

## **Santander (UK) Group Pension Scheme**

### **RESPONSIBLE INVESTMENT POLICY**

*Approved by the Santander (UK) Group Pension Scheme Board: July 2020*

The Responsible Investment Policy complements the policies and frameworks of both the Santander (UK) Group Pension Scheme ('SUKGPS') and the Santander (UK) Common Investment Fund ('CIF') which underpin the risk management and governance of investment decisions in order to best protect the value of the assets and generate capital growth in the long term.

The Responsible Investment Policy focuses specific risks and opportunities which may have a material financial impact on the performance of the investments and which should be taken into consideration when making investment decisions over the time horizon for the funding of future benefits of the SUKGPS.

The SUKGPS has a primary fiduciary duty to act in the best financial interests of its beneficiaries. As part of this, the SUKGPS believes that an appropriate assessment of factors such as sustainable growth, environmental and climate change impacts, as well as other social and governance considerations including taking action to improve sustainability concerns in our investments, will help to achieve the goals set in the SIP and improve outcomes for the SUKGPS members and beneficiaries through enhanced long-term returns and management of arising risks within the portfolio of assets of the CIF.

The Trustee believes responsible investment practices will result in better outcomes for the underlying companies and ultimately enhance their performance. This can be achieved by investors using their rights as shareholders to influence sustainable corporate strategies, performance, risk management, capital structure, tax transparency and corporate governance, including culture, diversity and remuneration, potential conflicts of interest and social and environmental impact.

This Responsible Investment Policy also aims to expand on the responsibilities associated with holding investments in the members and beneficiaries' best interests through the full suite of stewardship activities including:

- Monitoring investments and investment managers
- Engagement with investment managers
- Voting and Sponsoring or co-sponsoring shareholders resolutions
- Monitoring of our suppliers and investment managers regarding modern slavery and human trafficking risks
- Managing non-compliance

In this Policy, reference to "investment manager(s)" includes both discretionary investment managers for segregated portfolios and investment managers of pooled funds.

### **ESG Risks**

The SUKGPS believes that a full range of risks, within the environmental, social and governance spectrum ('**ESG Risks**') shall be considered when deciding whether to invest, maintain an investment or disinvest due to the material impact of these risks to long term investment performance.

Examples of ESG Risks are:

- Environmental factors including climate change & carbon emissions
- Sustainability of the investee company's strategy
- Cyber risks
- Modern slavery & human trafficking
- Bribery & corruption
- Labour standards
- Inclusion & Diversity
- Corporate governance

The SUKGPS manages the consideration of ESG Risks through its investment advisors and investment managers in consonance with the relevant asset class and investment mandate.

Climate change has been singled out as material concern amongst ESG Risks. The SUKGPS will request an annual assessment of exposure of the portfolio of assets of the Common Fund to climate change impacts to allow the Trustee to take better informed decisions including information, when available, on exposure of investments to climate change, either through direct physical risks or adaptation risks, preparedness to transition to a low carbon economy, carbon footprinting or other metrics. When relevant, investment managers will be required to report specifically on climate change impacts on the assets in the portfolios they manage in their ongoing reviews, and at least yearly.

### **Monitoring investments and investment managers**

Investment managers are assessed on their ESG Risks management capabilities through an initial assessment and ongoing monitoring.

- Initial assessment: the operational due diligence of new investment managers includes a review of the integration of ESG policies into their investment processes and objectives.

- Ongoing monitoring: investment managers are monitored regularly and their review will include ESG considerations, information regarding changes to their ESG policies and impacts of ESG considerations on their decision making and results.

Investment manager assessments and reports are presented at least every six months to the Trustee of the CIF ('CF Trustee') as part of our Investment Advisors ongoing monitoring of investment managers.

The assessments are based on the CF Trustee's ESG framework, which sets out minimum standards for assessment, reporting and how the investment managers are rated. The table below summarises key features of the policy, depending on the high or low relevance of ESG to the investment strategy of the investment manager.

ESG Relevance to investment strategy	Ratings* for each of	Total rating	Monitoring and engagement
<p><b>High-</b></p> <p>The investment strategy requires thorough consideration of ESG risks considerations</p>	<ul style="list-style-type: none"> <li>• Policies</li> <li>• Process embedding, including through investment philosophy, processes, integrated research</li> <li>• Understanding of ESG Risks</li> <li>• Portfolio exposure analysis</li> <li>• Stewardship activities and effectiveness</li> <li>• Reporting capabilities on ESG risks analysis and monitoring of those risks, their impact on portfolios and evolution</li> </ul>	<p>Strong</p> <p>Good</p> <p>Standard</p> <p>Weak</p>	<p>Six monthly review</p> <p>Progress report for low rated managers</p> <p>Momentum (=, ↑, ↓)</p>
<p><b>Low-</b></p> <p>The investment strategy will not be significantly impacted by ESG risks considerations (i.e. LDI)</p>	<p><i>*weighting of each factor will differ depending on the ESG relevance of the investment strategy</i></p>	<p>Strong</p> <p>Good</p> <p>Standard</p> <p>Weak</p>	<p>Yearly review</p> <p>Progress report for low rated managers</p> <p>Momentum (=, ↑, ↓)</p>

### Engagement with investment managers

The SUKGPS expects its rights as an investor and any engagements relating to relevant matters to be exercised by its investment managers who are better positioned to drive engagement initiatives, directly interacting with the companies in their portfolios and exercising voting rights and acting alongside other investors, investment managers and stakeholders where

appropriate. To ensure our investment managers actively and positively engage with companies in alignment with the Trustee's beliefs on responsible ownership, we normally expect our investment managers to adhere to the Stewardship Code published by the Financial Reporting Council and generally to report on their engagement and stewardship policies and activities as part of their on-going monitoring. Where investment managers do not adhere to the Stewardship Code we would expect them to closely align to the spirit of the Code (when appropriate).

