

# Stewardship Policy 2024

**now:**pensions



# 1. Introduction

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

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

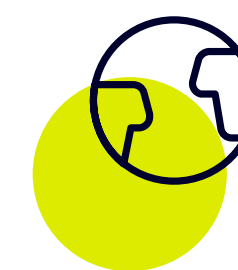
We believe including environmental, social and governance ('ESG') issues and real-world sustainability into our investment process is essential for long-term success. We measure and manage risks associated with ESG issues.

We believe effective stewardship can generally improve member outcomes. So we aim to engage with companies, regulators and stakeholder groups. We use our voting power as shareholders to encourage the companies we invest in to address sustainability risks and make progress towards our three sustainability priorities: climate action, gender equality and living wages.

# 2. Sustainability

We believe there are strong investment reasons to focus on sustainability. The evidence suggests including ESG issues, such as climate change, into investment decisions leads to better risk-adjusted investment returns and helps identify new investment opportunities. We also believe that risks like climate change and rising inequality can have a huge and potentially negative impacts on the economy and therefore investment portfolios in the long term. This is why we focus on real world impacts. In other words, investing sustainably is in our savers' best financial interests.

As well as including ESG issues and real-world sustainability into our investment decisions we, and our investment manager, aim to work with the companies we invest in with the aim of encouraging them - and, if necessary, requiring them - to align with our sustainability beliefs. We also work with regulators, policymakers, governments and stakeholders for the same reason. This is called stewardship and is an important part of our strategy.



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# 3. Stewardship

We use the UK Financial Reporting Council (FRC) definition of stewardship, which is as follows.

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

To put this another way, this means responsibly managing money and other financial resources to create long-term value, while also delivering sustainable benefits for the economy, environment, and society.

Stewardship comprises engagement and voting.

- We aim to have a purposeful and constructive dialogue with governments and key stakeholders, as well as the management, investor relations or sustainability employees of the companies we invest in. We discuss sustainability issues that may affect them or other stakeholders.
- We vote at shareholder annual general meetings (‘AGMs’) and co-file shareholder resolutions on issues relevant to our beliefs.



# 4. Engagement

We carry out proactive engagements (to discuss progress on a specific risk or opportunity usually linked to important sustainability themes like climate change or inequality) and responsive engagements (after a controversy or incident needs attention). We may also focus on issues that will be voted on at AGMs.

We prefer to collaborate on engagement through investor-led groups or initiatives, such as the Platform for Living Wage Financials or ClimateAction 100+, because our voice is more powerful when we work together with likeminded investors.

We carry out engagements on a wide range of sustainability topics that are relevant to our investments. But we have also defined three sustainability priorities: climate action, gender equality and living wages.

We outline these in further detail later in the report.



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# 5. Voting

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

- feed back on topics we think are relevant for the company to address by supporting shareholder proposals
- make our views known on how risks and opportunities are being monitored, by voting for or against individual board member re-election, and
- escalate the issue if our engagement is unsuccessful.

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

# 6. Stewardship principles

Our stewardship approach is framed around seven core principles.

- 1. Quality over quantity** – we'd rather focus on a few meaningful quality engagements with strong reporting rather than the quantity of votes, prioritising the highest sustainability impact.
- 2. Long-term** – we always encourage long-term relationships with companies, counterparties, stakeholders and policymakers.
- 3. Real-world impact** – our engagements focus on topics that have a positive impact around our three sustainability priorities: climate action, gender equality and living wages in order to reduce long term risks to the economy and the portfolio.
- 4. Transparency** – we monitor and report on progress regardless of whether the engagements are successful. Many engagements may be unsuccessful short term but still have longer term impact.
- 5. Collaboration** – engagement is always more efficient when all stakeholders collaborate.
- 6. Innovation** – we are data driven and always looking for new and effective ways to assess company impacts which enables more constructive and informed dialogue.
- 7. Integrated** – we believe that successful stewardship should be integrated with other engagement activities, such as policy engagement.



