

# The NMR Pension Fund and the NMR Overseas Pension Fund – Responsible Investment (RI) policy

## Scope

This policy has been prepared by the Trustee of the NMR Pension Fund and the NMR Overseas Pension Fund (collectively the “Funds”). In preparing this policy, the Trustee has been mindful of:

- i) The views and approach of the Sponsor as expressed in the Rothschild & Co Strategic Objectives for Responsible Investment and the common investment exclusion policy framework (collectively referred to as the “Sponsor Policy”). The Trustee is aware that different business areas are currently operating with their own policy, and we will seek to monitor the adherence, convergence and impact of these policies over time.
- ii) The need to comply with regulation in this area<sup>1</sup>.

This policy covers both the Defined Benefit section (DB) and Defined Contribution (DC) assets of the Funds and aims to set out the Trustee’s views around responsible investing. It is intended that the policy will provide a framework to the Funds’ advisors to ensure consistent implementation of the Trustees’ views and to provide a basis on which to monitor the sustainability characteristics of the Funds.

This policy also acts as a framework for the Pensions Responsible and Sustainable Investment Committee (PRSIC), a focused sub-committee of the Trustee dedicated to considering the responsible investing issues faced by the Funds.

## Introduction

This policy builds and expands on each Funds’ Statement of Investment Principles (SIP) and should be read in conjunction with these. Where conflict arises between this policy, the SIPs and an investment manager’s Investment Management Agreement (IMA), the IMA and SIPs should take precedence. In forming its views on appropriate investments to hold for the Funds, the investment consultant should have regard to this policy, the policy of the Sponsor and its own in-house policy.

There may be instances or practical constraints which prevent full compliance, in which case an appropriate rationale for non-compliance should be provided. Where compliance is constrained by the opportunity set of investment solutions available, the Trustee expects the investment consultant to engage with the investment industry on its clients’ behalf to determine whether, over time, appropriate solutions can be developed.

The Trustee expects to strengthen this policy over time and, where applicable, increase the Responsible Investment (RI) requirements imposed on the underlying managers through their IMAs.

## Mission

The Trustee views proper integration of Responsible Investment considerations as important in all aspects of the Funds’ investment process in order to ensure good outcomes for members and to manage associated risks.

Investing members’ assets responsibly is a core part of the Trustee’s overall mission, and as such, the Trustee is ultimately looking to be viewed as exhibiting good practice relative to its peers in this area. Underlying this, and used as a framework for this policy, is the Trustee’s desire for broad

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consistency with the Sponsor's positioning and policies, accepting that there may be instances where this is not appropriate, cost effective or may be operationally challenging.

Whilst the Trustee is mindful of the risks and opportunities across environmental, social and governance (ESG) factors, it has identified climate change and diversity & inclusion as its priorities and will therefore focus on the oversight and management of these in the short term.

## Beliefs

The following beliefs articulate the Trustee's views with regards to responsible investing:

- Consideration of Responsible Investment issues is primarily a financial consideration in order to ensure good outcomes for members, whilst managing regulatory and reputational risks.
- The Trustee aims to exhibit good practice relative to its peers in the area of Responsible Investment.
- The Trustee believes there are risks to consider across E, S and G, but will initially prioritise the measurement and management of risks related to climate change.
- Engagement is generally more effective in achieving better outcomes for investors than utilising exclusions.
- All else equal, the Trustee is minded to invest in opportunities that have positive responsibility tailwinds.
- The Trustee can have most influence over our portfolio, asset managers and advisers, and should therefore concentrate our efforts and engagement there.
- Ensuring good stewardship of assets by managers is an important part of the Trustee's fiduciary duty towards members and the Trustee believes it is important to monitor how the Funds' investment managers undertake voting and engagement activities on its behalf.
- The Trustee believes it should communicate its Responsible Investment beliefs and policies to members and will let members know that it welcomes their views on these.
- The Trustee will benchmark its approach to Responsible Investing against both its peers and its agreed long-term ambitions.
- The Trustee is mindful of the Sponsor's policies on Responsible Investment issues when deciding how to incorporate Responsible Investment in the Funds.

The Trustee expects the investment consultant to provide advice, and underlying asset managers to invest, mindful of this core set of beliefs.

## Trustee's policy – 5 key principles

### 1) Alignment

The Trustee looks to align this policy with the Rothschild & Co Group common investment exclusion policy framework ('Sponsor Policy'), where practical, operationally possible, reflecting regulatory requirements and consistent with the Trustee's beliefs. Whilst the Trustee may seek in principle to achieve full alignment, it recognises that it may not be possible in practice given the existing investments held by the Funds and the limitations such as investing through pooled

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vehicles. However, the Trustee will seek to increase the level of alignment over time through the investment decisions that it takes. As part of striving for alignment where feasible and appropriate to do so, the Trustee will engage with the Sponsor on the responsible investing approach of the Fund and seek to understand what the Sponsor does in this area.

The Trustee will review updates to the Sponsor Policy on a regular basis and will work to achieve continued alignment with this over time.

- The Trustee expects the underlying managers to have a formal ESG policy and receives annual reporting from its investment consultants on the strength of each manager's policies and procedures and how these are implemented in practice.
- The Trustee expects its investment managers to adhere to the Principles for Responsible Investment (PRI), or a recognised equivalent standard, and will procure an explanation from the manager where this is not the case.
- The Sponsor Policy sets out exclusions in the following areas:
  - Investments in companies that design and produce cluster munitions and/or land mines in accordance with the Oslo Treaty (2008) and the Ottawa Convention (1997).
  - Investments in companies that to the Sponsor's knowledge may breach fundamental principles due to gross corporate misconduct such as severe infringements of human rights, substantial environmental damage or those linked with corruption and bribery activities.
  - Investments in companies involved directly in thermal coal production as well as exploration, mining and processing and power generation using thermal coal.

