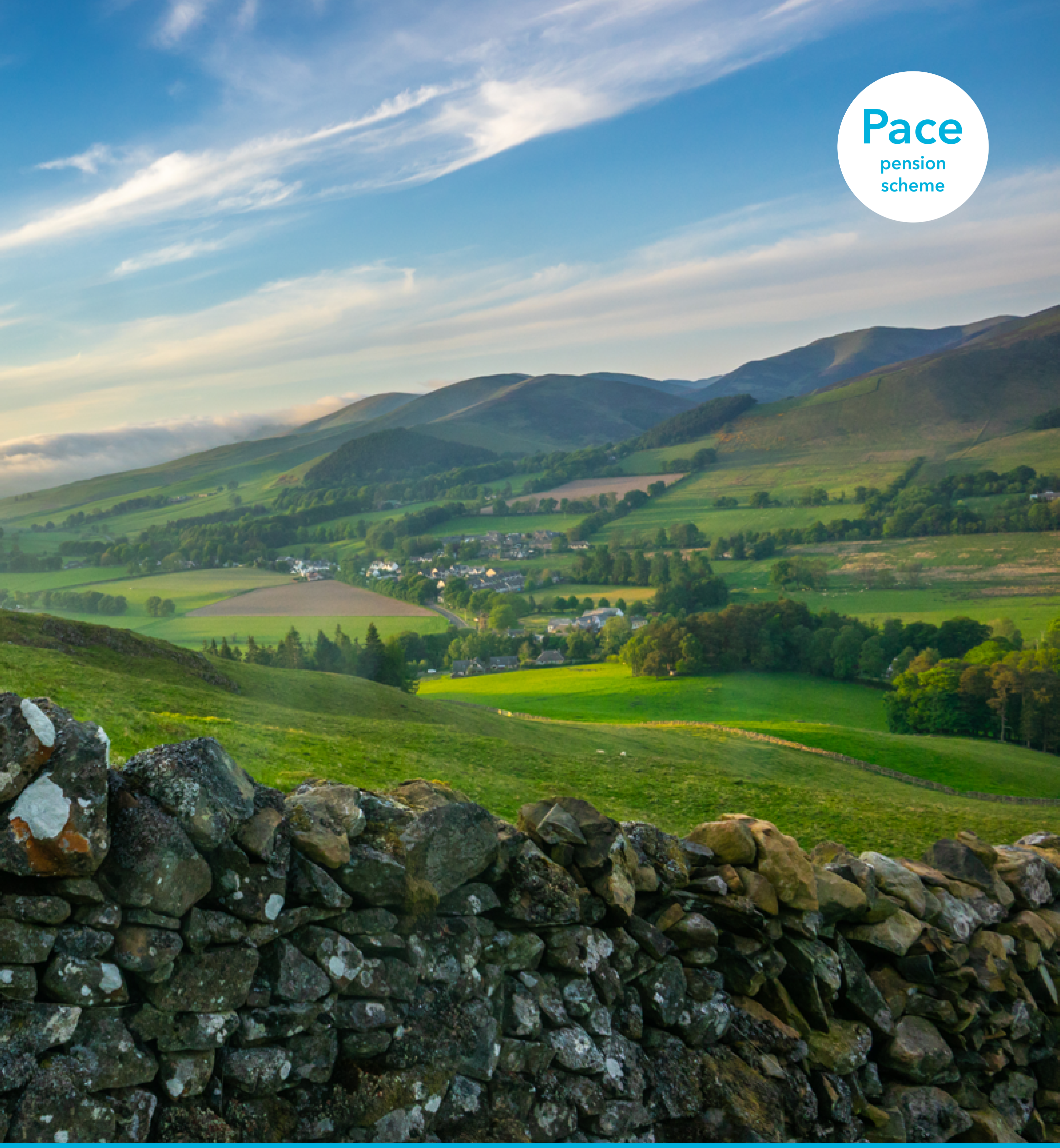


Co-operative Pension Scheme (Pace)

2022 UK Stewardship Code and Responsible Investment report

Chair’s introduction

The Pace Trustee is pleased to publish its annual report on responsible investment for the year to 5 April 2022.

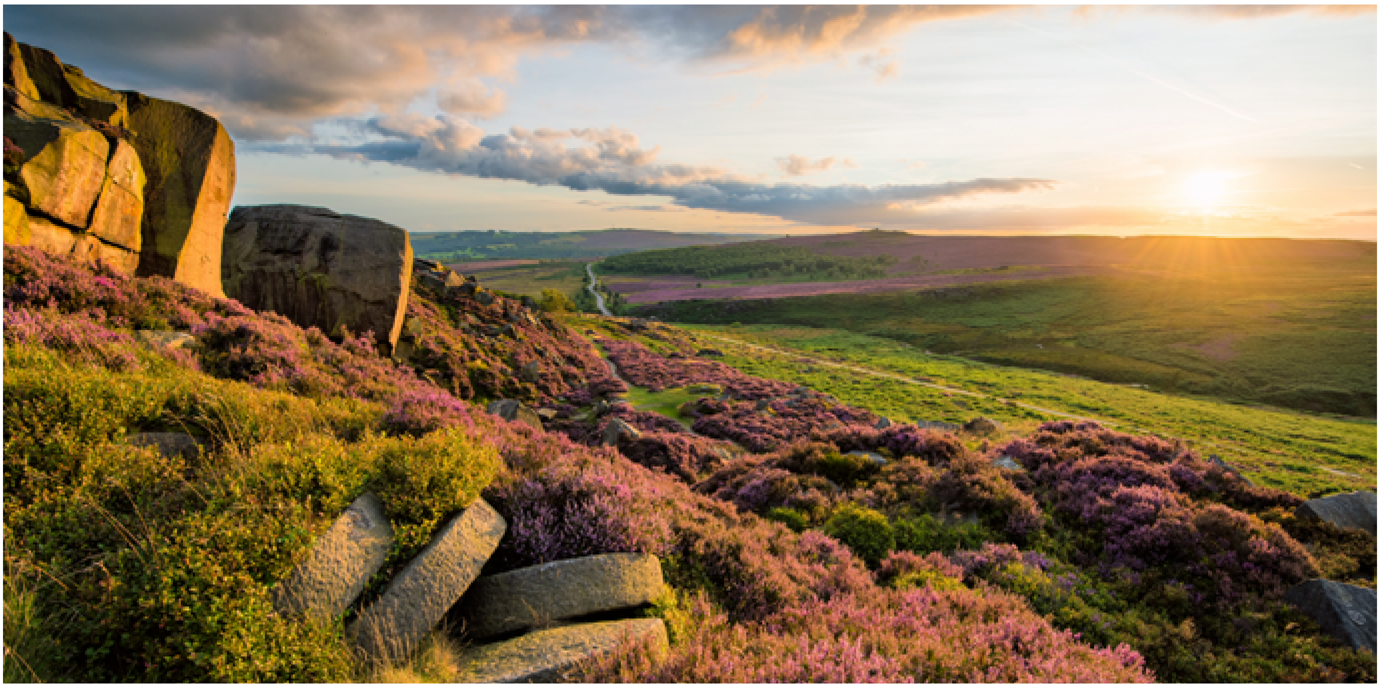
This report, which has been prepared for the Trustee by the Co-op Pensions Department, and reviewed and approved by the Pace Trustee, explains what the Trustee and Pace’s investment managers have been doing during the year to make sure we meet the requirements of our Responsible Investment Policy, and how we’ve exercised stewardship on behalf of both the Defined Benefit (DB) and Defined Contribution (DC) sections of Pace.

It also demonstrates how we’ve complied with the principles underlying the updated UK Stewardship Code, which came into force on 1 January 2020. The Stewardship Code sets out a number of areas of good practice which the Financial Reporting Council (‘the FRC’), the UK’s independent regulator responsible for promoting high quality corporate governance and reporting, believes institutional investors like Pace should aspire to. Appendix 3 lists each of the 12 principles in the Stewardship Code and highlights where they are covered in this report.

We’ve also included a short summary of how Pace complies with the ‘Myners’ Principles’ – a series of six principles codifying best practice for decision-making in relation to institutional investment. This is set out in Appendix 4.

This report sits alongside our ‘Implementation Statement’, which is a statutory requirement setting out how we’ve complied with the policies in our Statement of Investment Principles (‘SIP’), and also our first Taskforce on Climate-Related Financial Disclosures (‘TCFD’) report, quantifying climate risk within Pace DB and Pace DC. These reports are both available on the Scheme’s website under ‘Pace investments’ in the ‘Useful information’ section.

Chris Martin, Chair, Pace Trustees Limited



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Executive summary

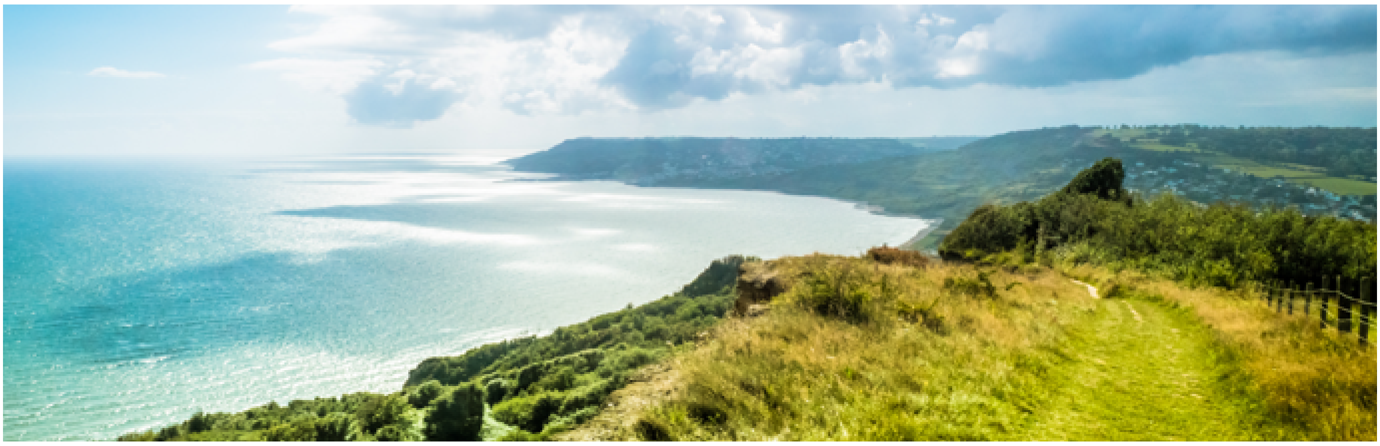
As the Trustee of Pace, we're responsible for both DB and DC assets on behalf of Scheme members. Many of our members want to know that their pension savings are being invested responsibly, while at the same time providing security for their futures.

This summary provides the highlights from our 2021/22 investment reporting, letting you know how the Trustee has carried out its Responsible Investment Policy over the past year.

Investing responsibly is one of our key aims, and one of the expectations of our stakeholders (both Scheme members and our sponsoring employers).

This year:

- We engaged with our asset managers following the Russian invasion of Ukraine in February 2022 to understand our exposure to Russian investments, and the potential consequences of any economic or trade sanctions;
- We've prepared our first formal report on Pace's exposure to climate risk and quantified its carbon footprint; this will be published by November 2022;
- We've set a 'Net Zero' target for Pace's investments for 2050, with a 50% reduction in the emissions of our investment portfolio by 2030;
- We made some changes to our investment strategy, introducing a new Shariah-compliant investment option for Pace DC shortly after the year-end, and switching to a cash fund within our liability driven investment mandates which screens out companies inconsistent with our sustainable investment beliefs; and
- We continued to apply an exclusions list where possible, to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or those based in countries with poor human rights records.



How do we invest?

We've prepared a Statement of Investment Principles (SIP) (the document that governs the way the Scheme's assets are invested) for each of the Co-op and the Bank sections of Pace, which are available on the Scheme's website.

In brief:

- The Pace DB sections aim to pay benefits to members and their dependants as set out in the Trust Deed and Rules. These benefits are paid out of investments selected by the Pace Trustee.
- Pace DC allows its members to build their own retirement pots; members can choose how they want to invest their money from a selection of investment options offered by the Trustee.

We're committed to achieving these goals in a way that considers broader social and environmental concerns.

We would like our approach to responsible investment to reflect the views of Pace members as far as reasonably possible. We therefore welcome members' views on these issues – we've previously surveyed current employees of the Co-op to understand their responsible investment priorities and the themes which mattered to them, which we considered when setting our Responsible Investment Policy, and also through ad hoc questions from members over the year. During the year, we introduced a new tool, Tumelo, for members of Pace DC which allows members to see which companies they are invested in through their pension pot, and to submit voting preferences for issues they care about at companies' AGMs which are communicated with the fund manager. We will continue to review the data Tumelo provide on issues which are important to our members and, if relevant, use this to inform engagement in the future.

We believe that our approach to responsible investment should be consistent with the values of our sponsors, and their members and colleagues, again as far as reasonably possible, and we engage with them when reviewing our policies to understand their priorities. Finally, we believe that our Responsible Investment Policy should reflect the extent to which environmental, social and corporate governance (ESG) issues might represent a risk to the Scheme.

Over time, we've worked with the Co-op and The Co-operative Bank to identify three broad issues which we feel reflect the views of these stakeholders. These issues are:

- Climate change and the protection of the environment;
- Labour conditions and equal pay; and
- Corporate governance.

This is set out in our Responsible Investment Policy, which is available on the Scheme's website. The website also works as a platform for us to communicate with our members on important information such as changes to the DC fund range, and reporting on stewardship and climate change in particular.

The Trustee is supported in its work on stewardship and responsible investment by the Co-op Pensions Department and our investment consultants. Alongside our DB and DC investment consultants, Mercer and LCP, Pace uses a third-party ESG data provider, MSCI.

About us

The Co-operative Pension Scheme (Pace) is a UK-registered occupational pension scheme with assets held on behalf of members by PACE Trustees Limited (the Trustee).

In 2018, Pace was separated into two legally separate sections. The Co-operative Bank is the only employer in the Bank Section; all other employers participating in Pace are in the Co-op Section.

Both the Co-op Section and the Bank Section contain historic defined benefit (DB) and defined contribution (DC) sections for members who are currently contributing.

At 5 April 2022, there were just under 75,000 members of Pace with DB benefits. This comprised just under 36,000 members with pensions already in payment, and 39,000 members who are yet to retire; Pace's DB assets at that date were over £11bn.

