions Trustee Limited

PCAF

Partnership for Carbon Accounting and Financials

PLWF

Platform Living Wage Financials

PRI

Principles for responsible investment

TCFD

Task Force on Climate-related Financial Disclosures

TNFD

Task Force on Nature-related Financial Disclosures

TPT

Transition Plan Taskforce

now:pensions

Information correct at May 2025.

NP/D0330/05/2025.

nowpensions.com +44 (0)330 100 3334.

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