The Co-operative Pension Scheme (Pace)

Responsible Investment Policy

This policy has been prepared by the Trustee of Pace to set out our views on responsible investment and how we address this within the Scheme.

How does Pace work and who decides how its assets are invested?

In August 2018 Pace separated into two sections – the Co-op Section and the Bank Section, covering current and former employees of the Co-op and of the Co-operative Bank respectively. Both the Co-op Section and Bank Section have defined benefit and defined contribution sections. Collectively, we refer to the defined benefit sections as '**Pace DB**' and the defined contribution section as '**Pace DC**'. Pace's Responsible Investment Policy covers both the Co-op and Bank Sections, and both DB and DC investments.

- **Pace DB** aims to pay benefits to its 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.

  In 2020, the Trustee entered into bulk annuity policies with Aviva Life & Pensions UK Limited ("Aviva") and Pension Insurance Corporation ("PIC") in respect of a portion of the Defined Benefit section's pensioner liabilities. In 2022 and 2023, the Trustee entered into additional bulk annuity policies with Rothesay Life in respect of the vast majority of the remainder of the pensioner and deferred liabilities (for the Bank and Co-op Sections respectively). These bulk annuity policies will provide all benefits due from the defined benefit section to members. The only remaining defined benefit assets consist of cash held to cover future expenses and some small residual liabilities.

- **Pace DC** allows its members to build their own retirement pots. In the defined contribution section, members choose how they want to invest their money by choosing from a selection of investment options offered by the Trustee.

The Trustee's investment objectives and our approach to risk management and measurement are explained in the Statement of Investment Principles for each Section. The way we invest reflects the long-term nature of Pace – we don't pursue short term, speculative gains.

What are the Trustee's views on responsible investment?

As the Trustee we're required by law to act in the best interests of our members. This means that our main responsibility is to choose investments which:

- In **Pace DB** are expected to give the best possible chance of the benefits being paid in full.
- In **Pace DC** are expected to provide the best outcome for members.

However, we're committed to achieving these goals in a way that takes into account broader social and environmental concerns.

Responsible Investment (RI) is therefore a key aim for the Trustee.

Are there any responsible investment issues that are of particular importance to the Trustee?

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 also 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. 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.

Having worked with the Co-op and the Co-operative Bank (and having surveyed scheme members) we've identified three broad issues which we feel reflect the views of the relevant stakeholders, represent particular risk to the Scheme and which we believe can be well addressed by our Responsible Investment policy. These issues are:

- Climate change and the protection of the environment, including tackling deforestation.
- Labour conditions and equal pay.
- Corporate governance.

What is the Trustee doing to ensure that Pace invests in a responsible way?

Many decisions are needed about how the Pace assets should be invested. These range from high level decisions about asset allocation, which the Trustee make, to decisions on the particular companies we invest in, which are made by our investment managers. Our main responsibility is to deliver the best possible outcomes for members. Without compromising this duty, and as part of our fiduciary duties, we implement responsible investment in a number of ways:

- We consider the risk associated with ESG issues as part of our investment activities.
- Through active ownership, we use our influence as a major institutional investor to promote good ESG practices.
- In **Pace DC** the Pace Growth (Mixed) Fund and the Pace Growth Shares (2021) Fund, which are used in the default and other lifestyle strategies, take into account the environmental and social behaviours of businesses they invest in, as well as how well they are governed and run, when deciding how much to invest in different companies. In addition, we offer an ethical equity fund, the Pace Growth (Ethical Shares) fund.
- In **Pace DB** we considered the approach taken to sustainable investment and climate change when selecting Aviva and PIC as insurance providers to work with when investing in pensioner annuity policies in 2020, and again when selecting Rothesay Life in 2022/2023 to insure the Scheme's remaining uninsured benefits. We also considered the issues above when selecting appropriate funds for the remaining assets, which lead to the selection of a pooled cash vehicle which takes into account environmental characteristics when selecting underlying investments.

Climate change

In order to limit global warming to below 2°C, ideally no more than 1.5°C, global climate emissions will need to meet net zero by the middle of this century across all sources of emissions - Scope 1, 2, and 3.

Aligned with this, Pace's ambition is to manage its DB and DC investments in line with achieving net zero greenhouse gas (GHG) emissions by 2050 or sooner. We believe this is consistent with our fiduciary duty to our stakeholders, and is supported by 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. Finally, this is consistent with Pace's sponsors – in 2021 the Co-op announced a detailed net zero commitment, while the Co-operative Bank has been 'beyond carbon neutral' since 2007 by more than offsetting its own GHG emissions.

'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. We reach net zero when the amount we add is no more than the amount taken away. 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 the scheme 'owns' and lending activity (to governments, companies etc.).