The DB Section of Pace (Pace DB) closed to future accrual in 2015. DB benefits were built up based on a member's salary and length of membership.

The DC Section of Pace (Pace DC) was established in 2012, and since 2015, is the only section of Pace which has actively contributing members. At 5 April 2022, there were just under 80,000 members of Pace DC, all still contributing or yet to draw benefits (when members draw their benefits from Pace DC by taking cash, buying an annuity or transferring out, they leave the Scheme). The total value of members' pension pots as at 5 April 2022 in Pace DC was around £730m.

The average age of Pace DC members is approximately 42 while the average age of Pace DB members (both pensioner and non-pensioners) at the last actuarial valuation was higher at approximately 62; we therefore assume a longer time horizon when looking at investment strategy for Pace DC than for Pace DB.

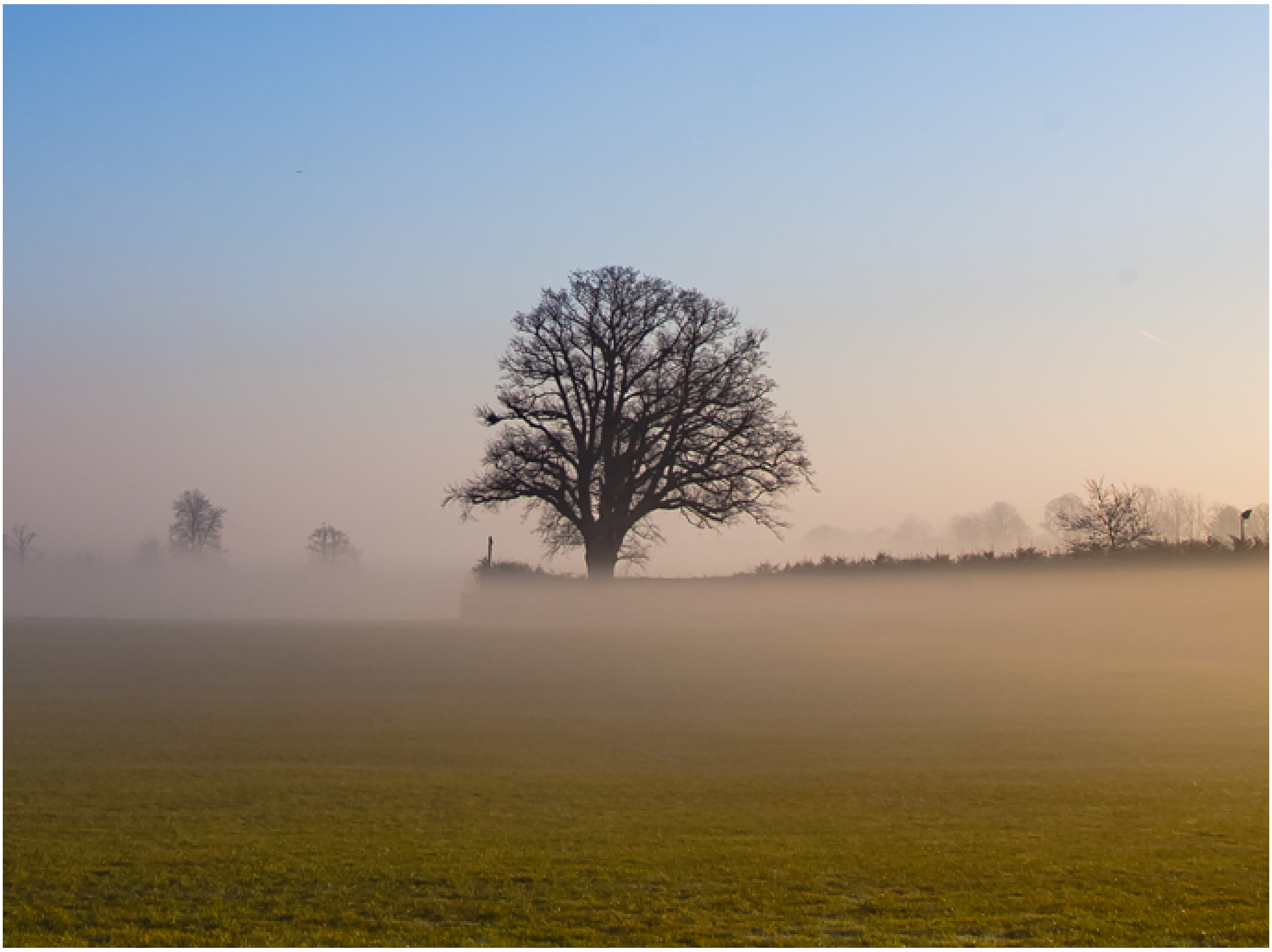
The remainder of this report sets out how we, and our asset managers, have aimed to be responsible asset owners over the year.

Over time, we've implemented a lower risk investment strategy for Pace DB. This means that we invest more in bonds and bond-like investments and less in shares (equities) and other more risky investments, aiming to reduce the volatility of Pace's funding position and improve security for members and the participating employers. As part of this journey, in early 2020 we entered into insurance policies with Aviva and Pension Insurance Corporation (PIC), two UK insurers, to match the pension payments due to some members of the Co-op and Bank sections of Pace DB. As we don't have control over how Aviva or PIC invest, we don't cover the insurance policies in this report. This report focuses on the remaining 'invested assets', although both insurers operate their own responsible investment priorities and in particular, both have established frameworks for managing climate risk within the investments supporting the insurance policies they have issued.

For invested assets for both sections of Pace DB, it is our policy to consider a full range of assets either directly or via pooled funds, which utilise a wide range of asset classes and investment management techniques. The asset allocations for both sections of Pace DB are shown below:

		Allocation (5 April 2022)	
Asset class	**Region**	**Co-op Section**	**Bank Section**
Investment Grade Credit	UK	9.3%	12.5%
Investment Grade Credit	Global	22.2%	26.3%
Asset-Backed Securities	Global	4.2%	3.9%
Illiquid Credit	Global	12.0%	-
Alternative Inflation-Linked Property	UK	4.7%	-
Alternative Assets	Global	0.5%	0.5%
Liability Driven Investment	UK	47.1%	56.8%

The assets invested for Pace DC are administered by Legal & General Assurance Society Ltd, via a range of funds from which members can make their own choices. More details of the funds available for Pace DC are shown on page 32.



How do we exercise ‘stewardship‘?

‘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.’

The 2020 UK Stewardship Code

We’re committed to achieving our investment objectives in a way that considers broader social and environmental concerns, and by investing responsibly.

As the Trustee, we exercise our stewardship responsibilities in the best interests of all members of Pace. We operate a DC Committee whose members are selected based on relevant knowledge and understanding. The DC Committee is responsible for the development and operation of Pace’s investment strategy for Pace DC, while the Trustee Board performs the same role for the Scheme’s DB assets.

Responsibility for the day-to-day management of assets is delegated to our appointed investment managers, and their approach to implementing responsible investment principles is monitored by the Manager Monitoring and Implementation Committee (MMIC), which consist of senior members of the Co-op Pensions Department, including the Scheme Secretary of Pace.

The duties of the MMIC and DC committees are to consider in detail performance monitoring, risk assessment, and operational and implementation matters. The committees report back to the Trustee on key issues raised at their meetings in quarterly Trustee Board meetings or at ad hoc meetings when needed.

Following changes in late 2017 to reduce risk in our investment strategy, Pace DB no longer invests in company shares (either directly or through pooled funds). Nevertheless, we’ve acknowledged the importance of considering ESG factors (and specifically climate risk) in investment decision-making and reserve the right to use a more direct engagement approach with investment managers and investee companies. In such situations, we may:

- Work with investment managers and other institutions to engage with companies; and
- Contact investee companies directly or through our investment managers.

We encourage our appointed investment managers to commit to the Stewardship Code. Our managers have their own policies to demonstrate how they monitor and engage with the companies in which they invest, to protect and enhance value to clients. Seven of Pace's nine investment managers (as at 5 April 2022) have published statements of compliance with the UK Stewardship Code, and links to their statements can be found in Appendix 2.

We're delighted that last year Pace's Stewardship Code report met the Financial Reporting Council's expected standard of reporting, and that Pace is therefore also a signatory of the UK Stewardship Code in its capacity as an asset owner. We've also reflected on the FRC's helpful feedback on last year's report and have tried to improve this year's disclosures, as part of our ongoing work to review our reporting to make sure it is useful for members and stakeholders.

In addition, all of Pace's mandates are managed by signatories to the United Nations backed Principles for Responsible Investment (UNPRI).

Managing conflicts of interest

We have a clear procedure for identifying and managing conflicts of interest which may arise from time to time. The Trustee Board meets at least quarterly, and in advance of each meeting, Trustee Directors are asked to consider if they have:

- Any material personal interest in the outcome of any discussions on the agenda;
- Any involvement in negotiating on funding or on any other matter on behalf of the Co-op or The Co-operative Bank;
- Any knowledge acquired from another role which would materially impact on decision-making, and which may not be shared with the Board; and
- Any difficulties in treating discussions as confidential.

The Trustee maintains a Register of Interests which sets out the relevant interests of the Trustee Directors. The Register is reviewed at each quarterly meeting and is updated on an ongoing basis as and when the Scheme Secretary is advised of any required changes or updates.

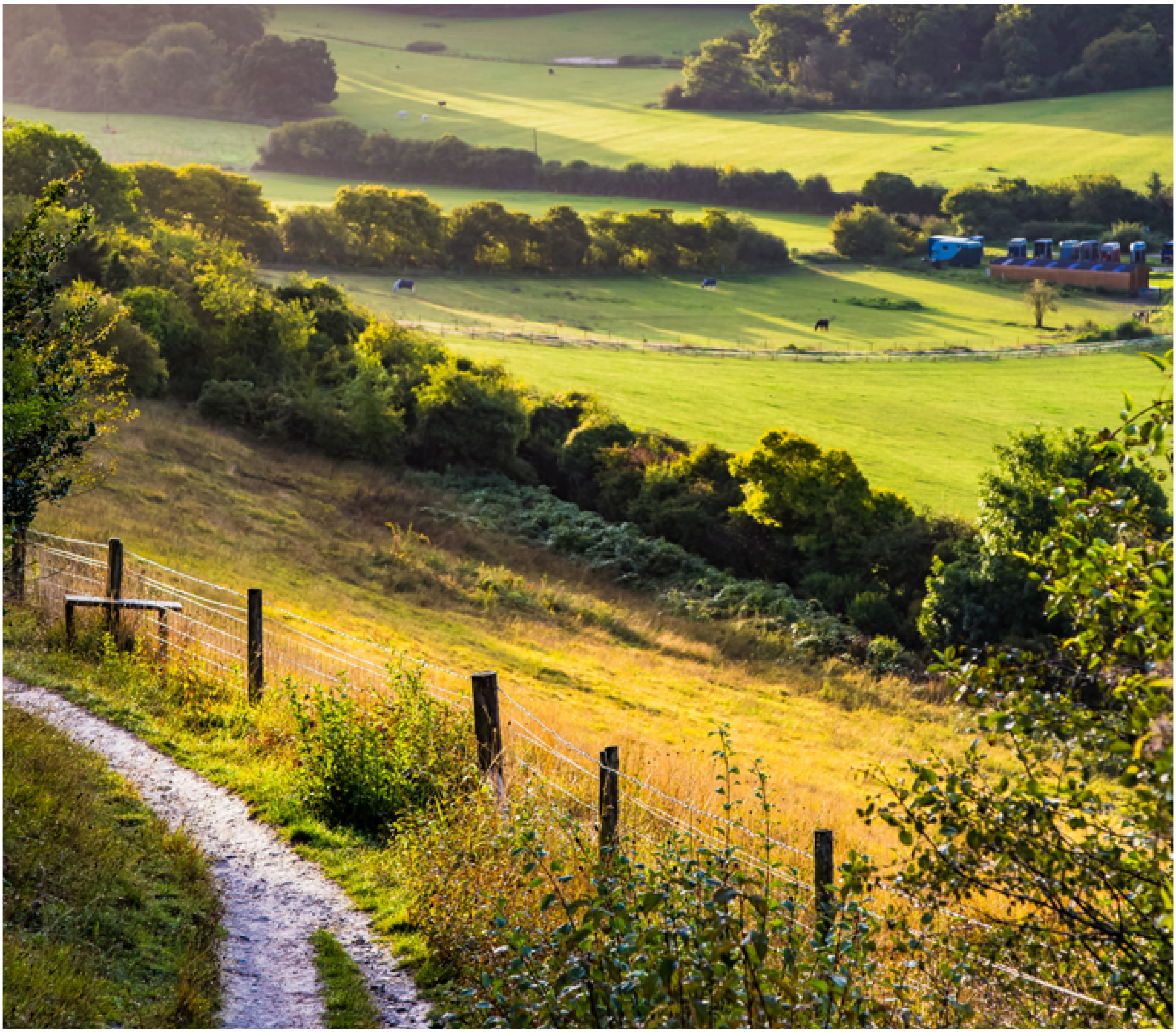
Potential conflicts of interest might arise if, for example, a Trustee Director were to have a relevant relationship with an investment manager being considered for appointment, or where they were a trustee for a pension scheme sponsored by a company Pace was considering engaging with or disinvesting from. These conflicts are managed by obtaining appropriate legal advice where necessary, with full disclosure being made within minutes of meetings and the Trustee Director(s) in question absenting themselves from discussions if appropriate.

We believe it's important to be transparent, so we tell our members how we invest in order to show the Scheme is exercising its responsibilities as an asset owner effectively. The following documents are reviewed at least annually and are publicly available on the Scheme's website:

- Pace's Statement of Investment Principles (SIP) for the Co-op and Bank sections;
- Pace's Implementation Statement;
- Responsible Investment Policy (covering both DB and DC assets);
- The Scheme's annual report and accounts; and
- Our annual Stewardship Code report.

From November 2022, we will also publish an annual Taskforce on Climate-Related Financial Disclosures (TCFD) report quantifying climate risk within Pace DB and Pace DC.

In addition, we've dedicated sections in our annual report and accounts and our shorter members' annual report focused on responsible investment.



What has the Trustee been doing this year?