## 7. Underlying codes and standards

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

**These include:**

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

## 8. Third-party stewardship support

Cardano Risk Management ('Cardano') our investment manager partners with Sustainalytics to provide additional support to their stewardship activities allowing us to engage and monitor an even broader range of companies in the portfolio.

### Third-party investment managers

Although most of our investments are managed in-house, we may sometimes use third-party managers. When we appoint a third-party manager, we check that their approach to stewardship aligns to the Trustee's beliefs, and we monitor their engagement activity to make sure they are meeting our objectives.



# 9. Our three sustainability priorities

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

## Climate action

Climate change is now a well-recognised concept in financial markets. It is seen both as a financial risk, from climate-related changes, and as an investment priority, since how we invest will support (or hinder) climate targets.

These are the Trustee's beliefs about climate change.

- A speedy, fair and just transition to a low-carbon economy is the only way to address this crisis. It's likely to be the biggest change to the current global economic system in our lifetimes. Warmer climate scenarios such a warming of 3°C will have negative impacts on overall economic and portfolio outcomes in the longer term.
- Our investment portfolio should be constructed to achieve net zero greenhouse gas ('GHG') emissions by 2050, with 50% emissions reduction by 2030 based on 2019 levels. This is consistent with the Paris Climate Agreement goal of limiting global warming to 1.5°C, compared to pre-industrial levels.

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



We believe companies that take steps to address climate change will, on average, perform better than companies that ignore or worsen it.

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

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The Trustee has selected three climate change scenarios: 1.5°C, 2°C and 3°C. Each scenario consists of a degree of warming and an assessment of the financial risks to the portfolio.

When measuring the green-house-gas emissions of the companies in the portfolio we use a metric called "financed emissions per £1m EVIC" (enterprise value including cash). We calculate the company's total Green House Gas emissions (including Carbon Dioxide and other greenhouse gases) and calculate what proportion of the company's total EVIC (the total of debt and equity used to finance the company) we own. Multiplying these together determines how much of the company's emissions we have financed.

To determine how aligned our portfolio is with the objectives of the Paris Agreement we measure what proportion of the portfolio has set decarbonisation targets assessed by the Science Based Targets initiative ('SBTi').



## 9. Our three sustainability priorities

### Gender equality

We believe everyone should have equal rights, responsibilities and opportunities. We also believe gender equality is necessary for a prosperous and sustainable world – so it is a moral and economic imperative.

What is more, we believe that companies taking steps to tackle inequality tend to perform better than companies that ignore or worsen it.

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

- have more engaged and diverse workforces, leading to better decision-making
- be less exposed to reputational risk
- experience more client and customer loyalty leading to growth, competitiveness and productive capacity
- be less exposed to regulatory intervention, such as maternity pay or gender pay gap reporting
- contribute to reducing poverty – evidence suggests new jobs occupied by women are more likely to reduce poverty.



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

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.

- The UK gender pay gap is 7.7% (2024).
- Just 10.4% (2023) of Fortune 500 companies are led by women (52 of 500).
- Women have less access to finance to start a business, are subject to gender-biased credit scoring and gender stereotyping in investment valuations, and tend to be more likely to have to finance themselves.
- Women are more likely to be victims of discrimination, harassment and sexual violence.

The Trustee is satisfied that the data supports our belief that companies taking steps to combat inequality tend to perform better than companies that ignore or worsen it.

On the Trustee's behalf, **now:pensions'** staff will use data sets on gender equality from data provider MSCI to monitor gender equality risks and opportunities in our investments, focusing on physical equity investments. The data sets include:

- board diversity
- workforce diversity
- gender pay gap
- minimum wage
- paid overtime
- a proprietary human capital score
- a proprietary SDG 5 (gender equality) alignment score

## 9. Our three sustainability priorities

### Living wages

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

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

Workers across a variety of global value chains are often not paid a living wage. Bridging the gap between their actual wage and a living wage would lift these workers out of poverty.

