

Cushon Master Trust

Responsible Investment and Stewardship Policy

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1. Introduction

This Responsible Investing and Stewardship Policy (“the Policy”) has been prepared by the Trustees of the Cushon Master Trust (“the Scheme”) with its investment adviser, Isio.

The Trustees define Responsible Investment (“RI”) in line with the UN-backed Principles for Responsible Investing (“UNPRI”), which states that RI is an approach to investing that aims to incorporate Environmental, Social and Governance (“ESG”) factors into investment decisions, to better manage risk and generate sustainable, long-term investment returns. The Trustees believe that this approach to investment is in the best interests of our members in accordance with our legal duties.

The Policy supports the Scheme’s Statement of Investment Principles (“SIP”) and investment beliefs, formalising the Trustees’ beliefs with respect to RI and their policy on how ESG factors (including climate change) will be integrated in their investment decision-making. The Policy is to be made available to members via the Cushon website <https://www.cushon.co.uk/info/terms>.

2. The Trustees’ investment beliefs

Our investment beliefs, which will be taken into consideration when developing the Scheme’s investment strategy and investment objective, are set out below. It is our opinion that our investment beliefs and adherence to UNPRI will contribute to good investment outcomes for our members. The investment beliefs will also form part of our investment governance reporting framework, which is used to monitor effective implementation and management of the Scheme’s investment portfolio on behalf of our members.

- Our investment objective is to maximise risk and inflation adjusted returns for our members regardless of when they take their benefits.
- We will consider a broad range of opportunities when sourcing investments, including assets on regulated and unregulated markets, and assets that are publicly and privately held, as well as different investment management styles. There may be times when certain types of investments offer better value, and we will seek to maximise these opportunities for the benefit of our members.
- There are some risks which can be rewarded, such as illiquidity, active management, and diversification. Some of these risks may be linked to responsible investment factors (such as climate change). We will seek exposure to these investment opportunities, provided they meet our investment objective and the cost of accessing the investment presents value for money for our members.
- We believe that responsible, sustainable, and social impact investment opportunities can contribute to meeting our investment objective.
- Our investment beliefs apply to all asset classes and support the principles underlying the UNPRI initiative. We will select and work with partners and other industry parties who share our beliefs.
- Climate change poses a material financial risk to our members. To this end, the Trustees offer default options which have lower greenhouse gas emissions than a typical UK Pension Scheme. We have also agreed to the following climate targets for our default strategies:
 1. For the carbon footprint (scope 1 & 2) to be at least 80% lower than the 2022 baseline by 30 Sep 2030.

2. Achievement of net zero well in advance of 2050.

The 2022 baseline is defined as the weighted average carbon footprint (scope 1 & 2) of broad market indices weighted by the Cushon Sustainable investment strategy’s growth phase asset allocation. These are: 90% Solactive GBS Global Markets Large and Mid-Cap, 2.5% Bloomberg Global Aggregate, 4.3% Bloomberg Global Aggregate Corporates and 3.2% 50 / 50 ICE BoA Global High Yield / Global Investment Grade.

- We will survey member views and preferences via the Cushon App and take these into consideration when developing the Policy and our investment beliefs over time, to the extent that to do so does not conflict with our legal obligations and fiduciary duties as pension scheme trustees. The Trustees may take member views into account when choosing self-select options. Member investment choice will be provided through the self-select investment options for those members who wish to express different beliefs in how their pension pot is invested.

3. Impact of the Policy on investment decision making

RI is a core element of our investment strategy, which is set with support from our investment adviser, Isio, and the Company, Cushon. In making any portfolio construction decisions, we will have regard to the Policy and our investment beliefs.

To implement our beliefs with respect to RI, our two default investment strategies both have RI as a core component of each of the individual mandates comprising the two defaults:

Mandate	Manager and Fund	Approach	How implemented
Global equities	Macquarie True Index	Tracks the Solactive Cushon Index and aims to deliver exact net returns for no management fee and a zero tracking error	<p>The fund delivers an immediate CO2e emission reduction of 60% and an ongoing reduction of 7% per annum.</p> <p>Companies are screened for their alignment with the UN SDG and excludes the lowest performers. Companies with an SDG impact rating of less than -5.1 are excluded.</p> <p>The fund’s Green Revenue is increased by 100% and its Carbon Risk Rating by 20% compared to the benchmark.</p>