Responding to systemic risks

Russia's invasion of Ukraine

While the impact on financial markets of the Covid 19 pandemic declined over the year, market volatility rose significantly following the Russian invasion of Ukraine in February 2022. In particular, the invasion sparked large rises in oil and gas prices, which led to a substantial increase in immediate inflation expectations.

We worked with our investment consultants to identify potential consequences of both the Russian invasion and associated sanctions, and of rising inflation, on our investment strategy and underlying holdings (in light of the increased ESG risk).

We engaged with each of Pace's investment managers to understand and quantify any direct or indirect exposure to Russian assets. We were encouraged by the responses that Pace DB had no direct exposure to Russian investments; and that exposure through pooled index-tracking funds for Pace DC was limited, and that the fund manager and index provider were working to remove these holdings (which, in light of sanctions, were illiquid) from the index.

We also engaged with other investors, including through the Occupational Pensions Stewardship Council (OPSC), to understand how they were engaging with investee companies with direct and indirect exposures to Russian investments.

We continue to monitor the situation and engage with our fund managers in relation to companies they invest in on our behalf who have (or had) subsidiary operations in Russia.

Climate risk

Climate change risk is perhaps the most pressing challenge facing our planet and represents a material risk to pension scheme assets. In addition, around the globe, governments have been introducing regulations to step towards decarbonisation, and these regulations themselves are expected to have an impact on some financial assets – it is therefore a risk we need to recognise and manage.

We will publish our first report in line with the TCFD framework by November 2022.

The TCFD framework and associated reporting covers four areas:

- **Governance:** an organisation's governance around climate-related risks and opportunities (i.e., establishing processes for assessing and managing climate-related risks and opportunities);
- **Strategy:** the actual and potential impact of climate-related risks on investment strategy and funding strategy (including scenario analysis);
- **Risk management:** the processes used by the organisation to identify, assess and manage climate-related risks (e.g., monitoring voting/engagement on climate, and considering investment choices); and

- **Metrics and targets:** the metrics and targets used to assess and manage relevant climate-related risks and opportunities. Trustees must report on a minimum of one absolute emissions metric, one emissions intensity metric and one additional climate change metric.

To support this work, we've established a TCFD Compliance Working Group (TCFDCWG) to understand the requirements of TCFD on Pace and to undertake analysis and prepare our formal report in line with the recommendations of the TCFD and the statutory requirements prescribed by the Department for Work and Pensions (DWP). The final version of the report will be published on our website in November 2022.

Our analysis, supported by advice from our investment consultants and scheme actuary, shows that given the de-risked investment strategy for Pace DB, the investment returns and funding strategy for both DB sections is not expected to be materially impacted by climate risk, although the effect on the less mature DC Section could be more significant.

We've therefore agreed to manage the DB and DC investments in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. We believe this decision is consistent with our fiduciary duty to our stakeholders, and is supported by the Co-op and The Co-operative Bank's net zero commitments, market developments, regulations and the emergence of credible methodologies and tools. This objective is also consistent with the goals of the Paris Agreement and the UK government's legally binding targets. More details of our net zero commitment can be found in the TCFD report when it is published in November.

What is 'net zero'?
Net zero (for a company or a business) refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere. For a pension scheme, 'net zero' means that this balance in greenhouse gases applies across the companies and governments the scheme is invested in, having worked out the scheme's share of these emissions based on the proportion of those companies/ economies the scheme 'owns'.

These emissions include:

Scope 1 'direct' emissions: those from sources owned or controlled by the company (e.g. direct combustion of fuel from vehicles);

Scope 2 'indirect' emissions: those caused by the generation of energy (e.g. electricity) purchased by the company; and

Scope 3 'indirect' emissions: all other indirect emissions across a company's value chain (e.g. emissions related to purchased goods and services, business travel, the use and disposal of goods sold to end consumers).

There are two different routes to achieving net zero, which work in tandem: reducing existing emissions and actively removing greenhouse gases.

We continue to look to reduce our carbon footprint and reduce our exposure to less sustainable companies through the strategies used in Pace's DC Section; we've also taken steps to limit our exposure in Pace DB by appointing asset managers with long-term horizons and engaging with them on climate risk, and through excluding some potential investments (see page 15).

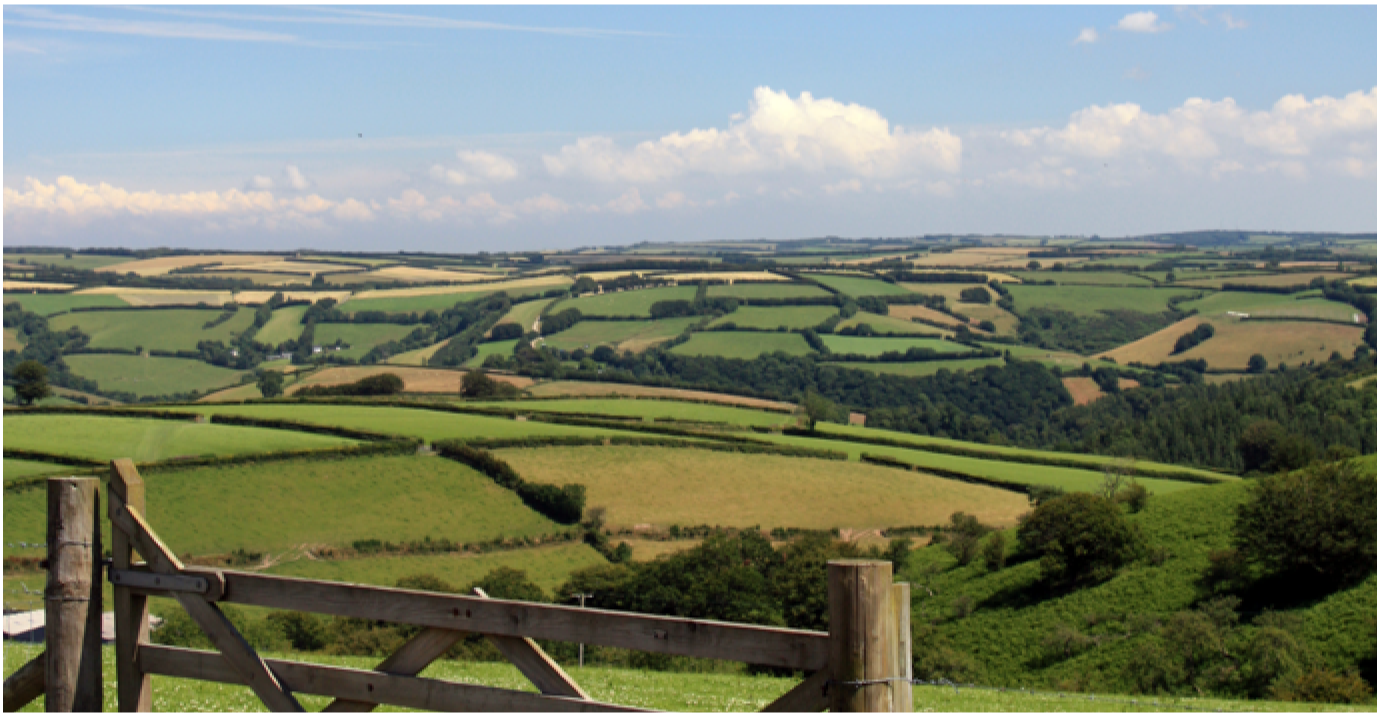
Aligned with this, in August 2021 we also signed the Institutional Investors Group on Climate Change (IIGCC) letter to global governments asking them to strengthen their commitments on climate change ahead of COP26, including to have a planned transition to net-zero emissions by 2050 or sooner and to implement domestic policies to deliver these targets.

Other systemic and market risks

We recognise that pension schemes face a wide range of investment risks. Our SIPs cover our policies on market-wide risks such as changes in interest rates and currency fluctuations, as well as our approach to other systemic risks such as climate risk. Our SIPs are available on the Scheme's website.

We maintain a risk register to help review and monitor these risks; this includes a heat map to aid us in identifying and focusing attention on the risks for which controls need to be implemented or strengthened. The risk register also shows a summary of the top key residual risks, current mitigations, developments and ongoing actions to help us put further controls in place. The risk register is reviewed at least annually to reflect changes to external risks and our controls.

Other than the risk register, over the year, in order to identify and respond to market-wide and systemic risks, we've engaged with the wider industry through membership of the UK Sustainable Investment Forum (UKSIF) and involvement in their policy roundtables throughout the year, and as noted above through our membership of the Occupational Pensions Stewardship Council (OPSC). The OPSC is a forum established by the Department for Work and Pensions and supported by the Financial Reporting Council to promote and facilitate high standards of stewardship of UK pension scheme assets. In particular, we were a signatory to a letter from the OPSC to the asset management industry, encouraging them to reflect investors' expressions of wish when setting voting policy.



Developments within Pace DB and Pace DC

We added the Pace Growth (Shariah) Fund for Pace DC

The Trustee regularly reviews the investment options offered by Pace DC, considering members' risk and return requirements and our understanding of their financial and non-financial circumstances. In 2021 we identified a need from our colleagues to introduce a Shariah-compliant investment option consistent with the principles of Islamic finance. We discussed the approach with the Co-op's Rise network, a network of colleague volunteers working together to amplify the lived experiences of minority ethnic colleagues across our Co-op, and took advice from our investment consultant. Shortly after the year-end, we expanded the self-select fund range to include the Pace Growth (Shariah) Fund.

The fund follows a process that has been approved by an independent Shariah Supervisory Committee which aims to meet the requirements of Shariah law and the principles of Islamic finance. It doesn't invest in financial services companies, companies that manufacture weapons, or companies in industries that are prohibited by the Quran such as alcohol, tobacco, gambling and entertainment, or pork-related products.

A small amount of the revenue generated by companies that the fund invests in (less than 5%) may come from non-compliant activities. Therefore, the Shariah Supervisory Committee agrees the methodology and calculation of a purification cost which is donated by the fund to charities agreed by the Shariah Supervisory Committee.

We switched some of our cash holdings to the BlackRock 'LEAF' fund

In March 2022, the two sections of Pace DB implemented a change to switch the cash fund held within each section's Liability Driven Investment mandates to use BlackRock's Liquid Environmentally Aware Fund (LEAF), following advice by the Scheme's adviser which believed the LEAF would be better aligned with our Responsible Investment Policy.
The BlackRock LEAF applies a screening process whereby issuers that fall within BlackRock's exclusionary screens defined for LEAF are excluded. The exclusions list screens out issuers that:

- Have exposure to the production of controversial weapons;
- Derive 5% or more of their revenues from fossil fuel mining exploration and/or refinement; and
- Derive 5% or more of their revenues from the production or distribution of tar sands or oil sands.

In addition to the ESG integration set out above, 5% of the net revenue from BlackRock's management fee from the fund is used to purchase and retire carbon offsets either directly or through a third-party organisation.

Assessing our own approach to Responsible Investment

The Trustee regularly reviews the effectiveness of its own decision-making processes, and each year reviews a number of decisions to consider the process followed and the timeliness and impact of any changes implemented (for example, assessing the process taken to agree and implement changes to investment strategy).

In September 2021 we also carried out, with our investment consultants, a review of how well the Trustee is integrating ESG considerations into its decision-making processes. The evaluations considered 75 questions across the Scheme's beliefs, policy, process and portfolio. Both sections of the Scheme achieved an A+ rating (with the highest score being A++).

We continued to monitor our investment managers' approaches to incorporating ESG factors in their investment processes.

We recognise that ESG factors can affect the financial performance of the companies and other assets we invest in. Our investment managers take account of ESG factors when they're implementing their mandates. As part of this, they engage directly with the companies they invest in to understand and assess topics like climate change, workers' rights, board constitution, the appropriate use of capital, and directors' remuneration.

We meet with each of our investment managers at least annually (at Trustee meetings or via our quarterly MMIC meetings), and ESG considerations and developments are a standing agenda item. Furthermore, our investment adviser assigns a rating to each manager according to the extent to which ESG issues and active ownership practices are integrated into their investment processes. The investment adviser's ESG-related ratings are reported to the Trustee and MMIC each quarter, and are used as a factor in manager evaluation and selection (noting that no new managers were appointed during the year).

We implemented a list of excluded investments for Pace DB

We continued to work with MSCI, a leading provider of investment tools and research, to implement an exclusions list to help us avoid investing in assets (as far as possible) that do not fit with our core beliefs. We developed this exclusions list so that it is practical to apply and does not constrain our investment managers in securing the investment returns needed to pay members' benefits. The investment exclusions we agreed in April 2017 were:

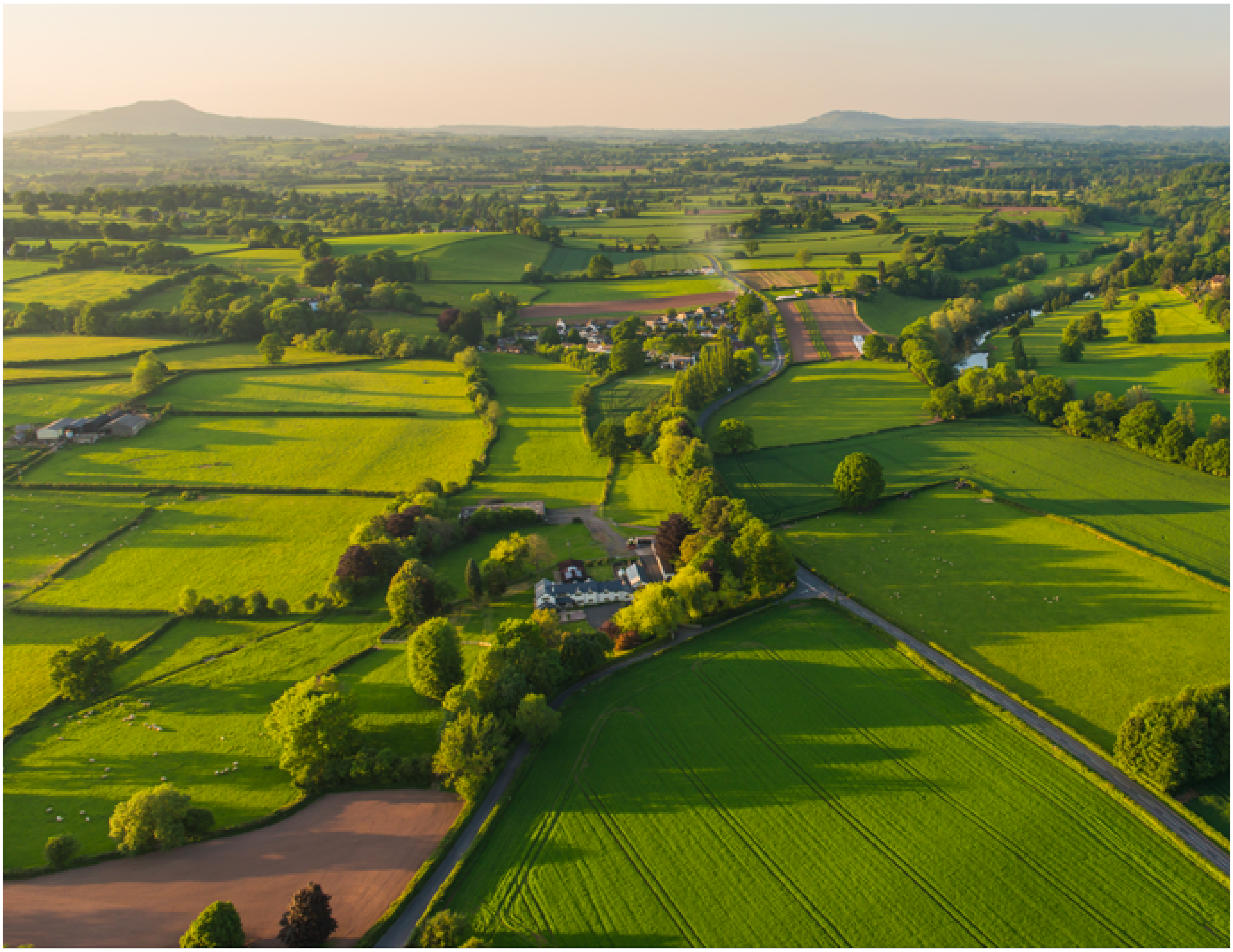
- **Extractive industries:** excluding investment in companies involved in the oil, gas or mining industries which are also rated poorly by MSCI with respect to how their specific environmental risks are addressed;
- **Controversial weapons:** excluding investment in companies involved in the manufacture or distribution of land mines, cluster munitions, chemical weapons, blinding lasers or depleted uranium munitions; and
- **Human rights:** excluding investment in debt issued by countries which score poorly on a number of indicators of effective governance and provision of basic rights and services to their populations.

Throughout the year, we worked with MSCI to keep the exclusions list up to date, to reflect their latest research updates. As at April 2022, the exclusions list covered:

- Corporate bonds issued by 525 companies in the extractive industries with poor environmental ratings (2021: 492 companies);
- Corporate bonds issued by five companies (2021: five companies) involved in the manufacture or distribution of controversial weapons; and
- Government bonds issued by 78 countries (2021: 74 countries) with poor human rights scores.

These exclusions are applied to Pace DB's assets, covering the corporate bond and Liability Driven Investment mandates which made up over 78% of the Co-op Section's assets and over 95% of the Bank Section's assets as at 31 March 2022 (both excluding insurance policies). This means that approximately £7bn of Pace's assets were screened using the exclusions list.

We monitor the implementation of these exclusions, and over the year (as instructed), our bond managers have not made any purchases prohibited by the exclusions lists. We've discussed ways to reduce these small residual holdings over time with our asset managers, and Insight Investment used a rebalancing exercise to sell their remaining holdings in these companies in March 2022. A small amount of residual holdings (less than 0.3% of Pace's total invested assets, excluding the insured assets) are in investments on the exclusions list, a reduction compared to 2021 (0.6%).



What have our investment managers and service providers been doing?

We expect our asset managers to include ESG factors in the initial selection of the investments they make on behalf of Pace, and as part of their ongoing assessment of these investments. We expect our asset managers to engage with the companies they invest in, to understand their businesses and the risks they are exposed to, and to encourage them to add long-term value and mitigate financial and non-financial risks by ensuring their business practices are sustainable. While Pace DB no longer holds investments in company shares and therefore our asset managers do not have voting rights to exercise directly on our behalf, we would expect them to engage across their wider asset base on a consistent basis.

Our investment managers put a lot of work into investing responsibly and considering ESG factors in their investment processes, and some go as far as extending this to how they run their own businesses. These are areas we expect them to report back to us, through both face-to-face meetings and their written reporting. The following sections cover in more detail the policies and approach to responsible investment taken by Pace's main investment managers.

For Pace DB, these are Legal & General Investment Management (LGIM), Royal London Investment Management (RLAM), Insight Investment, PGIM and BlackRock, where target holdings are at least 5% of total assets, to demonstrate how we monitor and hold them to account. To bring the processes to life, we've tried to highlight specific examples of how these managers engage with the companies they invest in on our behalf.

We also engage with our other asset managers routinely on their exercise of stewardship of the companies they invest in; in some instances, for example asset-backed securities, this is less directly applicable as they invest in instruments such as Collateralised Loan Obligations (CLOs) which themselves invest in tranches of underlying debt rather than individual businesses.
In these cases, we would expect our asset managers to meet with the underlying managers of the vehicles they invest in, and the companies involved in servicing those investments.

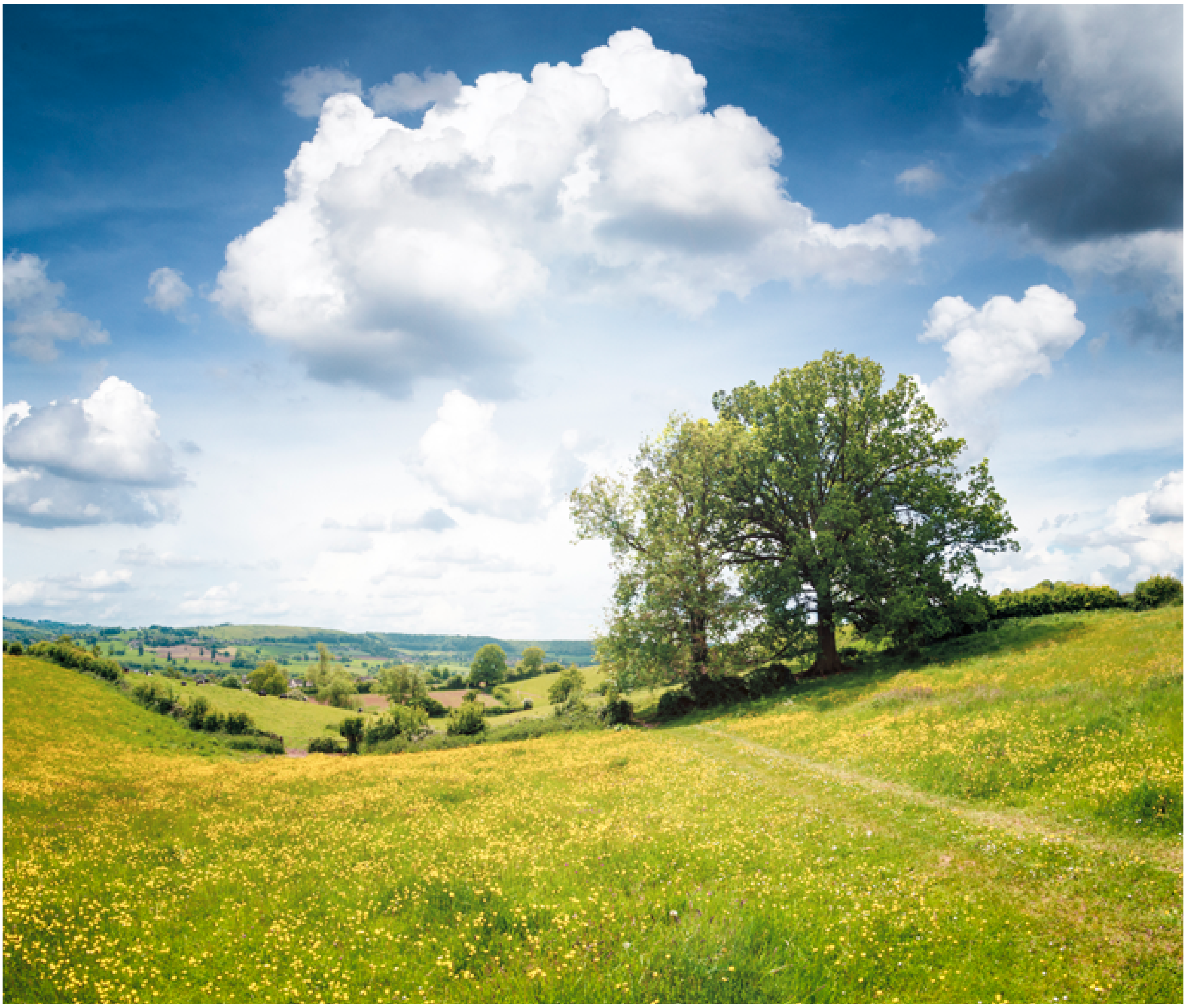
Over the period, our managers' stewardship activities met with our expectations.

As well as appointing asset managers, we as a Trustee have appointed investment consultants to provide specialist advice in relation to both Pace DB and Pace DC.

Each year, we set our investment consultants objectives in relation to their advice to Pace to ensure a high quality of service (in line with the requirements of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019). At the end of each year, we formally review their performance against these objectives using a balanced scorecard approach.

These objectives cover the consultants' demonstration of value add; their delivery of speciality services (including in relation to support on climate risk, building on the criteria set out by the Investment Consultants Sustainability Working Group's 2021 trustee guide for assessing investment consultants on climate competence); the proactivity of their advice; their support with scheme management and compliance; and the overall relationship and service standards.

We formally assessed our consultants in December 2021, and remain confident they continue to meet their objectives, although for good governance we review informally throughout the year and provide feedback as and when required.



Pace DB

Investment Grade Credit Mandates

Mandate managers: Legal & General Investment Management; Royal London Investment Management; and Insight Investment Management.
Allocation: c31% of the Co-op Section and c39% of the Bank Section assets as at March 2022.
Objectives of mandates: Pace invests in corporate bonds through 'Buy & Maintain' approaches, which seek to hold bonds to maturity where possible, avoiding defaults through strong stock selection and limited trading, while building diversified portfolios.
Voting rights: No, but managers are expected to provide updates on their engagement with the companies in which they invest on our behalf.

Legal & General Investment Management (LGIM)

LGIM believes that by bringing together the sector expertise from across its active investment and stewardship teams, it can influence and change company and market behaviours to achieve positive societal impacts.

It does this through:

- Company engagement;
- Using its voting rights (noting this isn't directly applicable for Pace DB – however LGIM can and does engage across fixed income and equity, and so can use voting rights on other holdings to engage with companies whose bonds Pace hold);
- Integrating ESG factors into portfolio management;
- Addressing systemic risks and opportunities;
- Influencing governments, regulators and policy makers; and
- Collaborating with other investors and stakeholders.

LGIM is committed to addressing ESG issues by developing and carrying out corporate governance and responsible investment activities, including Active Ownership, Advocacy, ESG Integration and Product Development. LGIM prioritises company engagement over exclusion, believing this can effect change through collaborative efforts with companies in a more positive way. LGIM believes that combining this method with engagement and voting and targeted exclusions can be a very powerful tool to address ESG issues.

LGIM is a signatory to the UNPRI and the UK Stewardship Code, and is a member of the Net Zero Asset Managers initiative (see page 39). As part of this initiative, LGIM has committed to work in partnership with its clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management, and in November 2021 announced it had set a target for 70% of eligible assets under management to be managed in line with net zero by 2030.

LGIM believes that incorporating a qualitative element is essential to capture the ESG risks embedded within each company. This has been done through LGIM's proprietary ESG tools, which cover areas such as:

- Workers' rights and fair remuneration;
- Climate change/the environment; and
- Controversial weapons.

Specifically, for Pace's Buy & Maintain credit portfolios, LGIM uses its bespoke investment framework to help with its investment process, with the following objectives in mind:

- Encouraging companies to improve their behaviour and the quality of their ESG disclosures – this enables LGIM to help raise market standards, and helps generate sustainable, long-term returns;
- Assessing a company's ESG risks – LGIM sees unmanaged ESG factors of companies as posing potential risks and opportunities, which can have a material adverse impact on the performance of investments; and
- Identifying the winners of the future – the companies to which investors will allocate ever-larger amounts of capital.

To achieve their objectives, ESG factors are integrated into the investment process using top-down and bottom-up approaches. Once LGIM has identified a long-term driver of returns, its next step is to identify the companies which are best placed to benefit or lose out from it within the value chain. This is supported by LGIM's fundamental bottom-up research, which includes ESG assessment and company engagement. This helps LGIM to understand key drivers impacting that business.

In addition, LGIM's Corporate Governance and Index teams have developed a rules-based and transparent methodology to score companies against ESG metrics. This LGIM ESG Score is used universally across their business, including for their Future World funds.

ESG scores are assigned to companies based on the following themes:

- **Environmental** – assessing the exposure of companies to climate change and the shift to a low-carbon economy; comprising carbon emissions, the level of carbon reserves and green revenues;
- **Social** – comprising diversity (e.g. representation of women on company boards, as well as at executive and management levels and throughout the workforce); and human capital (policies to ensure companies have the right culture and treat workers fairly);
- **Governance** – a range of criteria that indicate 'best practice' in terms of investor rights, board diversity and high-quality audits; and
- **Transparency** – assessing the quality of company disclosures. These indicators give LGIM insight into the quality of the ESG disclosure and the level of disclosure in relation to ESG-related data points.

As well as ESG scores, LGIM also uses an 'Active ESG View' which incorporates additional inputs and assessments in order to reflect a fuller picture of the ESG risks and opportunities embedded within each company. LGIM believes this helps with its analysis when picking investments, to mitigate ESG risks and increases the probability of better long-term outcomes. LGIM's corporate credit ESG analysis is driven by each analyst's view on the significance of each factor.

LGIM also considers climate risk factors, mainly through the integration of ESG factors in the credit quality assessment as described above. In addition, LGIM believes that over the medium to long term, physical as well as transitional climate risk (which are risks resulting from policy and regulation, differences in consumer preferences, technology adoption, etc.) will become much more pronounced and therefore LGIM approaches them through a combination of climate risk scenario modelling, using their Destination@Risk model to analyse scenarios for how the energy system may evolve over the next 30 years and their investment implications. This toolkit takes a bottom-up approach to modelling the energy system, and allows a robust measurement of the climate risk embedded in investors' portfolios and their climate alignment. Destination@Risk also allows LGIM to measure and manage carbon exposure, as well as identifying underlying climate risks across the capital structure.

