Clara Pension Trust

Responsible Investment Charter

Clara Trustees Limited

23 | February | 2022

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1 Introduction

This Responsible Investment Charter (the **"Charter"**) is the basis for the Responsible Investment (**"RI"**) policy of the Clara Pension Trust (the **"Scheme"**) and demonstrates how environmental, social, governance (**"ESG"**) and other criteria are integrated in Clara Group's investment process. This Charter should be read in conjunction with the Clara Pension Trust's Statement of Investment Principles.

The Clara Group brings pension schemes together to make them safer. Our model of consolidation acts as a bridge to buy-out. We take responsibility for the assets and liabilities of ceding pension schemes from the company that originally backed them on a journey to a long-term future with an insurance company. In some cases, we make this journey quicker; while for others, the Clara Group makes the journey possible where previously it would not have been.

The interests of our members, our capital providers, and Clara itself are aligned around a single objective – to deliver the most secure pension promise as efficiently as possible. The Trustee's and Clara's approach to Responsible Investment is anchored by this core purpose to improve the security and outcomes for pension scheme members.

The Trustee's primary concern, in setting its investment strategy, is to act in the best financial interests of the Scheme and its members, seeking the best return that is consistent with a prudent and appropriate level of risk. The Trustee believes that in order to fulfil this commitment and to protect and enhance the value of the Scheme's investments, it must act as a responsible and vigilant asset owner and market participant.

The Trustee recognises its responsibility for the Scheme's approach to ESG and other financially material considerations through (1) its investment strategy; and (2) its selection and monitoring of managers and advisers - some of which is delegated to its Fiduciary Manager. The Trustee expects the Fiduciary Manager and all of its investment managers to take account of financially material considerations (including climate change and other ESG considerations), and in particular to take this Charter into account as part of any delegated functions.

Scope

This Charter is for the Clara Pension Trust and has been formally adopted by the Trustee. Given the alignment of interests and shared buy-out objective, the Trustee and Clara recognise that appropriate cooperation is in the interests of members. The approach adopted in this Charter is therefore also applied to the Buffer Assets associated with each Section of the Clara Pension Trust. The Trustee retains the right to depart from any agreed investment approach, should they choose to do so. The Trustee retains responsibility and control of the investment strategy, including in respect of RI and ESG matters, for each Section within the Clara Pension Trust.

Review and Amendment

Norms and values change over time and the Trustee expects to receive an annual report from the Fiduciary Manager in relation to any changes in the Fiduciary Manager's own responsible investment policy. The Trustee will review this Charter annually, or when there is (or the Trustee anticipates that there might be) a significant change in relation to any matter related to this Charter.

The Trustee will amend the Charter if appropriate and with the help of its advisers, if necessary.

Compliance with this Charter

The Trustee will monitor compliance with this Charter annually.

Publication

This Charter will be published.

Defined Terms

Appendix A explains the defined terms used in the Charter.

2 Asset Classes

The Trustee considers a broad range of asset classes to provide an appropriate diversification of asset classes and appropriate diversification within asset classes. Given the investment objectives, the Trustee believes that the investment strategy of the Scheme should – at the present time – be primarily based on the following asset classes and intended to deliver a lower-risk investment strategy, consistent with the Clara Group's objective of enhancing member security:

- Index-linked and conventional UK gilts;
- Derivatives such as repos, swaps and exchange traded derivatives which provide interest rate and inflation exposure;
- UK and global corporate bonds including high-yield debt;
- Loans and other forms of direct lending to companies;
- Asset-backed securities;
- Infrastructure and conventional and inflation linked infrastructure debt;
- Other alternatives (for example, alternative credit and absolute return strategies); and
- Cash and cash instruments including holdings in cash funds.

The list of asset classes is neither exclusive nor definitive. The Trustee may consider and deploy asset classes not listed where appropriate in setting investment guidelines for the Fiduciary Manager.

The Trustee may also hold contracts of insurance such as buy-in policies, where novated from a ceding scheme at the point of transfer or where considered appropriate in the context of the investment objectives and subject to the Trustee's powers under the Scheme's governing documentation. The Trustee may also hold longevity swaps or other longevity hedges.

When and if other asset classes are expected to be utilised, they will be included in the scope of this Charter and the Trustee's approach to RI in those asset classes will be set out at that time.