Mandate	Manager and Fund	Approach	How implemented
Credit	Lombard Odier –Target NetZero Investment Grade Corporate Bond Fund	<p>Lombard Odier: A forward-looking approach financing climate transition by investing in companies demonstrating a CO2 emissions pathway targeting net zero by 2050 in line with the Paris agreement, aiming to outperform a standard corporate bond benchmark.</p> <p>The fund targets 100bps gross outperformance p.a. versus the Bloomberg Barclays Global Aggregate Corporate Bond Index over a credit cycle.</p>	<p>Lombard Odier: The portfolio targets a 50% reduction in CO2 emissions by 2030, and NetZero by 2050.</p> <p>The Fund seeks to apply the following exposure restrictions, but not binding:</p> <ul style="list-style-type: none"> • Tobacco: Companies deriving more than 10% of their revenues from either production of tobacco products or retailing of tobacco products/services • Thermal Coal: <ul style="list-style-type: none"> ○ Mining: Companies deriving more than 10% of their revenues from thermal coal extraction ○ Power Generation: companies deriving more than 10% of their revenues from coal power generation • Unconventional Oil & Gas: Companies deriving more than 10% in aggregate of their revenues from any of tar sands, shale gas and oil and arctic oil & gas exploration <p>Material breaches of UN Global Compact Principles, the OECD guidelines for multinational enterprises, the UN guidelines principles on business and Human rights and their underlying conventions: Companies that are involved in the most severe breaches of those norms ("Highest Level Controversies")</p>

Mandate	Manager and Fund	Approach	How implemented
	<p>Wellington – Global Impact Bond Fund</p> <p>L&G Future World Corporate Bond Index Fund</p> <p>Ninety One Global Target Return Credit Fund</p>	<p>Wellington: The fund invests in fixed income assets (primarily investment grade with an opportunistic high yield exposure) through which it seeks to improve access to, and the quality of, basic life essentials reduce inequality and mitigate the effects of climate change while delivering long-term total returns in excess of the Bloomberg Global Aggregate Index. The fund targets 50bps gross outperformance p.a. versus the Bloomberg Barclays Global Aggregate Index (hedged to USD).</p> <p>L&G: Track the performance of the Solactive L&G ESG GBP Investment Grade Corporate TR Index</p> <p>Ninety One: The fund targets SONIA + 4% per annum (gross of fees) over a full credit cycle (which may be measured over 5-year rolling periods)</p>	<p>Wellington: Focusing on high impact issuers across 3 core impact areas (Life Essentials, Human Empowerment and the Environment), with key performance indicators measuring each investment’s level of impact.</p> <p>The fund applies the Wellington Management exclusions policy which covers:</p> <ul style="list-style-type: none"> • Manufacture of nuclear weapons • Controversial weapons • Thermal coal extraction or thermal coal-based power generation • Production and generation of oil sands (also known as tar sands) • Production, distribution, retail or supply of tobacco related products <p>L&G: The fund employs a passive index tracking strategy while reflecting significant environmental, social and corporate governance (ESG) issues.</p> <p>Companies that fail to meet LGIM’s minimum standards in low carbon transition and corporate governance standards may be excluded from the fund.</p> <p>Ninety One: The fund uses an unconstrained, bottom-up investment approach, targeting the most efficient allocation of capital across the global credit universe.</p> <p>The fund employs a bottom-up sustainability framework to identify the best-in-class companies and align the portfolio with net zero while achieving an immediate emission reduction of more than 50% compared to its benchmark.</p>

Mandate	Manager and Fund	Approach	How implemented
Private markets	Schroders Capital Climate+	Targets net return objective of 8% p.a. by investing in privately held ESG focused assets. Impact targets of 12.5k tCO2e avoided, 11k tCO2e captured, 300k people with increased climate risk resilience and less than 17.5k tCO2e generated per £10m invested.	The fund is a diversified multi-private asset portfolio across private equity (20-40%), sustainable infrastructure (20-40%), real estate (10-25%), natural capital (10-25%) and liquid climate impact (5-20%) with a return objective of 8% per annum. The target allocation is split between UK and Europe (30-60%), Global Ex EM (10-50%), and Emerging Markets (10-30%). The fund exclusively invests in one of four impact themes: Social Equity & Inclusion, Carbon Capture, Adaptation and Mitigation.

The allocation to Schroders Capital Climate + is being held in Macquarie True Index in the interim while the Fund is in the ramp up period (expected to be c. 3 years) and investments are being drawn down. Within the self-select range, we ensure that RI is integrated as a core element of as many funds as possible, subject to availability of funds within different asset classes.