In addition to its ESG policy, LGIM has implemented a separate policy for controversial weapons to exclude those companies involved in the manufacture and production of cluster munitions, antipersonnel landmines, and biological and chemical weapons.

LGIM's policy and engagement on climate change

LGIM is committed to addressing the issue of climate change and has a specific climate change policy. It engages with companies that it invests in to ensure its strategies are aligned with global climate goals. It has done so through its Climate Impact Pledge, through which LGIM assesses over 1,000 of the world's largest companies across 15 climate-critical sectors, engaging with them to improve their strategies to address the climate emergency.

These companies' climate performance is published in a 'traffic light' system on LGIM's dedicated website. Published annually, companies are 'named and famed' or 'named and shamed', as LGIM encourages firms to take action to move towards net zero carbon emissions by 2050.

Companies are held to account through LGIM's voting activity and, where LGIM deems it appropriate, have been divested from selected funds where permitted (including in the Pace Growth (Mixed) Fund used by Pace DC – see page 32). Sanctioned companies currently include ExxonMobil, Hormel, Air China, Sysco, Rosneft Oil, AIG, Invitation Homes, China Resource Cement, KEPCO, MetLife, Cosco Shipping and China Construction Bank. Companies can come off this list and be reinstated to funds through tangible improvements and engagement, and this was the case for Japan Post Holdings in 2022.

LGIM believes that the process works – in 2021, 130 companies were sanctioned by LGIM for failing to meet minimum standards, but this had fallen to 80 in 2022.

LGIM aims to actively engage with companies, and it believes this direct engagement helps its analysts to identify ESG risks and opportunities. Ongoing dialogue with companies is a fundamental aspect of LGIM's approach to responsible investment. The outcomes from these engagements with companies are also fed into LGIM's ESG tools.

LGIM sets clear objectives and timelines when it first engages with companies where issues have been identified, and these are reviewed throughout the engagement process to allow their management to oversee the progress of engagement activities.

To effectively tackle ESG issues that impact the value of their clients' assets, LGIM applies a multi-layered escalation strategy.

Where the initial engagement does not lead to an appropriate outcome, LGIM may choose to adopt a stronger stance by using different escalation tools – for example, through voting against individual directors' reappointments (where LGIM has investments elsewhere within their business that do have voting rights), direct engagement with regulators, divesting from the securities of an unresponsive company or through applying pressure by means of public statements and press releases.

LGIM monitors investee companies over the long term and the progress on engagement activity is regularly reviewed by its dedicated team using company disclosures, independent research providers, its investment teams and the media.

Examples of LGIM's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **JP Morgan – Climate alignment example**

   Pace holds corporate bonds issued by JP Morgan, who are a signatory of the Net Zero Banking Alliance. As part of this, JP Morgan has made a commitment to set targets to transition to net zero greenhouse gas emissions by 2050 or sooner, and to set interim targets for 2030, consistent with a 1.5°C trajectory, as well as disclosing scope 3 emissions.

   This year, LGIM noted JP Morgan's latest reporting only included interim targets and covered a small number of sectors of borrowers, and did not yet disclose scope 3 emissions. As a result, at its 2022 AGM, LGIM voted in favour of a shareholder proposal calling on the JP Morgan Board to set a policy to ensure its fossil-fuel financing is aligned with the International Energy Agency's 'Net Zero 2050' scenario (demonstrating LGIM's approach to combining engagement across fixed income and equity with the exercise of voting rights on equity holdings). While the vote did not pass, LGIM report that they will continue to monitor how JP Morgan takes the necessary steps to meet its commitments under the Net Zero Banking Alliance, to disclose its scope 3 emissions, and to align more of its business to a 1.5°C trajectory.

2. McDonald's – Natural Capital example

LGIM believes that the overuse of antimicrobials (including antibiotics) in human and veterinary medicine and animal agriculture could prompt the next global health crisis, and this has been a growing area of focus for them. This view led them to have a meeting with McDonald's in 2021 to understand what the company has done regarding antimicrobial resistance (AMR), and to understand their views on the role played by them and other stakeholders in the broader public health context.

LGIM was encouraged by the company's efforts over the past few years on reducing the use of antibiotics in its supply chain for chicken and beef as well as pork. LGIM believes AMR is a financially material issue for the company and other stakeholders and wants to signal the importance of this topic to the company's board of directors. As with the above example, LGIM combined this engagement with the exercise of voting rights on equities it also holds and at McDonald's 2022 AGM voted in favour of a shareholder proposal seeking a report on antibiotics and public health costs at the company.

Further examples of LGIM's exercise of voting rights (for Pace DC) are set out on pages 33-34.

Royal London Asset Management (RLAM)

RLAM is committed to being a responsible investor. It believes that seeking to integrate material ESG information into its decision-making is in the best long-term interests of its clients and can help to deliver better returns.

RLAM believes that corporate bond investing demands a bespoke fixed-income and ESG approach, and as a result has developed an approach that is intended to be both credible and realistic, with an emphasis on redressing bondholders' traditionally weak control. It aims to generate sustainable, risk-adjusted returns that reflect a wider understanding of what will drive economic performance in the future. As part of that commitment, RLAM seeks to identify and understand ESG risks and opportunities as part of their investment process. To achieve this, it engages with companies and industry regulators to understand the issues and to promote best practice.

For credit portfolios, RLAM's ESG analysis focuses on factors which might mitigate or exacerbate the potential for downside loss or risk of default. This includes specific considerations of where debt sits in the capital structure, the duration of the position, and any security associated with the bonds. RLAM has a dedicated responsible investment team to identify and evaluate ESG issues that might impact a sector, along with detailed investigations of the ESG profile of specific issuers and bonds, which feed into its credit analysis and the credit team's bond evaluation.

RLAM considers a company's treatment of its staff is a key social factor when assessing a company's wider exposure to ESG risks. At a minimum, RLAM would look for a company to have a publicly available modern slavery statement, and more generally would consider any evidence of workers' rights being violated in their ESG analysis. In addition, as part of its ESG analysis, RLAM reviews the gender pay gap reporting regime of UK-based issuers, as well as issuers' broader workforce diversity.

RLAM also confirmed it reflects Pace's exclusions list when choosing securities to invest in.

RLAM's policy and engagement on climate change and the environment
RLAM is committed to addressing the issue of climate change and in 2022 published its first specific Climate Risk Policy, addressing how it approaches climate risks and opportunities when making investment decisions; including how it manages the risk of investee companies' operations and the risk this poses to investors' capital. RLAM is also a signatory of the Net Zero Asset Managers initiative.

RLAM reports in line with the Sustainable Finance Disclosure Regulation (SFDR) requirements and aims to maintain its compliance with regulations and remain transparent with regard to its fund-specific Principal Adverse Impacts (PAIs – see below) and approach to ESG integration.

RLAM doesn't explicitly exclude companies involved in fossil fuel production above and beyond Pace's exclusions list, but it notes its credit research process and ESG analysis tends to lead to it having low exposure to companies which extract fossil fuels, and that it would not purchase securities where it felt there was a significant and unmitigated financial impact due to climate change. For utilities with exposure to coal-based power production, RLAM regularly engages with companies on their approach to the energy transition, including their timelines and targets for decarbonising their generation portfolios.

In addition, RLAM does not have any exposure to companies with involvement in palm oil production or rubber production.

What are 'Principal Adverse Impacts'?
RLAM monitors the Principal Adverse Impacts (PAIs) of its investment decision-making on the environment and society, where it feels serious issues need to be addressed, and, where it is in the best long-term interests of its customers, will seek to engage with a company and encourage the management to make improvements. RLAM's PAI indicators cover climate and environmental matters, as well as a variety of adverse social effects, including employment matters, respect for human rights, anti-corruption and anti-bribery.

RLAM focuses on engaging with investee companies in two ways: engagement for information and engagement for change. This allows RLAM to understand how ESG risks affect its investments and, in turn, any adverse effects of its investment decisions on the environment and society.

RLAM takes an active approach to stewardship by engaging with issuers in their fixed-income portfolios. RLAM regularly monitors its investee companies using its own research and also through regular engagement meetings with management and non-executive directors to discuss issues relating to strategy and governance. Through dialogue with investees' management teams, RLAM aims to satisfy itself with the effectiveness and efficiency of the boards of investee companies, and to ensure that they are aware of, and are appropriately managing, all material risk factors, including environmental and social risks.

In terms of voting rights, although as a bondholder RLAM does not have voting rights at a company's annual general meeting, its focus on lending where it has security or protective covenants does give it a significant degree of pre-emptive control, which means it is engaged in a much higher level of bondholder voting (and direct agenda) than is typical for most corporate bond investments.

Examples of RLAM's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **BP – engagement on net zero and climate alignment**
   In early 2022, following the Russian invasion of Ukraine, RLAM met with BP's CEO and a Strategy & Sustainability Vice President to discuss its expectations on credible climate transition plans and its objectives in relation to operations, production (upstream) and product sales. BP noted that they believed that divesting some of their more carbon-intensive assets was necessary to fund the business transformation and allow them to provide low-carbon alternatives, where they could have most impact in reducing emissions (despite potential concerns that this was not the optimal strategy for reducing overall emissions across the economy). Moreover, BP believed the most effective strategy to preserve value for shareholders was offloading these assets earlier in the decade, and then maintain flat hydrocarbon production thereafter.

   In terms of decarbonisation, BP's CEO highlighted the company's investments in electric vehicle (EV) charging points as well as developing hydrogen and biofuel value chains as examples of BP's commitment in the area. RLAM supports BP's proposition to include emissions from traded products within its scope 3 targets, but asked for the company to restate its scope 3 baseline to include physically traded and oil & gas sales as, in RLAM's view, scope 3 emissions disclosures without these cannot be considered a fair assessment of the company's emissions.

   Overall, BP's shift away from upstream fossil fuel production and its investments to help the demand side transition was viewed as a positive move by RLAM.

2. Enel – engagement in relation to Russia and corporate governance

RLAM met with Enel, an Italian multinational manufacturer and distributor of electricity and gas, in 2022 to discuss a broad range of matters, including its expected renewables expenditure, diversity, remuneration, GHG reduction targets under its Long Term Incentive Plan (LTIP), and plans to produce a gas generation phase-out schedule. One other important topic they discussed was Enel's exposure to, and reliance on, Russia and the expected impact on supply and prices for its customers.

Enel confirmed it has virtually no exposure to Russian gas supply and that its Russian entity's (Enel Russia) weight in the context of the whole Group is minimal. Enel commented that the EU has a better understanding of the need to be more independent from hostile powers in terms of energy, which in turn might lead to an acceleration of renewables. In terms of executive remuneration, Enel acknowledged investors' concerns around granting most of its LTIPs in cash, and they will be assessing whether they should increase the equity component of the plan in the near future. Enel's leadership will also consider introducing shareholding guidelines in the following years.

At their meeting, RLAM learned that one of Enel's LTIP metrics will include GHG scope 1 emissions reduction targets, but Enel was unable to confirm whether scope 2 and 3 emissions will also be included in the company's incentive plans.

RLAM noted that Enel is planning to exit gas-based generation by 2027, and that it will start reducing its gas capacity by 10% by 2030, and between 2030 and 2040 will need to define a gas phase-out process in detail.

Insight Investment Management

Insight is committed to addressing stewardship and engagement and believes doing so can drive change and support effective investment. Insight participates in a range of associations and collaborative initiatives including the UK Sustainable Investment and Finance Association, the Institutional Investors Group on Climate Change, Climate Action 100+ and the International Capital Market Association (ICMA) – Green and Social Bond Principles.

Insight works to support a stable and resilient social, environmental and economic system and efficient, well-managed financial markets. It believes in integrating ESG issues into its investment processes, together with active engagement with issuers and other stakeholders to support better investment decisions. It believes that this in turn will help to achieve its clients' targeted investment outcomes.

Insight's Responsible Investment Policy focuses on six beliefs, broadly aligned with Pace's own policies:

- Putting responsibility at the heart of how they do business;
- Integrating material ESG factors into their investment process;
- Acting as effective stewards of companies and other entities;
- Supporting efforts that seek to improve the operation, resilience and stability of financial markets;
- Collaborating with others on ESG issues; and
- Engaging with clients to understand their needs, acting in response, and providing transparency on its activities.

Insight uses a number of external ESG research sources to support its ESG analysis, using a proprietary model that aligns with its approach to corporate fixed income.

This proprietary model covers 95% of investment grade corporate bond indices. The framework considers 33 key ESG issues, including carbon emissions, environmental controversy, water management, raw materials and controversial sourcing, human capital and corruption.

These focuses are applied in the credit evaluation of all assets at Insight and are components of its checklist to better quantify long-term risks. As well as applying Pace's exclusions list, Insight's own ESG framework overlaps with Pace's Responsible Investment Policy in a number of areas:

- Insight has a policy to not have any exposure to companies involved in the manufacture or distribution of incendiary/ illegal arms or weapons.
- When building long-term Buy & Maintain portfolios (like Pace's mandate), Insight focuses on secure, sustainable investments and would not therefore typically invest significant amounts in companies in the extractive sectors.
- Insight closely monitors risks from the extractive, utilities and energy sectors as it believes they are most vulnerable to a transition to a low-carbon economy and have a big impact on climate change.
- Insight expects companies to uphold minimum standards on labour and health and safety. It will engage with companies that fail to meet these minimum standards on a case-by-case basis. New issues such as equal pay are becoming more relevant for how they evaluate corporate culture and over time it expects to use this data as part of its issuer due diligence.
- Insight believes corporate governance is a critical component of issuer risk. Insight evaluates corporate governance for every company that it invests in and will engage on governance risk wherever it considers this to be material.

Insight's policy and engagement on climate change

Insight believes climate change presents a systemic investment risk. Its engagement policy for climate change is to advocate for action at a policy level. Insight believes that all issuers within its investment universe are susceptible to the consequences of climate change through potential impacts on supply chains, regulatory uncertainty and resource scarcity.

Insight considers a global legislative framework endorsed by policymakers to be the most effective mechanism to mitigate climate change and create investment certainty. To achieve this, Insight has joined a number of annual investor campaigns to push for a global climate agreement. Through its membership of the Institutional Investors Group on Climate Change (IIGCC), Insight was a signatory to the 2021 global investor statement on climate change, and it advocates for action in a collaborative process. Insight became a signatory to the Net Zero Asset Manager initiative in April 2021 and intends to publish its first TCFD report in 2022.