3 Responsible Investment Integration

Core Principles

The Trustee aims not to invest in companies and/or entities which fundamentally and systematically violate the generally recognised international environmental, social and/or governance principles of the United Nations Global Compact (the **"UNGC"**) and other internationally-accepted conventions.

The Trustee has appointed a Fiduciary Manager which is a signatory to the UNGC and the Principles for Responsible Investment. The UNGC is comprised of ten universal principles derived from several UN conventions and treaties. This created a globally-recognised framework for ESG principles, criteria and treaties. The Principles for Responsible Investment comprises six principles and provides goals to incorporate an RI policy into the investment process. Alongside the Guiding Principles on Business and Human Rights and the OECD Responsible Business Conduct for Institutional Investors, the Fiduciary Manager has identified over 100 relevant conventions, treaties and initiatives which it believes should serve as principles for its own RI policy, and by extension, that of the Clara Pension Trust. Following a recommendation from Clara's Joint Investment Working Group and the Trustee's review and deliberation, the Trustee has adopted an approach through its ESG criteria and this Charter which it considers is consistent with these commitments.

Climate Change

The Trustee acknowledges both the risks and opportunities of climate change. Therefore, the Trustee has formulated – in addition to the Trustee's overall ESG policy – a specific policy statement on climate change (see Section 5 of the Charter below).

Integration into Investment Management

The Trustee has integrated ESG criteria into the selection and monitoring of external investment managers via its Fiduciary Manager. The main components of the RI policy are: (1) ESG screening; (2) engagement; and (3) exclusion.

The Trustee has delegated the construction of responsible investment portfolios for the Scheme consistent with this Charter to its Fiduciary Manager, which will invest in external investment managers on behalf of the Scheme. This means that the fund portfolios managed by external investment managers need to be screened periodically. This screening checks whether the portfolios contain companies whose activities are contrary to the Trustee's ESG criteria to a lesser or greater extent. These criteria may change, and the composition of external investment managers' portfolios may also change. This screening therefore requires an extensive database, continuous monitoring and alerts and reports when issues are identified.

The ESG screening process is an important tool for the Fiduciary Manager to identify engagement cases. Each quarter, the Fiduciary Manager will screen the externally-managed funds on the following ESG criteria:

- UN Global Compact compliance (Pass, Watch List, Fail);
- ESG Rating (AAA-CCC);
- ESG Controversies Flag (Red, Orange, Yellow, Green).
- Carbon Emissions

In addition, the Fiduciary Manager screens the funds against its Exclusion List and Avoidance List, which have been reviewed by the Trustee and adopted by the Scheme.

Funds must comply with the Fiduciary Manager's exclusion policy, but an exception is made for passive funds (which replicate the index) to invest in the excluded names (although the manager selection criteria for passive funds discussed in Section 4 of the Charter below will apply).

The results of the quarterly screen serve as a starting point for open dialogue between the Fiduciary Manager and external investment managers and, during these meetings, the Fiduciary Manager assesses whether the ESG risks and opportunities are sufficiently reflected in the investment decision making process of those external funds.

Exclusion and Avoidance

The Trustee accepts that not all parties are willing to change, and it is therefore its policy to avoid or exclude companies that structurally violate the Trustee's ESG criteria and demonstrate no willingness to improve their policies and practices to adapt on ESG issues, as well as structurally excluding from the Trustee's investment universe companies involved in the production of controversial weapons. Controversial weapons are defined as anti-personnel mines, cluster munitions, chemical and biological weapons, and nuclear weapons. The exclusion of such companies extends to the investment managers who are unwilling to comply with this exclusion policy. The Fiduciary Manager will not permit external investment managers to invest in holdings on the Exclusion List, and all funds are assessed for compliance on a quarterly basis.

If new companies are added to the Exclusion List, the Fiduciary Manager will contact all relevant external (active) investment managers to: (1) briefly explain the exclusion policy; (2) clarify which new companies are excluded and why they are excluded; and (3) attach the new Exclusion List.

External active investment managers with investments in companies on the Avoidance List will be subject to engagement by the Fiduciary Manager. In addition to structural issues with companies, the Fiduciary Manager applies a sector level avoidance to tobacco.

The Exclusion List, Avoidance List and Tobacco List are available online on the Fiduciary Manager's website.

Engagement Policy

The Trustee maintains engagement with its Fiduciary Manager in the governance of this Charter. The Fiduciary Manager, in turn, has several levels of engagement: with investment managers and with other stakeholders such as other clients, credit rating agencies, benchmark providers, peers and other stakeholders.