The self-select range will be regularly reviewed considering market and product developments in the ESG fund sector, taking into consideration member preferences expressed through the member surveys within the Cushon App.

4. Stewardship

The Scheme's assets are held on the Mobius Life platform via an insurance policy called a Trustee Investment Plan. Details of Mobius Life's Engagement and Stewardship Policy can be found here:

<https://www.mobiuslife.co.uk/uploads/2022/04/cc63d2907592a5ab8d9b55e11b2e324f/mobius-life-stewardship-and-engagement-policy-2020-annual-report.pdf>

It is our intention that the investment managers appointed to manage the Scheme's assets will share similar RI beliefs to us, and therefore any voting and engagement by them with underlying companies are expected to be in line with our investment beliefs and stewardship priorities.

The Trustees of the Scheme have set five stewardship priorities, as set out below. These are issues where the Trustees believe effective stewardship can help in mitigating risks within the investment strategy. The Trustees deem votes directly associated with these stewardship priorities to be 'significant'.

1. Climate alignment – decarbonising and minimising emissions
2. Climate adaptation
3. Biodiversity risk and management
4. Labour rights incl. modern slavery
5. Diversity and inclusion (on boards in particular)

Our stewardship priorities will form part of our investment governance reporting framework, which is used to monitor effective implementation and management of the Scheme's investment portfolio on behalf of members. This will include an assessment to the extent to which stewardship activities undertaken by the Scheme's investment managers, on behalf of the Scheme, are aligned with the Trustees' stewardship priorities.

We expect our investment managers to have effective voting policies in place, including a set of actions that can be undertaken should companies not meet various ESG expectations (i.e., escalation policies).

Members will be surveyed continuously on their views on voting and engagement via the Cushon App. This survey data will be reviewed by us as part of our investment governance reporting framework and will be considered by us when this Policy is developed over time, to the extent that to do so does not conflict with our legal obligations and fiduciary duties as pension scheme trustees.

We will review each manager's track record of voting and engagement as part of our investment governance reporting framework and will publish this information in our annual Implementation Statement. This will include voting and engagement information relating to the Trustees' agreed stewardship priorities.

5. Roles and Responsibilities

We, with support from Cushon, our advisers, and the investment managers, retain overall legal and fiduciary responsibility for how the Scheme's assets are invested, as well as ESG considerations (including climate change). Our responsibilities are summarised below.

- Agree (and regularly review) our investment beliefs and the Scheme's investment strategy and investment objective, including the setting of RI ambitions or areas to prioritise.
- Maintain this Policy in a manner that reflects our beliefs and is used as a basis for driving and monitoring the integration of ESG within the Scheme's investments.
- Carry out regular reviews of the investment managers' approaches to and effectiveness in RI. ESG criteria will be applied when appointing investment managers, with explicit consideration of the manager's approach to RI and climate change.
- Consider the investment managers' track record on voting and engagement with the management of companies in which they are invested and report on this via the annual Implementation Statement.
- Consider the member survey data collected via the Cushon App and if this should be reflected in this Policy over time.
- Receive regular climate-related updates from our advisers, potentially covering the investment managers' climate capabilities, progress on various climate workstreams and any relevant market or regulatory updates.
- Assess how external advisers and providers have performed against their climate responsibilities and, where relevant, we will explicitly include these responsibilities in adviser objectives.
- Decide which ESG-related bodies to support and or join.
- Respond to regulatory queries.
- Fulfil regulatory requirements with respect to ESG, including preparing the annual Implementation Statement and oversee delivery of Taskforce for Climate-related Financial Disclosures ("TCFD") reporting, including:
 - Undertaking scenario analysis to understand and manage exposures
 - Agreeing interim targets and carbon journey planning
 - Monitoring progress against targets
 - Agreeing methodology and metrics used for climate reporting

- Continue to develop our understanding of responsible investment, including climate change, through regular training on prevailing risks and sustainable investment opportunities.

The Scheme Funder, Cushon, provide ongoing support to us in terms of investment strategy and responsible investment. Their responsibilities include:

- Working with us to review the strategic direction regarding responsible investment and agree the Policy.
- Proposing investment strategies and managers which are aligned to our SIP and the Policy.
- Communicating with members on behalf of us, as appropriate, regarding the investments and providing engagement tools to collate member views, in accordance with the Service Agreement in place between us, HS Pensions Limited and Cushon.
- Providing updates to the Trustees on the Scheme's investments with respect to responsible investment and climate change.