There are two different routes to achieving net zero, which can work in tandem: reducing existing emissions and actively removing greenhouse gases in an investment portfolio (or buying offsets). Pace is primarily pursuing the first of these routes. The second route may be considered in the future should investment opportunities come available that are in the best interests of the members of the Scheme.

This is with the expectation that governments (in particular, that of the UK) will deliver on commitments to achieve a 1.5°C temperature goal, and will also rely on engagement with the insurers with whom we have bulk annuity policies in place. Pace is now in the process of establishing short, medium, and long-term targets and programmes to deliver on this ambition.

To support this, in 2022 the Trustee agreed to target a 50% reduction in carbon emissions from our DB assets and the Pace DC default option by 2030 (relative to a 2021 base-line). For Pace DC this target initially applies to listed equities and corporate bonds, although we will look to broaden this to other asset classes within the default option as data availability improves.

This is aligned with a 1.5°C pathway and is consistent with the Intergovernmental Panel on Climate Change (IPCC) special report on global warming of 1.5°C and guidance from the Institutional Investors Group on Climate Change (IIGCC).

This reduction is measured by Weighted Average Carbon Intensity – a metric which quantifies the carbon intensity of the companies we invest in, as measured by tons of carbon dioxide equivalents per $1 million of revenue of these companies.

In order to achieve Net Zero, deforestation is one of many issues that need to be addressed urgently as global deforestation is one of the primary contributors to climate change. Forests play an important role in climate change mitigation, absorbing one-third of the CO_2 released from burning fossil fuels every year. They are also home to 21% of the world's population and 80% of the world's plants and animals, and are crucial for biodiversity protection and food security.

We support the ambitions of the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation by 2025. Our DC fund manager, LGIM, have signed up to the Race to Zero Deforestation Commitment; we're going to work with LGIM to understand deforestation risk in Pace DC's investments, and we've also challenged them specifically to vote and engage in ways that will help achieve these deforestation goals.

Tell me more about active ownership

Being an active owner means that Pace engages with the companies it invests in, to try to improve practices, which is largely done through our investment managers. Our managers use a variety of active ownership methods, including direct discussions with senior management, and may choose not to invest in, or to disinvest from, companies if they don't feel their management are responding appropriately to concerns raised.

We believe that this engagement is an effective way of implementing positive change in the companies we invest in. We also feel that it's an important part of protecting value for Pace's members - when companies are governed properly they are more likely to be sustainable in the long term.

We're also happy to collaborate with other investors and networks such as UKSIF (the UK Sustainable Investment & Finance Forum) and ShareAction, as well as being an inaugural member of the Occupational Pensions Stewardship Council, 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.

We aim to comply with the 12 principles of the Financial Reporting Council's 2020 UK Stewardship Code, as we this to be in the interest of society at large, as well as in the Scheme's long term financial interest.

How do you work with the fund managers in relation to responsible investment?

We recognise the growing expertise on responsible investment within the pensions industry and feel that the most effective way to align our investments with our values is to engage fund managers who take a responsible and sustainable approach to investment.

We appoint investment managers who will act as conscientious and capable stewards for Pace's investments. As part of the selection process we look at their expertise and track record in responsible investment together with their stewardship policies, particularly when we're choosing a manager for an asset class which might be particularly exposed to ESG risks.

Pace DC's investment managers Legal & General and HSBC – who manage Pace DC's Shariah equity fund – are signatories to the UN-backed Principles for Responsible Investment, as are Rothesay Life and Pension Insurance Corporation, and BlackRock (who manage Pace DB's cash holdings); they all also adhere to the Financial Reporting Council's 2020 UK Stewardship Code (as do Aviva). These initiatives (and membership of collaborative initiatives with other investors) are also factors that we consider when we select investment managers.

We receive regular reports from our DC investment managers about their responsible investment activity, and monitor this in our quarterly DC Committee meetings.

What information is available to members about Pace's responsible investment activity?

As responsible investors, we believe that details of our responsible investment activities should be visible and easily accessible. The following information on our responsible investment activities is available on the Scheme's website, www.pacepensions.co.uk:

- The Scheme's Statement of Investment Principles;
- Our Implementation Statement, setting out how we have complied with the policies in our Statement of Investment Principles;
- This Responsible Investment Policy;
- Our annual Responsible Investment report detailing our engagement activities over the last year and how we have complied with the Financial Reporting Council's 2020 UK Stewardship Code; and
- Our annual report on how we have assessed and managed climate risk within Pace (our "Task Force on Climate-Related Financial Disclosures" report)

How often will you review the Responsible Investment Policy?

We see the development of our policy as an evolving process and intend to review our approach to RI at least annually. In carrying out reviews we will take into account significant developments in market practice and any changes in the views of our stakeholders, including the sponsors' values.

We also welcome members' feedback and will consider this as we continue to develop our policies. If you have feedback on the Responsible Investment Policy, please let us know by email: staffpensions@coop.co.uk

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