Insight has also developed a proprietary 'prime climate risk rating' for corporate debt which aims to analyse and quantify the risks due to 14 key climate change-related issues for approximately 1,700 issuers, drawing from over 200 individual data inputs. In 2020, this quantitative assessment of climate risks was formally integrated into Insight's credit analysis process, aiming to help its analysts and portfolio managers consider material climate risks in their investment decisions and to identify potential issues for engagement. The prime climate risk ratings expand on the principles of the TCFD, and Insight believes this rating can more accurately indicate how fixed-income corporate credit issuers manage their climate change-related risks and opportunities and shows how they are positioning themselves for the transition to a low-carbon economy.

Insight uses this as part of its credit analysis process, and its aim is for it to provide full coverage across the holdings in its Buy & Maintain credit strategies (including Pace). At present, the majority of Pace's bonds managed by Insight are covered by the index.

Insight takes an active approach to voting and stewardship. For its fixed-income portfolios where it does not have voting rights, Insight aims to engage with all companies prior to investing to review performance, strategy, risk management and ESG issues.

Insight focuses on the areas where companies have received low scores in its sustainability checklist. The issues Insight engages on include the oversight and effectiveness of boards of directors, environmental performance, health and safety events, accounting deficiencies, climate risk and strategic changes. If Insight identifies issues and is unhappy with management's responses to their engagement on these issues, it would reduce or completely sell these holdings.

Examples of Insight's engagement with issuers in Pace's Buy & Maintain credit portfolio

1. **Anheuser-Busch InBev**
   In early 2022, Insight's research team engaged with Anheuser-Busch InBev to discuss corporate governance in particular, as its proprietary model (above) highlighted a low governance score. During the call, they discussed a range of ESG topics aligned with Sustainable Development Goals such as decent work and economic growth, climate action and topics related to peace, justice and strong institutions.

   Insight also had a detailed discussion with Anheuser-Busch InBev on ethics and transparency, and in particular how the company collects KPI data on colleagues to measure performance against targets (including how they comply with local laws and regulations, what data they collect and how they ensure privacy).

   Insight was satisfied that Anheuser-Busch InBev had taken on board Insight's input, and it will continue to engage with the company in the future to monitor progress.

2. **Severn Trent**
   Insight met with the Treasurer of Severn Trent in their annual review in 2022, discussing a range of topics including the company's carbon and water management plans given their high climate risk rating.

   Insight discussed Severn Trent's work in relation to water stress, and their investment in river quality through the Water Industry National Environmental Programme (WINEP) scheme. Outside of regulation, they have also announced 'Get River Positive' as a commitment to protect and enhance the health of rivers in the region.

   The five pledges they are committed to are:

   1. Ensuring storm overflows and sewage treatment works do not harm rivers;

   2. Creating more opportunities for everyone to enjoy the region's rivers;

   3. Supporting others to improve and care for rivers;

   4. Enhancing rivers and creating new habitats so wildlife can thrive;

   5. Being open and transparent about their performance and plans.

   In addition, Insight notes that Severn Trent are one of only two water companies in the UK to have verified and approved Science Based Targets (SBTs) in line with the 1.5°C pathway, with a target to reduce absolute scope 1 and 2 greenhouse gas emissions by 46.2% by FY2031 from a FY2020 base.

   Insight was satisfied with Severn Trent's developments in reduced carbon emissions and results but will continue to monitor their evolution on water management and the progress of the company with their 'five pledges'.

Insight has confirmed it reflects Pace's exclusions list when choosing securities to invest in, and will continue to work with Pace to ensure ESG is incorporated in its investment process for Pace's mandate.

Alternative Inflation-Linked Mandate

Mandate managers: PGIM Real Estate (PGIM).
Allocation: c4.7% of Co-op Section assets as of March 2022.
Objectives of mandates: PGIM's alternative property strategy aims to provide an alternative to Long Dated Index Gilts to outperform the FTSE 5-25 Year Index-Linked Gilts index by 2.0% p.a. (net of fees).
Voting rights: Not relevant.

Our holdings with PGIM are invested in long lease property (predominantly commercial ground leases and income strips on property such as hotels, student accommodation and affordable housing).

PGIM sees tenant engagement across its Real Estate portfolio as integral to improving the environmental performance of buildings, and ensuring the overall health, safety and wellbeing of tenants. PGIM works with its tenants on an ongoing basis in the following ways:

Education – PGIM uses green lease tools and resources to help its tenants track and measure their building performance and reduce environmental footprints. PGIM's green lease efforts earned the 2016 Green Lease Leaders Award from the US Department of Energy and the Institute for Market Transformation.

Tenant survey – In PGIM's annual tenant surveys, it reviews green certifications, green cleaning and pest management, indoor environmental quality, occupant comfort (heating, ventilation and air-conditioning), and workspace ergonomics and lighting to further understand tenants' needs. To meet or exceed the expectations of its tenants, PGIM has engaged a professional consultant to evaluate important tenant topics such as property management, leasing, maintenance, property features and sustainability.

Environmental engagement – Throughout the year, PGIM hosted and provided education programmes and social engagement on topics of sustainability including e-waste drives, Earth Hour, Earth Day, World Water Day, Bike to Work Day, and energy and water conservation workshops. PGIM also hosted community citizenship and volunteering activities such as holiday giving, food drives, opportunity youth development, health and fitness screenings, and community education.

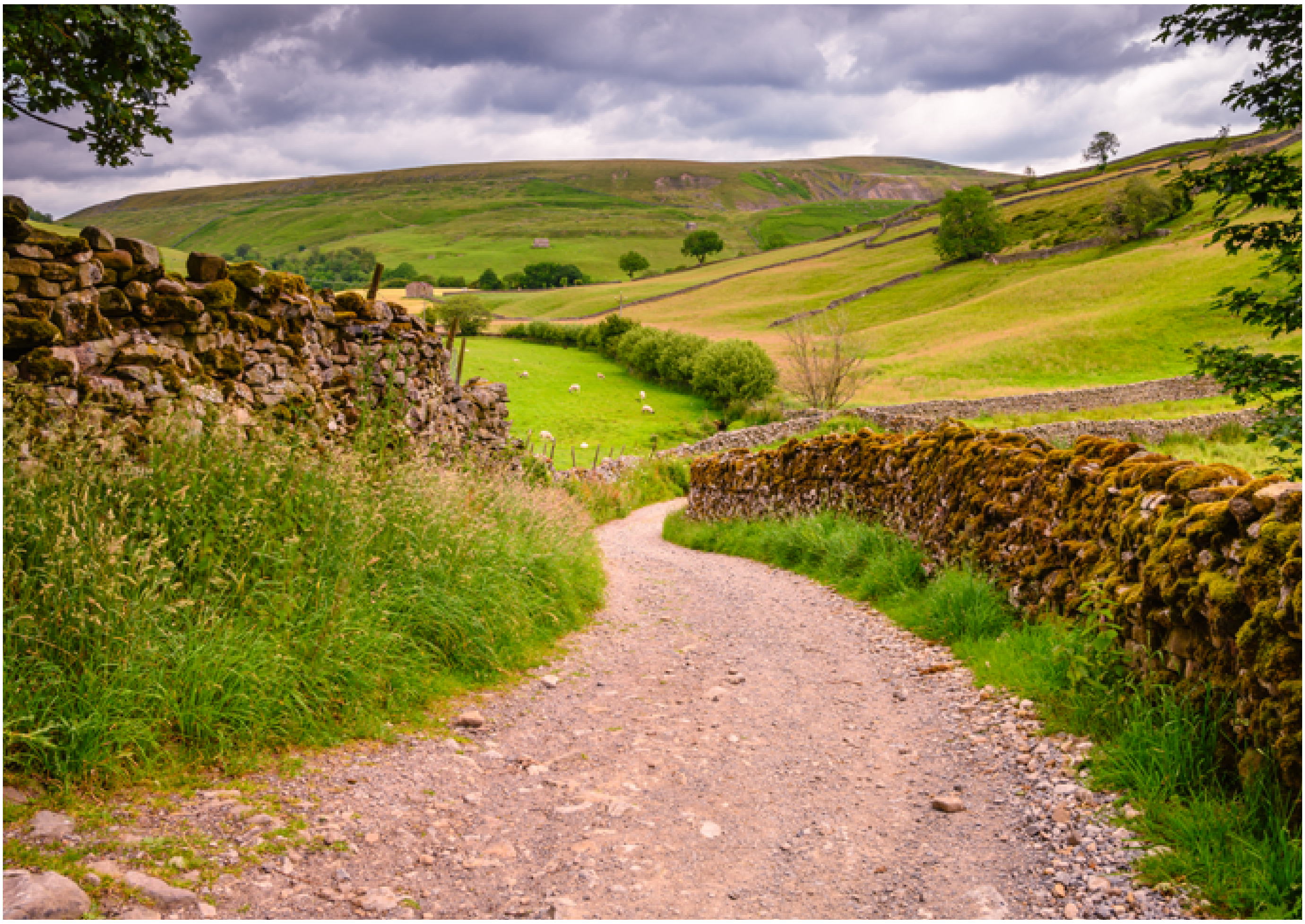
Liability Driven Investment Mandate

Mandate managers: BlackRock Investment Management (BlackRock).
Allocation: c47% of Co-op Section assets / c57% of Bank Section assets as of March 2022.
Objectives of mandates: BlackRock's objective is to match its overall benchmark which is based on Pace's liabilities using a gilt-based measure.
Voting rights: Not relevant.

Our holdings with BlackRock are in a UK government bond-based liability hedging portfolio, so responsible investment considerations do not impact as obviously on investment decisions for its mandate, and as such it does not form part of its investment process. Pace does, however, apply its exclusions list to the portfolio, as there is limited flexibility for BlackRock to also invest in some corporate or overseas bonds.
In particular, we also note that we apply an exclusions list preventing investment in government bonds issued by countries that score poorly on human rights issues.

As noted on page 14, in March 2022 we switched our cash holdings within the sections' liability driven investment mandates to use the BlackRock LEAF fund, and will keep the impact of this change on our carbon footprint under review.

We recognise that investing in government bonds, and therefore having exposure to a country's wider economic growth and stability, does not come without a carbon footprint, and over the year we've worked with BlackRock and our investment consultant to quantify this (covered in more detail in our TCFD report).



Pace DC

Mandate manager: Legal & General Investment Management

<table>
<tr><th rowspan="2">Fund</th><th colspan="2">Proportion of assets (5 April 2022)</th><th rowspan="2" colspan="2">Fund objective</th></tr>
<tr><th>Co-op Section</th><th>Bank Section</th></tr>
<tr><td>Growth (Mixed)</td><td>67.7%</td><td>68.6%</td><td>Long-term investment growth, using a diversified set of asset classes, while reflecting significant ESG issues into the fund's investment strategy.</td><td rowspan="3">These funds form part of Pace DC's default option</td></tr>
<tr><td>Growth (Shares) 2021</td><td>22.7%</td><td>25.0%</td><td>Invest in the equity of a diversified range of businesses in the UK and overseas, with strong and improving ESG attributes.</td></tr>
<tr><td>Cash</td><td>8.7%</td><td>5.1%</td><td>Provide capital protection, with growth at short-term interest rates.</td></tr>
<tr><td>Growth (Ethical Shares)</td><td>0.7%</td><td>1.2%</td><td>Track the total return of the FTSE4Good Global Equity Index.</td><td></td></tr>
<tr><td>Growth (Shares)</td><td>0.1%</td><td>0.0%</td><td>Capture UK (30%) and overseas (70%) equity market returns.</td><td></td></tr>
<tr><td>Pre-retirement</td><td>0.1%</td><td>0.0%</td><td>Reflect diversified investment underlying a typical traditional annuity product.</td><td></td></tr>
<tr><td>Pre-retirement (inflation-linked)</td><td>0.0%</td><td>0.1%</td><td>Reflect diversified investment underlying a typical inflation-linked annuity product.</td><td></td></tr>
</table>

The Pace Growth (Shariah) Fund was added as a self-select fund in April 2022, after the Scheme year-end.

Pace DC is administered by Legal & General Assurance Society Ltd, and members have the option to invest in a range of funds, which are shown above, together with the proportion of members' assets invested in each fund as at 5 April 2022.

The most significant holding in Pace DC is the Pace Growth (Mixed) Fund, which forms the largest component of the default investment option. Since 2019, this fund has been invested in Legal & General's Future World Multi-Asset Fund. This fund invests in a range of assets which may include equities, bonds, cash, listed infrastructure, private equity and global real estate companies, aiming to provide long-term investment growth while also reflecting significant ESG issues into the fund's investment strategy through 'tilts' towards more sustainable companies.

LGIM publishes a number of metrics to quantify the impact of the ESG tilts within the Pace Growth (Mixed) Fund. This has had a quantifiable impact on the profile of the companies in which the fund invests, in particular on climate change-related factors:

- The 'carbon emissions intensity' (which measures the relationship between carbon emissions of a company and its sales) is 45% lower for the Future World Multi-Asset Fund than the market as a whole (i.e., a similar fund without the 'tilts'); and
- The carbon reserves of the companies LGIM invests in are 85% lower than for a fund without these 'tilts'.