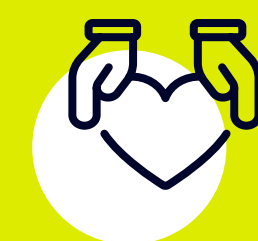
The Trustee believes paying a living wage could have several knock-on effects such as reducing child labour, increasing access to education and other positive social impacts. The Living Wage Foundation says:

- 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). (April 2023)

The Trustee considers wages for companies' direct employment, their contractors and their supply chains.



In the UK the government sets the minimum wage, called the 'national living wage'. The Trustee subscribes to the 'real living wage' set by the Living Wage Foundation.



The Trustee considers its beliefs on living wages and gender equality support one another.

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

- have more engaged and diverse workforces, leading to better decision-making
- be better at people management and retaining happy employees
- be less exposed to reputational risk
- experience client and customer loyalty contributing to more growth, competitiveness and productive capacity, and
- be less exposed to regulatory intervention.

The Trustee considers its beliefs on living wages and gender equality support one another.

On the Trustee's behalf, **now:pensions** staff will use data sets from data provider MSCI to monitor living wages risks and opportunities in our investments, focusing on physical equity investments. The data sets include:

- CEO to worker pay differential
- minimum wage
- paid overtime
- a unique human capital score

# Appendix

To support the Trustee's beliefs, **now:pensions** staff have reviewed the following data sources.

- An Institutional Approach to Gender Diversity and Firm Performance, Zhang, 2020: <https://pubsonline.informs.org/doi/10.1287/orsc.2019.1297>
- Corporate Social Responsibility and Firm Risk: Theory and Empirical Evidence, Albuquerque, Kroskinen, Zhang, 2018: <https://pubsonline.informs.org/doi/10.1287/mnsc.2018.3043>
- Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach, Flammer, 2015: <https://pubsonline.informs.org/doi/10.1287/mnsc.2014.2038>
- ESG and Corporate Financial Performance: Mapping the global landscape, DWS, 2015
- Financial Performance of ESG Integration in US Investing, PRI, 2018
- Global Risks Report, WEF, 2022
- <https://alexedmans.com/does-corporate-social-responsibility-improve-firm-value/> (2014)
- <https://carbonaccountingfinancials.com/>
- <https://eige.europa.eu/newsroom/economic-benefits-gender-equality>
- [https://ghgprotocol.org/sites/default/files/standards\\_supporting/FAQ.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf)
- <https://globallivingwage.org/about/living-income/>
- <https://shareaction.org/investor-initiatives/good-work-coalition>
- <https://www.bankofengland.co.uk/climate-change>
- <https://www.carbonbrief.org/guest-post-why-does-the-arctic-warm-faster-than-the-rest-of-the-planet> (2022)
- <https://www.iigcc.org/resources/net-zero-investment-framework-implementation-guide> (2021)
- <https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/> (2021)
- <https://www.livingwage.org.uk/>
- <https://www.oecd.org/gender/data/do-women-have-equal-access-to-finance-for-theirbusiness.htm> (2023)
- <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2022> (2022)
- <https://www.prnewswire.com/news-releases/8-8-fortune-500-ceos-are-women--the-highest-of-all-indices--according-to-the-women-ceos-in-america-report-2022--301630455.html> (2022)
- <https://www.un.org/sustainabledevelopment/gender-equality/>
- <https://www.un.org/womenwatch/osagi/conceptsanddefinitions.htm>
- <https://www.unwomen.org/en/what-we-do/ending-violence-against-women/facts-and-figures> (2024)
- <https://www.worldbenchmarkingalliance.org/publication/gender/about/>
- Sustainable Reality, Morgan Stanley, 2020
- The Impact of Corporate Sustainability on Organizational Processes and Performance, Eccles, Ioannou, Serafeim, 2014: [https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2014.1984?journalCode=mnsc.](https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2014.1984?journalCode=mnsc)

**now:pensions**

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

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