Stoneport ESG ambitions statement

This document sets out ambitions in respect of Stoneport's ESG and stewardship policy in order to provide an overview of how this may evolve over time. ESG investing has evolved tremendously over the last few years, and this is almost certain to continue in the years to come. This document should therefore be considered only as a guide to the likely "direction of travel", in recognition of the fast pace of change in this area.

Changes in climate policies and public perception, along with technological advances, are already causing impacts on investors and businesses, resulting in both risks and opportunities as the UK looks to achieve a net zero economy by 2050. In terms of Stoneport specifically, the actions that the Trustees expect to take vary over the different stages of Stoneport's lifecycle, and therefore this document is set out as a timeline. The Trustees expect to increase their activity and influence as the Scheme grows, in order to manage risk and generate superior returns.

From the outset

- The expectation of the investment structure in Stoneport's DB Master Trust phase is that each section's strategy, and funds held, will remain consistent with the strategy prior to entering Stoneport, at least initially. The level of ESG integration and/or Impact Investing will therefore reflect that of the ceding scheme prior to appointment. In addition, the need to sectionalise assets, combined with the size of the target market, effectively requires the Trustees to use pooled funds only at the outset of the Scheme's journey.

- However, there is now a wide (and increasing) range of pooled funds available that allow ESG (including climate change) risk integration. Where the ceding scheme's funds can't be ported across to Stoneport, or where there is a desire to adjust the funds held on entry, the Trustee will have a "preferred panel" of pooled funds. In the selection of these funds, the Trustee have a preference for managers that integrate ESG (including climate risk) appropriately for the asset classes being invested in.

- Stoneport produces an annual Implementation Statement – This sets out how the Trustees' policies on voting and engagement have been followed each year, as well as a summary of the voting and engagement behaviour undertaken on behalf of the Trustees. Schemes without a Statement of Investment Principles (i.e. those with less than 100 members) are not required to make these disclosures, and therefore this may be a new level of governance that smaller ceding schemes in particular will benefit from.

During DB Master Trust phase

- Within the DB Master Trust phase, individual sections can review their investment strategy as an add-on service. The appropriateness of the investment strategy from an ESG integration and stewardship perspective would form part of this.

- As Stoneport grows, the Trustees will consider the attractiveness of transitioning funds into a more centralised pool of preferred funds. This partly reflects the desire to benefit further from economies of scale and operational efficiencies. However, it also reflects a desire to consolidate assets into higher-conviction funds – and this includes conviction from an ESG, climate risk and stewardship perspective.

At around £1bn of assets

- The Taskforce for Climate-related Financial Disclosures (TCFD) is a framework to help companies and investors consistently measure, manage, and report their climate-related risk exposures. TCFD covers governance, risk and strategy, along with scenario analysis and metrics in order to assess resilience to climate-related risks (from an investment and funding perspective). Stoneport will be required to complete TCFD disclosures once assets reach £1bn, providing a further layer of governance to those of the smaller ceding schemes. The Trustees may consider making disclosures ahead of this, to the extent that this is felt at the time to be worthwhile.

Post centralisation

- When Stoneport becomes a centralised scheme, the need to sectionalise assets will fall away, and the investment strategy and choice of assets/funds will reflect that of a single, large pension scheme. The Trustees expect to be able to evolve the ESG strategy significantly at this point. It will be possible to consult with all the participating employers through the Stoneport Alliance on the development of bespoke policies.

- As an example, the Trustees recognise that with roughly a 25-year time horizon before buyout, climate risk will clearly remain an important consideration in the investment strategy. Whilst there are steps that smaller schemes can take to integrate climate risk (and wider ESG risks) into the investment strategy, larger schemes have the option to do so in a more tailored way, with the potential for segregated mandates, as well as greater access to different assets.

- As a large investor, Stoneport will have considerably greater capacity to make investments in a much wider range of strategies. It is likely that Stoneport will be able to diversify its assets into a wider range of climate-aware investment strategies (e.g. green infrastructure) than any smaller scheme in isolation.

- As a large, centralised scheme, there will be greater ability to influence voting and engagement in the underlying shareholdings. The Trustees expect that their stewardship policy would evolve post centralisation in light of this. As the Scheme grows more governance time will be devoted to these matters, for the mutual benefit of all the Stoneport stakeholders.