Investment managers are required to report on their stewardship policies, proxy voting and engagement initiatives as part of their initial assessment and on-going monitoring.

From time to time, especially in relation to directly held investments or those investments in which the Common Fund is a majority or relevant investor, the SUKGPS will ensure that the CF Trustee will actively use its rights to ensure that investee companies take into account ESG Risks, where relevant to the company.

The CF Trustee also uses independent analysis to focus engagements, such as reviewing its public market equities and bond holdings against the United Nations Global Compact framework and reviews of the investment managers ESG reports amongst other activities. This ensures consistency of engagement between all parties.

### **Voting and Sponsoring or co-sponsoring shareholders resolutions**

Voting rights are delegated to the respective investment managers, who are overseen by the investment consultant. Votes are expected to be cast in line with the trustee's investment beliefs.

The CF Trustee receives details of all votes cast and engages with the investment consultant accordingly, focusing on particular areas of interest or concern.

### **Modern Slavery and Human Trafficking**

The SUKGPS supports the objectives of the Modern Slavery Act (2015) to eradicate modern slavery and human trafficking and it believes that investments should not support criminal activity and human suffering.

The SUKGPS will review its managers, advisors and other suppliers' modern slavery statements, in which companies, which are subject to the legal requirement, set out the steps they have taken in order to help prevent slavery and human trafficking in their supply chain.

For those managers, advisors or suppliers which do not publish a statement, either because they are not obliged to, or because they elect to state that they do not take any steps to help prevent slavery and human trafficking in their supply chain, further analysis will be done to

understand the of risk of slavery and human trafficking in their supply chain. This includes focusing on their jurisdiction of operations and industry sector and/or, when applicable, the jurisdiction and industry sectors of the investments they manage, in order to assess if the level of risk of there being incidences of modern slavery or human trafficking is high, medium or low.

Should the risk be medium or high, a thorough review of their ESG Policies will be undertaken to assess steps taken by such manager, advisor or provider to avoid supporting modern slavery or investing in companies which carry a significant modern slavery risk.

A report on the findings will be presented to the SUKGPS board on an annual basis and unsatisfactory risk will be a consideration to terminate engagements with the relevant advisor, manager or supplier.

### **Managing non-compliance**

The CF Trustee aims to build long term value and capital growth through medium to long term relationships with its investment managers. At the core of this approach is effective engagement which occurs throughout the investment lifecycle. Through this engagement the Trustee will work with the investment managers to be responsible asset owners and consistent with its investment beliefs.

In a scenario where the alignment between the Trustee and the investment manager has deteriorated, the first step will be to understand the reasons for this dislocation and whether this can be rectified.

In circumstances where the Trustee no longer has conviction in the investment managers strategy, a decision could be made to terminate the arrangement or disinvestment from the fund.

### **Social Impact and Ethical Investments**

The SUKGPS believes that all investments need to be considered within the wider economy, society and environmental surroundings as they both impact and are impacted by those.

The SUKGPS may, from time to time, take into consideration other factors beyond those which are financially material in assessing investments and, with consideration to its investment objectives and fiduciary duties, it may favour investments where companies report and measure their wider impact on society.

This is different from ethical investments, where decisions are taken based on an ethical or reputational view regarding the particular industry, jurisdiction or other considerations, most times through screening and discarding investments in certain sectors (i.e. weapons, coal, alcohol, tobacco).

The SUKGPS may determine from time to time that the investment managers of segregated portfolios do not hold certain stocks.

### **Members' views**

In setting and implementing the investment strategy the Trustees act in the best financial interests of the SUKGPS members and beneficiaries and each of its sections. Given this primary fiduciary duty, as well as the significant practical and cost implications of directly reaching out to individual members and beneficiaries to gather their views regarding ethical considerations, social and environmental impact, or present and future quality of life matters, the Trustee does not currently plan to take into consideration individual member's views.

### **Codes and industry initiatives**

The SUKGPS believes that industry led action increases success, that is why the SUKGPS will consider, from time to time, signing up to industry groups that advocate for further sustainability and transparency, like the UN Principles for Responsible Investment.

### **Reports to the SUKGPS Board**

The trustee of the SUKGPS has invested its assets in the CIF. The CF Trustee reports regularly to the trustee of SUKGPS on the implementation of the Responsible Investment Policy.

The SUKGPS will review its Responsible Investment Policy regularly and, at least, every three years to discuss and if appropriate agree enhancements to its framework, approach and reporting.