In conjunction with the Fiduciary Manager, engagements are divided into three pillars: (1) engagement for awareness; (2) engagement for change; and (3) public policy and collaboration work. Engagement for awareness aims to improve understanding of a certain issue among companies or gather information on a particular company. Engagement for change aims to set out a specific goal with a specific timeline, while fostering change within a company. Engagement for public policy and collaboration aims to improve the overall landscape of (financial) markets and general level of ESG performance in particular sectors, markets and geographies.

It will not always be possible to see a direct causality between engagement and the improved ESG profile of an investment manager and/or a company; even if change occurs, it might not be directly as a result of the Trustee's and/or Fiduciary Manager's engagement efforts alone. The focus, however, is on achieving the change and not on the attribution of the change.

The engagement with external investment managers (including managers of passive fund solutions) is executed by the Fiduciary Manager. The focus of this engagement approach is on the investment managers' responsible investment policy, implementation and disclosure. The aim of the engagement is to encourage best practices. The Fiduciary Manager also screens the holdings and funds in the external portfolios and discusses possible controversial investments with the investment managers. The Trustee encourages the external investment managers (as a direct shareholder via the Fiduciary Manager) to enter into dialogue with these companies.

Voting Policy

The Trustee is mindful of its responsibilities as a controller of capital. It believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting and other rights attaching to investments, protect and enhance the long-term value of its investments. The Trustee has, acting through the Fiduciary Manager, delegated to its selected investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity (if held) and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. The Trustee expects such rights to be appropriately exercised.

The Trustee does not, at present, monitor or engage directly with issuers or other holders of debt or equity. It expects the Fiduciary Manager to ensure that selected investment managers exercise ownership rights and undertake monitoring and engagement in line with the selected investment managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the members of the Scheme. The Trustee, acting through the Fiduciary Manager, seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council.

4 Manager selection

The Trustee has delegated the selection of appropriate investment managers to its Fiduciary Manager, in accordance with the SIP, this Charter and the Fiduciary Manager's own responsible investment policies. The Fiduciary Manager's capabilities in this area were a key criterion of the competitive tender process carried out to select them for this role. This section summarises the approach used by the Fiduciary Manager in its selection of external investment managers on behalf of the Scheme.

Fiduciary Manager's approach to manager selection

The Fiduciary Manager integrates ESG considerations in every step of the manager selection process, from the initial indication of interest, shortlisting and the formal due diligence as well as the regular monitoring stages. The Fiduciary Manager expects all investment managers to have a responsible investment policy and integrate material corporate governance, environmental and social risks and opportunities into the investment process and engage with the companies where they perceive room for improvement.

The Fiduciary Manager's main instrument to facilitate proper ESG integration in the investment manager selection process is their in-house developed ESG scorecard. With the help of the ESG scorecard each fund that is considered for investing is assessed and monitored based on the below criteria relevant to the Scheme:

- commitment to responsible investing;
- ESG integration,
- active ownership; and
- evidence and transparency.

The scores for each selected investment manager included in the Scheme's portfolio will be reviewed at least annually.

For all new managers, the Fiduciary Manager carries out a thorough assessment of the investment manager's commitment to responsible investing and how ESG components are integrated at the fund level. On each of the sub-criteria investment managers are given a score that ranges from one to five as follows:

1	Inadequate
2	Embryonic
3	Sufficient
4	Advanced
5	Leading

The minimum score for any new funds to be added to a portfolio is different for active and passive funds. Passive funds are designed to passively follow an index. An inevitable effect of this is that it: (1) increases the likelihood of Exclusion List or Avoidance List companies being in that passive portfolio depending on the benchmark composition; and (2) leads to lower scores on active ownership and corresponding evidence. To address these limitations the Fiduciary Manager will seek to explore alternative passive approaches where feasible, for example by following an ESG-screened benchmark.

For funds already assessed, the Fiduciary Manager wants to encourage continuous improvement on ESG integration depending on the shortcomings identified during the scoring process. This applies equally to active and passive funds. Improvement is measured on an annual basis as all funds are re-scored once a year. If an investment manager scores below the minimum threshold and in the Fiduciary Manager's judgement does not make enough effort to address the shortcomings identified during the subsequent one year period, the Fiduciary Manager will consider terminating the relationship and may escalate the matter to the Trustee as appropriate.