We retain an investment adviser, Isio, whose responsibilities include, but are not limited to, the following (some of these responsibilities may also be delegated to other advisers for specialist functions):

- Advising on the inclusion of RI, ESG and climate considerations, that may arise as risks or opportunities, in the Scheme's governance framework, investment strategy, risk management and monitoring.
- Assessing proposed mandates from an RI, ESG and climate perspective as part of the manager selection process.
- Reviewing the Scheme's investments from an RI, ESG and climate perspective.
- Assisting with the selection, collection and presentation of metrics, targets and scenario analysis required for the annual TCFD report.
- Collating information on the voting and engagement activity of underlying managers for inclusion in the Implementation Statement.
- Providing scenario analysis and monitoring against targets for inclusion in the annual TCFD report.
- Providing training and relevant updates to the Trustees on relevant RI, ESG and climate-related matters.

The Legal Adviser's responsibilities include, but are not limited to, the following:

- Providing training to us on RI, ESG and climate-related legal matters, and ensuring we are aware of our RI, ESG and climate-related legal and fiduciary obligations, as requested.
- Where requested, assisting in the documentation of the arrangements with the Scheme's third parties with respect to RI, ESG and climate-related matters.

The Investment Managers' responsibilities include, but are not limited to, the following:

- Identifying, assessing and managing RI, ESG and climate-related risks and opportunities in relation to the Scheme's investments.
- Exercising voting rights and engaging with portfolio companies in relation to RI, ESG and climate-related risks and opportunities, with consideration of our Expression of Wish letters where applicable.

- Reporting back to us on their stewardship record, and how this is aligned to our investment beliefs.
- Providing the agreed climate-related metrics in relation to the Scheme’s investments in accordance with our TCFD reporting requirements and focus on increasing the quality and availability of these metrics.

6. Monitoring and reviewing the Policy

We will monitor the Scheme’s investment objective against the Policy on an ongoing basis, with support from our investment adviser, Isio, and Cushon.

We view the development of the Policy as an ongoing process, as approaches to RI and Stewardship evolve over time. When reviewing the Policy, we will consider any significant developments with the intention of taking a good practice approach. The Policy will be reviewed in line with regulation and at least every 3 years, or more frequently if necessary.

Signed:



Name: Roger Mattingly – Chair of Trustees

Date: 9 June 2023

Appendix

What are Environmental, Social and Governance (“ESG”) factors?

Examples of ESG factors include:

- Environmental
 - Climate change
 - Resource depletion, including water
 - Waste and pollution
 - Deforestation

- Social
 - Working conditions, including slavery and child labour
 - Local communities, including indigenous communities
 - Conflict
 - Health and safety
 - Employee relations and diversity

- Governance
 - Executive pay
 - Bribery and corruption
 - Political lobbying and donations
 - Board diversity and structure
 - Tax strategy

Source: www.unpri.org

What is the UN-backed Principles for Responsible Investment (“PRI”)?

The PRI is a proponent of responsible investment.

The PRI aims to understand the investment implications of ESG factors and helps support its international network of signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. The PRI provides education, training and research on how ESG factors can be incorporated in investment decisions.

Source: www.unpri.org

What are the six UN-backed Principles for Responsible Investment?

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Source: www.unpri.org

What is the Task Force on Climate-Related Financial Disclosures (“TCFD”)?

The Financial Stability Board established the TCFD to develop recommendations for effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks.

The TCFD is committed to market transparency and stability. The TCFD believes that better information will allow companies to incorporate climate-related risks and opportunities into their risk management and strategic planning processes. As this occurs, companies’ and investors’ understanding of the financial implications associated with climate change will grow, empowering the markets to channel investment to sustainable and resilient solutions, opportunities, and business models.

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation.

The TCFD’s disclosure recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. These thematic areas are intended to interlink and inform each other.

Source: <https://www.fsb-tcf.org/about/>

What is the Implementation Statement?

From 1 October 2020, Trustees must prepare an annual Implementation Statement. This document is to be included in the scheme report and accounts and published online on a publicly accessible website.

The Implementation Statement is to provide evidence that the Scheme continues to follow and act on the principles outlined in the Statement of Investment Principles with a focus on stewardship activities, implementation of the main investment principles, and ESG factors.