LGIM's exercise of voting rights

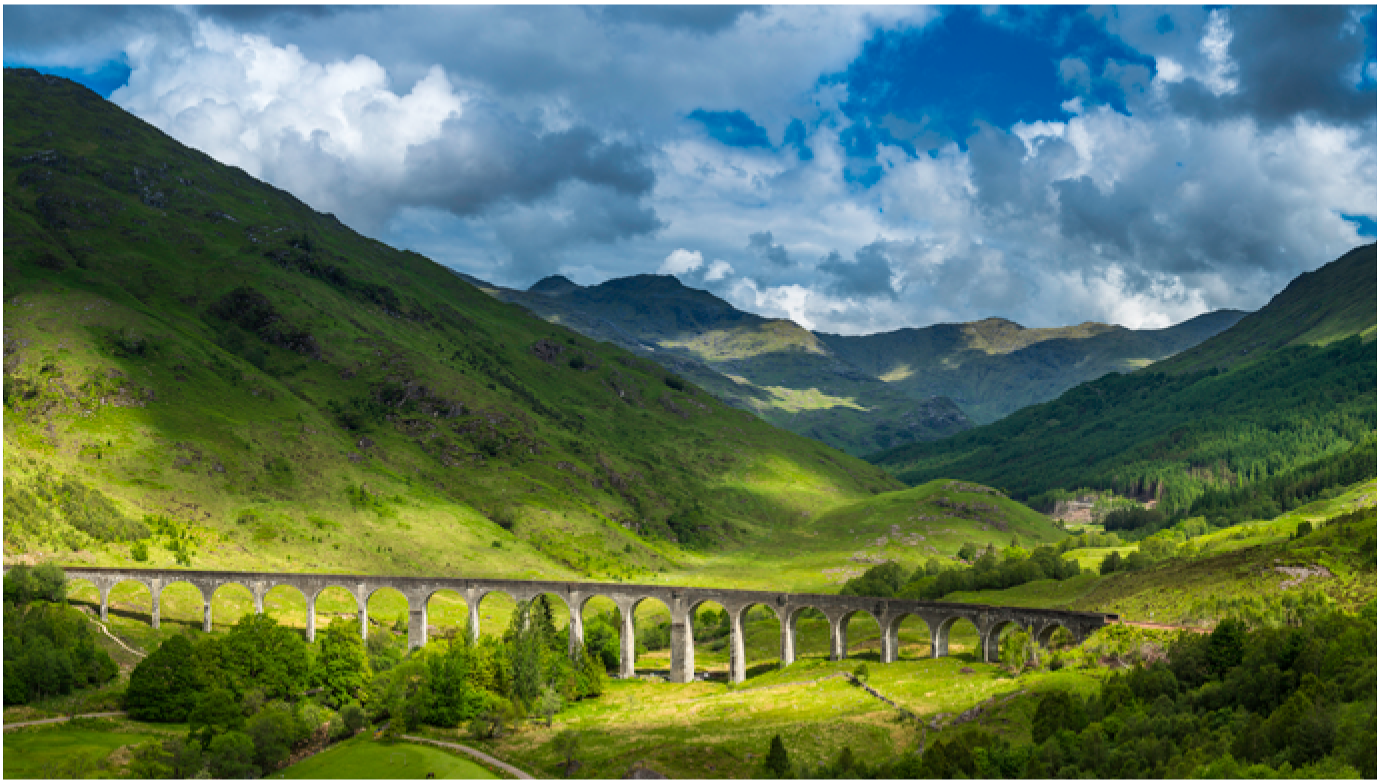
Pace DC offers options for investment to members which include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors. Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by LGIM and strategic decisions are made by LGIM's Corporate Governance Team in accordance with their governance policies for each region.

LGIM sees voting as a key way to make its voice heard and hold companies accountable. LGIM regularly reviews its voting policies and processes and believes that transparency over its voting activity is critical for its clients and other interested parties. LGIM has a vote disclosure webpage which aims to:

- Provide daily updates of their vote instructions and disclosures of all votes within a day following a shareholder meeting; and
- Disclose vote rationales for all votes against management and include historic data from 1 January 2017.

LGIM continues to develop and follow its own policies rather than adopt those of third parties, as it believes that by using its own policies it can better align with its own engagement activity and apply a truly global approach (as it believes some third-party policies may focus on a particular country or region and so not apply more broadly). While LGIM's stock lending policies differ according to each market, LGIM retains the right of immediate recall of its shares, should it deem this necessary. For example, if there is a potential takeover of a company that LGIM owns at a price which it does not believe is in the best interests of shareholders, it would then recall the stock that is out on loan in order to vote with 100% of their holding.

LGIM votes consistently in line with its policies across all pooled funds; the table on page 34 summarises how LGIM voted across shares held in the Pace Growth (Mixed) Fund, Pace Growth (Shares) 2021 Fund, Pace Growth (Ethical Shares) Fund and Pace Growth (Shares) Fund over the year to 31 March 2022.



	LGIM Fund			
	Pace Growth (Shares) 2021 Fund	Pace Growth (Mixed) Fund	Pace Growth (Ethical Shares) Fund	Pace Growth (Shares) Fund
Size of Pace DC's holdings as at 5 April 2022	c£167m	c£492m	c£5.6m	c£0.6m
Number of equity holdings in the fund (at 31 March 2022)	2,306	6,348	1,020	4,283
Number of meetings at which LGIM were eligible to vote over the year	3,221	8,296	1,123	7,142
Number of resolutions LGIM were eligible to vote on over the year	36,110	85,030	15,785	72,767
% of resolutions LGIM were eligible to vote on where they exercised that vote	99.8%	99.7%	99.9%	99.9%
% of resolutions where LGIM voted for management / voted against management / abstained from voting*	Voted with 79.2% Voted against 19.4% Abstained 1.4%	Voted with 79.1% Voted against 20.4% Abstained 0.5%	Voted with 83.2% Voted against 16.5% Abstained 0.3%	Voted with 82.0% Voted against 16.9% Abstained 1.1%
% of meetings at which LGIM voted at least once against management	69.4%	71.7%	74.1%	58.7%
% of meetings at which LGIM voted against the recommendation of the proxy adviser	12.4%	12.9%	11.4%	9.2%

*May not sum due to rounding.

Votes that are considered most significant by LGIM

LGIM's quarterly ESG impact reports provide information on LGIM's voting activity and details of 'significant votes'. The Pace DC Committee reviews the report quarterly, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining which votes are 'significant', LGIM considers the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny);
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- A sanction vote as a result of a direct, or collaborative, engagement (e.g. publicly voting against the appointment of directors to highlight failures to engage on important issues);
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out above. Note that shares in individual companies will likely be held across multiple funds within the DC Sections, and the holdings below aggregate the value of holdings across all funds with the Bank and Co-op Sections of Pace DC.

Relevant stewardship priority	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance	Corporate governance
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Company	HSBC	Apple Inc	Frasers Group plc	Intel Corporation	Microsoft Corporation	NVIDIA Corporation
Date of the vote	28 May 2021	4 March 2022	29 September 2021	13 May 2021	30 November 2021	3 June 2021
Approximate size of the DC Sections' holding (based on holding at year-end)	c£4.1m	c£3.7m	c£10k	c£450k	c£3.8m	c£800k
Summary of the resolution	To set, disclose and implement short- and medium-term targets, to publish and implement a phase-out policy and to report on progress.	Shareholder resolution to require Apple to undertake a third-party audit analysing the impact of Apple's policies and practices on the civil rights of company stakeholders, and to provide recommendations for improving the company's civil rights impact.	To receive and adopt the report & accounts.	Shareholder resolution to require Intel to report on Global Median Gender/Racial Pay Gaps.	To elect Satya Nadella as a Director.	To elect Harvey C Jones as a Director.
How the asset manager voted	In favour	In favour	Against	In favour	Against	Against

Relevant stewardship priority	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance	Corporate governance
Was the voting intention communicated to the company ahead of the vote?	Yes (see below)	Yes. LGIM engaged with Apple prior to the annual meeting and communicated its policies and how it was likely to vote.	No	No	No	No
Rationale	ShareAction initially proposed a resolution to strengthen HSBC's climate change policies and disclosure. LGIM joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM. As a result of further discussions between the company, the proponents and shareholders, ShareAction was sufficiently comfortable with management's counter proposal to withdraw its own resolution, leading to a single resolution supported by management and proxy advisers.	LGIM supports proposals related to diversity and inclusion policies as LGIM considers these issues to be a material risk to companies.	Frasers Group had failed for two consecutive years to meet the requirements of the Modern Slavery Act to publish a statement on the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain; LGIM's vote was a sanction against this.	LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. This division of responsibilities ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority and responsibility on the board. Its policy is to vote against the election or re-election of any individual holding such a combined role.	LGIM views gender diversity as a financially material issue for its clients, and expects companies in well-governed markets to have at least 30% women on their boards. For the North American market, by 2023 LGIM expects women to make up at least one-third of board directors and Named Executive Officers. To assist companies in reaching this target, LGIM votes against director nominations for companies in the S&P500 and the S&P/TSX that have fewer than 25% women on the board.

Relevant stewardship priority	Climate change and the protection of the environment	Labour conditions and equal pay	Labour conditions and equal pay	Labour conditions and equal pay	Corporate governance	Corporate governance
Outcome	99.7% of voters supported the resolution.	53.6% of the voters supported the resolution.	99.5% of voters supported the resolution.	14.3% of voters supported the resolution.	94.7% of voters supported the resolution.	94.2% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to monitor the strength of HSBC's climate change policies and progress towards improved disclosure of targets and emissions across the portfolio.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM's engagement with the company suggests it will be compliant with the requirements of section 54 by the end of 2022.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.

Appendix 1

Pace DB asset managers' participation in external initiatives

The following table summarises each of Pace DB's investment managers' compliance with the UK Stewardship Code for the period 6 April 2021 - 5 April 2022, and whether they are a signatory to the UNPRI and the Net Zero Asset Managers Initiative:

Investment manager	Mandate	Approach	Signatory to the UNPRI	UK Stewardship Code Signatory	Net Zero Asset Managers Initiative Signatory	DB Co-op Section Assets (31 March 2022)	DB Bank Section Assets (31 March 2022)
LGIM	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	8.4%	13.1%
RLAM	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	9.3%	13.1%
Insight	Corporate Bonds	Buy & Maintain	Yes	Yes	Yes	13.8%	13.2%
24AM	Asset -Backed Securities	Active	Yes	Yes	No	4.2%	3.9%
PGIM	Alternative Inflation-Linked Property	Active	Yes	No[1]	No[2]	4.7%	-
BlackRock	Liability Driven Investment	Active	Yes	Yes	Yes	47.2%	56.8%
Insight	Illiquid Credit	Active	Yes	Yes	Yes	4.8%	-
ICG	Illiquid Credit	Active	Yes	No[3]	Yes	3.4%	-
M&G	Illiquid Credit	Active	Yes	Yes	Yes	3.7%	-
Mercer	Alternative Growth	Active	Yes	Yes	No[4]	0.5 % (in the process of being disinvested)	0.5 % (in the process of being disinvested)

1 PGIM Real Estate manages investments in real estate, and not UK-listed securities to which the 2020 UK Stewardship Code currently applies.

2 PGIM has aligned with Urban Land Institute's Greenprint Center for Building Performance goal to reduce landlord-controlled operational carbon emissions of their global portfolio of managed properties to net zero carbon by 2050.

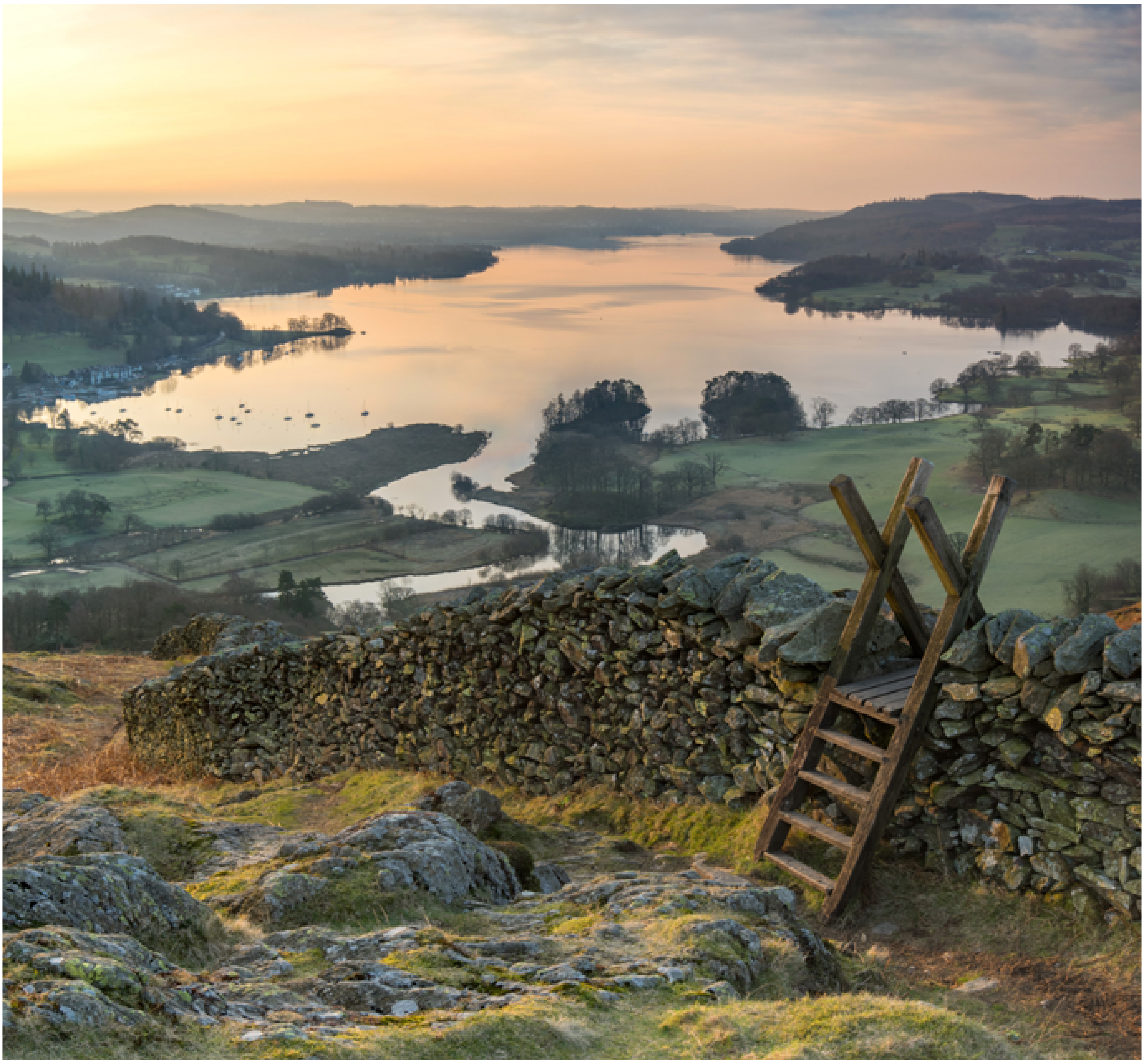
3 ICG generally supports the objectives that underline the code but as they do not invest in shares of listed companies in the UK, the provisions of the 2020 code are not deemed to be sufficiently relevant.