In the event companies on the Exclusion List are included in a fund-of-funds, the Fiduciary Manager will start a dialogue with the fund-of-funds' investment manager. The aim of this engagement is to inform the fund-of-funds' investment manager about the Fiduciary Manager's exclusion policy and to discuss compliance with the Exclusion List. The ultimate aim is that the fund-of-fund's investment manager will sell any positions in companies on the Exclusion List, either by engaging with their underlying investment manager(s) or terminating their mandates. This approach is based on a "comply or explain" principle.

While the aim is to uphold the ESG policy in the case of fund-of-funds, a pragmatic approach is important, and materiality will be taken into account.

5 Climate Change & Net Zero

The Trustee recognises that climate change is a material risk making an increasing impact on global markets, with far-reaching consequences for the planet and human wellbeing. It affects public and private sectors alike, at both global and local levels. Investors therefore need to take climate change risks and opportunities into account and act to manage them.

TPR's Guidance specifically requires superfunds to ensure that the risks relating to climate change are adequately allowed for in the development of their investment strategies.

Meeting the challenge of climate change requires international cooperation and alignment to the Paris Agreement, which commits almost all countries to keeping global warming below 2°C this century (compared to pre-industrial levels), and to strive to limit the increase to 1.5°C. Since the Paris Agreement, several countries (including the UK) have locked-in climate targets and laws. Central banks are investigating the risks climate change poses to financial institutions and the stability of the financial system; and more companies are taking steps to integrate climate risks - and opportunities - in their business models.

Investors are exposed to climate change risks and opportunities too and have an important role to play in both facilitating the transition to a low-carbon economy and managing the climate risks of their investee companies.

Our position

The Trustee believes climate change represents a systemic risk facing the economy, society and environment, and wishes to consider the risks and opportunities this presents to investments by the Scheme.

Aligning with the Fiduciary Manager, the Trustee has therefore set a long-term commitment (2050), a medium-term ambition (2030) and short-term objective (2025) on climate change. These commitments extend beyond the base level of commitment required by the Net Zero Asset Managers Initiative, of which the Fiduciary Manager was a founding signatory.

- **Commitment** 2050: the Trustee is committed to aligning with the Paris Agreement goals and contributing to the transition to a low carbon economy by 2050. We commit to have net-zero emission investments by 2050.
- **Ambition** 2030: By 2030 it is the Trustee's ambition to be aligned with a path to achieving the Paris Agreement for all listed and non-listed investments in the Scheme's portfolios.

- **Objective** 2025: By 2025, the Trustee's objective is to be aligned with a path to achieving the Paris Agreement goals for all listed investments, facilitated by its Fiduciary Manager.

To achieve this 2025 objective, we rely on four ESG pillars.

Pillar 1: Exclusions

In consultation with the Fiduciary Manager, the Trustee has assessed several activities (coal, nuclear energy and unconventional oil and gas) which are likely to have a significant impact on the transition towards a low carbon economy. The Trustee believes that coal mining and tar sands have an adverse impact on climate change and companies should over time not be involved in such activities. The Trustee has considered nuclear energy and currently does not exclude this sector, though continues to review the balance of advantages (low carbon emissions) and risks (waste problem).

The Fiduciary Manager has formulated 2022 objectives for all investment managers that it works with (and is able to influence) which align with the Trustee's objectives. The Fiduciary Manager aims to:

- not invest the Scheme's assets in coal players which obtain the majority of their revenues from coal mining; and
- not invest in companies which obtain the majority of their revenues from tar sands.

Pillar 2: ESG Integration

To ensure that climate risks and opportunities are adequately considered in the Scheme's investment process, the Trustee prefers to invest in companies (via the Fiduciary Manager and underlying external investment managers) which integrate their climate risks and opportunities into their organisation and can move towards a low carbon economy.

By 2025, the Trustee expects that climate risks and opportunities are adequately considered in the external funds' investment processes in line with TCFD recommendations (for example, via climate risk scenarios).

Pillar 3: Active ownership

The Trustee encourages its Fiduciary Manager to engage with companies via the external investment managers, and other stakeholders, to encourage them to integrate climate risks and opportunities into their long-term business models and enable them to thrive in the transition to a low carbon economy. Funds should have a clear climate engagement approach (aligned with their overall climate objective(s)) and show annual progress.