4 Mercer has stated its commitment to a target of net zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios and the majority of its multi-client, multi-asset funds domiciled in Ireland.

The Net Zero Asset Managers Initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.

It is an initiative designed to mobilise action by the asset management industry that demonstrates leading practice in driving the transition to net zero and delivers the ambitious action and investment strategies that will be necessary to achieve the goal of net zero emissions. It also provides a forum to share best practice and overcome barriers to aligning investments to that net zero goal.

The initiative will be managed globally by six Founding Partner investor networks, namely: Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). In turn, the initiative is endorsed by The Investor Agenda, of which the investor networks are all founding partners.



Appendix 2

Our managers' reporting in line with the UK Stewardship Code 2020

Legal & General Investment Management:
LGIM Active Ownership 2021

Royal London Asset Management:
rlam-stewardship--responsible-investment-report-2022.pdf

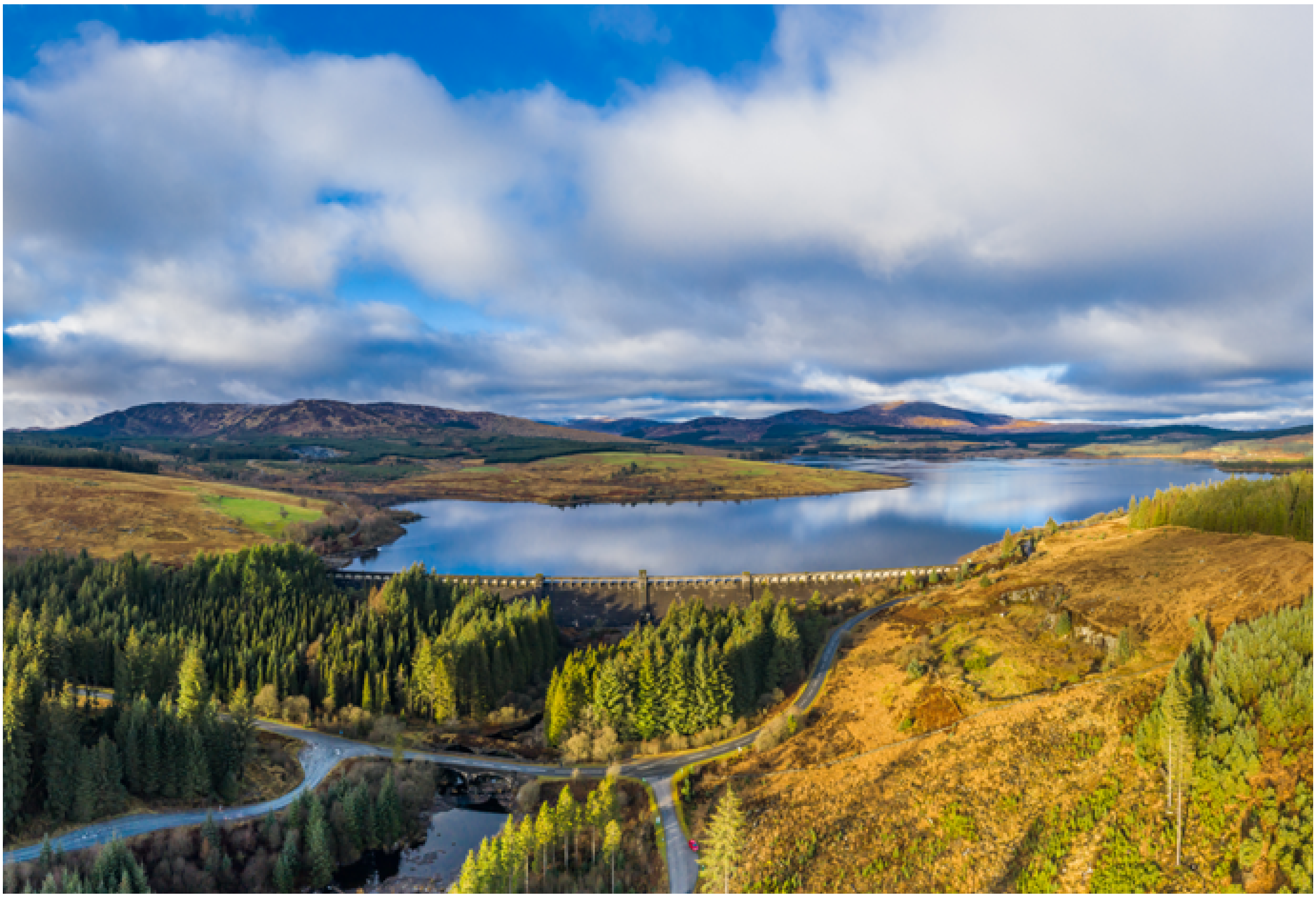
Insight Investment:
uk-stewardship-code-report-2021.pdf (insightinvestment.com)

Twenty Four Asset Management:
UK Stewardship Code | TwentyFour Asset Management (twentyfouram.com)

BlackRock Investment Management:
BIS Annual Report (blackrock.com)

M&G Investments:
mg-investments-annual-stewardship-report-2021.pdf (mandgplc.com)

Mercer Ltd:
Mercer_ISE_UK_Stewardship_Code_Report.pdf



Appendix 3

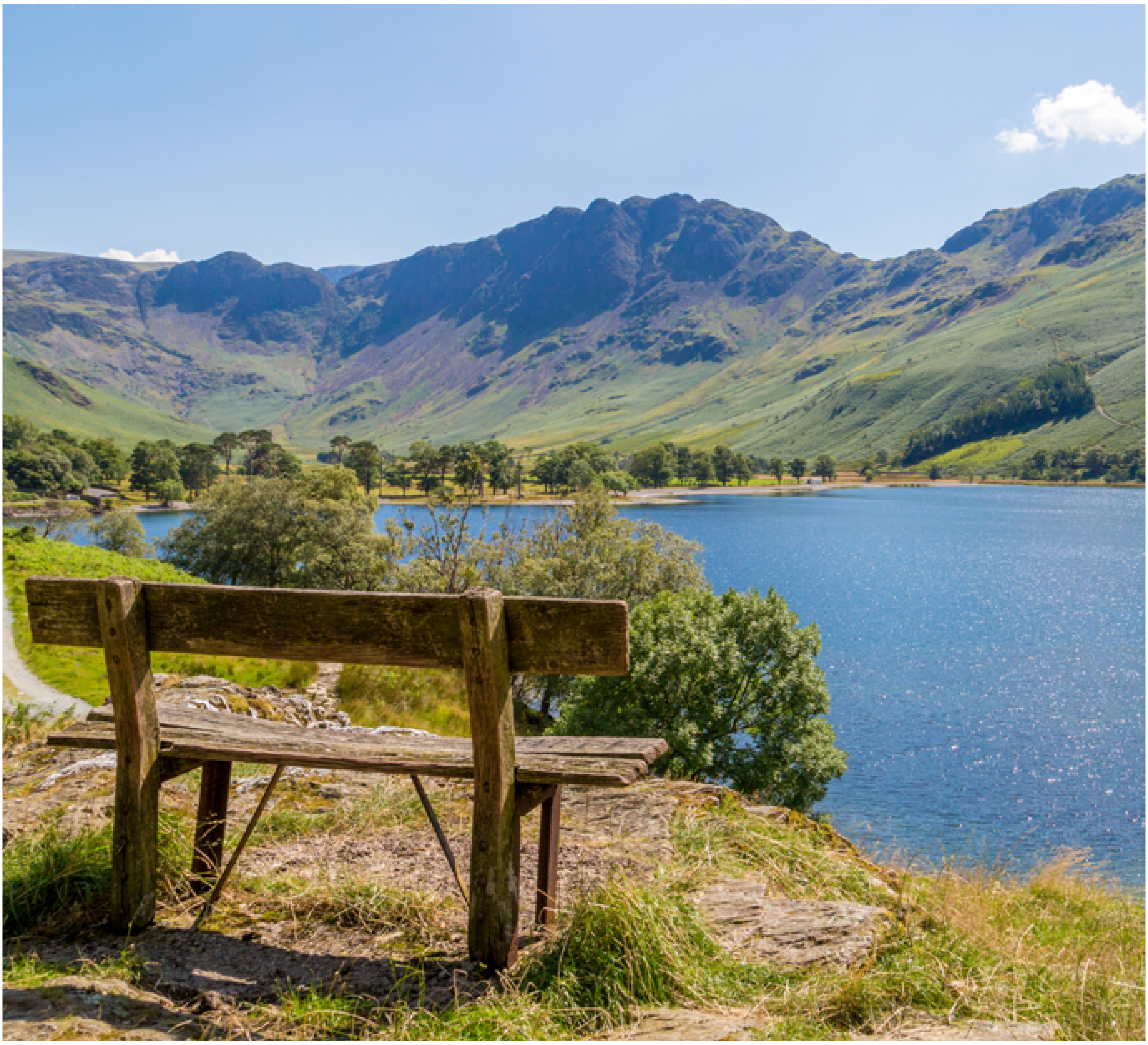
Signposting the requirements of the UK Stewardship Code 2020 within this report

The UK Stewardship Code sets out the FRC's expectations for best practice reporting on asset owners' exercise of stewardship. The code contains a set of 12 key principles, and asset owners are expected to report on activity undertaken in line with these principles as well as outcomes (and in some cases, providing context to allow readers to understand and assess the approach taken).

To help readers, we've signposted below where these 12 principles are covered in this report.

Principles	Document reference
Purpose and Governance	
1. Purpose, strategy and culture	'How do we invest?' (page 5)
2. Governance, resources and incentives	'How do we exercise stewardship?' (page 8)
3. Conflicts of interest	'Managing conflicts of interest in relation to stewardship' (page 9)
4. Promoting well-functioning markets	'Responding to systemic risks' (page 11)
5. Review and assurance	'Introduction' (page 2); 'How do we invest?' (page 5) and 'What has the Trustee been doing this year?' (page 11)
Investment approach	
6. Clients and beneficiary needs	'About us' (page 6) and 'How do we invest?' (page 5)
7. Stewardship, investment and ESG integration	'How do we exercise stewardship' (page 8) 'What has the Trustee been doing this year?' (page 11) 'What have our investment managers and service providers been doing?' (pages 17-37)
8. Monitoring managers and service providers	'What have our investment managers and service providers been doing?' (pages 17-37) Appendices 1 and 2

Principles	Document reference
Engagement	
9. Engagement	'How do we exercise stewardship?' (page 8) 'What have our investment managers and service providers been doing?' (pages 17-37)
10. Collaboration	'Responding to systemic risks (page 11)
11. Escalation	'How do we exercise stewardship' (page 8) 'What have our investment managers and service providers been doing?' (pages 17-37)
Exercising rights and responsibilities	
12. Exercising rights and responsibilities	'What have our investment managers and service providers been doing?' (pages 17-37); in particular 'LGIM's exercise of voting rights' (pages 33-34)



Appendix 4

Myners Compliance Statement

In 2000, the UK Government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on good investment governance. The principles were updated through a Treasury report in October 2008, 'Updating the Myners' Principles: A Response to Consultation'.

Pace aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Scheme operates to standards of investment decision-making and governance identified as best practice.

	Principle	Pace policy and practice
1	**Effective decision-making:** • Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. • Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	- The Trustee dedicates specific time within Trustee meetings to provide the appropriate focus and skills on investment decision-making. - The Trustee Directors have appointed independent and suitably qualified investment advisers to advise on investment strategy and monitor implementation. - The Trustee Directors are professionals and are provided with training on investment and other relevant issues. - The Scheme operates a conflicts of interest policy.
2	**Clear objectives:** • Trustees should set an overall investment objective(s) for the fund that takes account of the Scheme's liabilities, the strength of the sponsor covenant, and the attitude to risk of both the Trustees and the sponsor; and clearly communicate these to advisers and investment managers.	- The Trustee Directors have set an overall investment objective for each section of Pace after considering appropriate advice and consultation with the sponsors. Benchmarks and objectives are in place for the funding and investment of the Scheme. - Investment managers have clear, written mandates, including return and risk benchmarks and clear time horizons for performance measurement and evaluation. - The strength of the employers' covenant is independently formally assessed by the Scheme's appointed covenant adviser on an annual basis, with quarterly updates provided to the Trustee Directors.

	Principle	Pace policy and practice
3	**Risks and liabilities:** • In setting and reviewing their investment strategy, Trustees should take account of the form and structure of liabilities. • These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.	- Each section's liability profile is independently assessed at each periodic strategy review, and the Trustee Directors take into account the risks associated with the liability valuation when reviewing and setting the investment strategy for each section. - The strength of the support provided by the employers' covenant and longevity risk is assessed regularly. - Since the execution of the insurer buy-in policies with Aviva and Pension Insurance Corporation (PIC), both sections are exposed to the insurers' covenants. The Trustee Directors review the financial positions of the insurers regularly.
4	**Performance assessment:** • Trustees should arrange for the formal measurement of the performance of investments, investment managers and advisers. • Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body, and report this to Scheme members.	- The global custodian, appointed by the Trustee, undertakes independent measurement of investment performance. - Investment managers' performance is assessed by the in-house investment team and independent investment adviser. - The Trustee Directors have set objectives for the investment adviser and will review performance against the objectives on a regular basis. - The Trustee Directors review all Scheme adviser appointments periodically. - The Trustee Directors periodically consider the effectiveness of Trustee decision-making.
5	**Responsible ownership:** • Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholder and agents. (In July 2010, the FRC published its original UK Stewardship Code, of which the ISC Statement of Principles formed the basis.) • A statement of the Scheme's policy on responsible ownership should be included in the Statement of Investment Principles.	- The Trustee reviews its Responsible Investment Policy annually and published an updated Policy on the Scheme's website in March 2022. - The Policy is referenced in each section's Statement of Investment Principles. - Under the Policy, the Trustee is committed to disclose details of its managers' voting and engagement activities to members on an annual basis, via the Scheme's website. - The Trustee reports on its compliance with the UK Stewardship Code via the Scheme's website and reviews this annually. - Investment managers are encouraged to adhere to the code, and compliance is a factor in manager evaluation and selection.
6	**Transparency and reporting:** • Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Trustees should provide regular communication to members in the form they consider most appropriate.	- The Statement of Investment Principles for each section is compliant with the Myners' Principles and is available on the Scheme's website. - Reports are compiled in a way that ensures the Scheme operates transparently and is accountable to members.