The Trustee supports the Fiduciary Manager to continue to be an active participant of the Climate Action 100+ collaboration, to use its leverage with the Scheme's assets and those of its wider business to encourage the transition of large carbon emitting companies towards a low carbon economy, including encouraging the external investment managers used by the Fiduciary Manager to also be active participants in such collaborative climate initiatives.

Pillar 4: Impact

The Trustee recognises that climate solutions will also be needed. Given the expected asset classes to be utilised by the Scheme, in this Charter we currently focus this pillar on fixed income, with the intention of including other asset classes in due course (and when impact data becomes available).

The Fiduciary Manager will consider the use of 'green' bond investments by selecting funds with objectives on green bonds, and objectives to increase their green bonds allocation and/or advance the financing of climate activities that contribute to the Paris Agreement goals and transition towards a low carbon economy.

The Trustee prefers green bonds over non-green bonds if the risk-return profiles are similar, although the investment strategy characteristics need to be considered (for example, government bonds versus credit funds). Green gilts are part of the expected investment universe, as they are a subset of conventional gilts.

Reporting on progress

The Trustee will review its progress with regards to the commitment, ambition and objectives of the Scheme's portfolios at least annually.

Appendix A Defined Terms

We have used the following defined terms in the Responsible Investment Charter.

"Avoidance List" means the list of companies maintained by Kempen and available on their website where Kempen seeks to avoid direct or indirect investments on behalf of its clients.

"Buffer Assets" means, for each Buffer Company, the assets held in respect of a given Section.

"Buffer Company" means each company established for the purpose of holding Buffer Assets.

"Charter" means this Responsible Investment Charter.

"Clara", **"Clara Corporate"** or the **"Corporate"** means the Clara Group but excluding the Trustee.

"Clara Group" means the group of companies of which Clara-Pensions Group Limited is the holding company, with Clara-Pensions Limited and the Trustee being Clara-Pensions Group Limited's wholly owned subsidiaries.

"Clara Pension Trust" or **"Scheme"** means the defined benefit pension scheme with that name, established by a Trust Deed and Rules dated 2 October 2019.

"ESG" means environmental, social, governance and other financial and non-financial matters which may impact the Scheme's investments.

"Exclusion List" means the list of companies maintained by Kempen and available on their website in which Kempen will not make direct or indirect investments on behalf of its clients. This primarily relates to companies involved in the production of controversial weapons.

"Fiduciary Manager" or **"Kempen"** means Kempen Capital Management (UK) Limited, as fiduciary manager to the Scheme and (when established) the Buffer Companies.

"**Guidance"** means the Superfunds Guidance[1] issued by the Regulator on 18 June 2020 as updated from time to time.

"RI" means responsible investment.

[1] The Guidance is available on the Regulator's website: TPR Guidance

"Section" means a section of the Clara Pension Trust[2].

"Scheme" means the Clara Pension Trust.

"SIP" means the Statement of Investment Principles which outlines the principles and policies governing decisions about investments made by or on behalf of the Trustee in the management of the Scheme's assets.

"TCFD" means the Taskforce on Climate-Related Financial Disclosure.

"Tobacco List" is the tobacco sector specific list of companies maintained by Kempen and available on their website where Kempen seeks to avoid direct or indirect investments on behalf of its clients.

"TPR" or the **"Regulator"** means The Pensions Regulator.

"**Trustee**" means Clara Trustees Limited[3] as trustee of the Clara Pension Trust.

"UNGC" means the United Nations Global Compact.

[2] The assets and liabilities of each scheme that are transferred into the Clara Pension Trust will be transferred into a new Section. The assets and liabilities of each Section are legally separate from those of all other Sections. Each Section will have its own statutory employer and there will be a Buffer Company linked to each Section.

[3] Details of the current trustee directors of Clara Trustees Limited are available on Clara's website: The Clara Trustees

Disclaimer

We publish a number of our key Clara Pension Trust documents, like the Responsible Investment Charter to help our members better understand how the scheme is run. It may also be good practice and/or a legal requirement to publish a document. This document is therefore made available on that basis.

The Trustee may review these documents at any time. They may change to reflect changes in legislation, regulation and/or best practice or indeed a decision to take a different approach. We endeavour to publish updated documents on our website as soon as reasonably possible when they are revised. The date a document was updated is shown within it.

Those engaging with Clara in respect of transactions should refer to the document shared via that direct engagement alongside the document shared on our website.

This document is published without accepting any liability to any party other than prescribed by law.