Recognising the Sponsor policies set out above and the limitations associated with investing through pooled funds, the Trustee expects the Funds' investment managers whose mandates allow for exclusion to explain the rationale for investing in companies and strategies that operate in these industries and expects the investment managers to undertake detailed ESG analysis to ensure the associated risks are compensated for.

When considering new investments, the Trustee will review the applicable restrictions of the pooled fund in question and incorporate the expected exposure to these sectors into its decision-making process.

## 2) Integration

The Trustee aims to integrate sustainability considerations throughout its investment process, tailored as appropriate to the composition of the Funds' portfolios:

- The Trustee has formulated a set of investment beliefs relating to sustainability and will review these on an annual basis.
- The Trustee monitors ESG and climate risks within the Funds' portfolios and will set targets for the improvements in key metrics over time.
- The Trustee expects the investment consultant to monitor and assess each investment manager's approach to ESG integration and stewardship practices. The Trustee will review the sustainability approach of the Funds' underlying managers on an annual basis and follow up with its advisors on any areas of concern identified.

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- Where appropriate, sustainability integrated mandates, benchmarks and objectives may be used, including low carbon, exclusionary indices (e.g. MSCI ACWI ex Coal Index), or ESG tilted indices.
- Where appropriate, the Funds' liability driven investing (LDI) manager may utilise green gilts. It is the Trustee's policy to give the manager discretion over the extent to which it wants to hold these assets within the Funds' portfolios.

Overall, the Trustee expects the Funds' portfolios to have a lower exposure to ESG risks and a higher exposure to ESG opportunities when compared with a relevant benchmark or reference portfolio and for this position to improve over time.

### 3) Impact

The Trustee invests mindful of real-world impacts, and therefore requires the investment managers to consider impact throughout key stages of the investment process (including strategy selection and overall portfolio review).

- The Trustee expects its investment consultant to recommend appropriate impact investments when these come to market and where these are aligned with the Funds' mission, policy and objectives, and, in relation to DC, considering the financial interest of members.
- The investment consultant, through sustainability analysis, should assist the Trustee with monitoring the real-world impact of investments at the portfolio level, noting that the required standards of measurement and monitoring will evolve over time.

### 4) Stewardship

The Trustee considers proper stewardship to be a key responsibility, recognising the role the Funds can play as active asset owners. However, the Trustee does not have the resources to exercise all of its duties directly. As such, the Trustee will seek to ensure its stewardship responsibilities are being effectively implemented through the Funds' investment managers.

The Trustee expects its investment managers to develop and maintain appropriate voting and engagement policies and will review these, including the number of votes cast where applicable, on an annual basis as part of the investment consultant's Responsible Investment reports or the annual Implementation Statement.

The Trustee recognises that:

- For pooled equity investment funds (as of the date of this policy, the Funds do not invest in any segregated equity mandates), the Trustee cannot directly influence the engagement policy but should ensure that the overall policy is consistent with the Trustee's objectives and that it is being effectively applied in practice.
- For all mandates, the Trustee should monitor voting procedures and practices of its investment managers and proactively engage where votes have not been cast in line with the endorsed guidelines or Trustee's beliefs.
- The Trustee expects each investment manager to proactively engage with companies / assets and report on these annually. This brings with it the opportunity for the Trustee to learn about specific ESG issues at the company level and develop awareness around important sustainability issues affecting individual portfolio holdings.

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- Notwithstanding the policy set out in Section 1 regarding seeking alignment with the approach of the Sponsor, in principle the Trustee has a preference for engagement within the Funds' investment portfolios. However, from time to time the Trustee may seek to implement exclusions within the investment portfolio (either within current mandates where permitted or new mandates) which may reflect a range of concerns from sector specific risks to geo-political events.
- As set out in the Policy, the Trustee expects its investment managers to demonstrate effective engagement on issues with portfolio companies including those but not limited to: corporate governance, board composition, company culture, shareholder rights and executive compensation.
- The Trustee expects the investment consultant to review and participate in appropriate collaborative initiatives, for example (but not limited to) the PRI, UK Stewardship Code, Net Zero Asset Managers Initiative (NZAMI) and Institutional Investor Group on Climate Change (IIGCC).
- It is not necessarily appropriate for its investment managers to sign up to as many sustainability initiatives as possible, but the Trustee expects the Funds' investment managers to sign up to those where it is practical to do so as a visible demonstration of the importance of addressing sustainability risks.

The Trustee will review its approach in this area from time to time against external best practice (for example, the Association of Member Nominated Trustees Red Line Voting guidelines).

As part of good stewardship, the Trustee expects its public equity managers to utilise votes as a key part of engagement with the underlying companies. The Trustee reviews the key votes on an annual basis as part of the Implementation Statement (IS).

## 5) Monitoring and reporting

The Trustee will regularly monitor and report on the sustainability of its portfolios and strategy to relevant stakeholders.

- The Trustee will review this policy on an annual basis to ensure it remains consistent with its investment beliefs, the Sponsor Policy and evolving practice in the area.
- The Trustee will review how it has complied with each of the key principles set out in this policy (Alignment, Integration, Impact and Stewardship) or else explain why this has not been possible as part of the annual review of this policy and set out the actions that it proposes to take to enhance its approach in future years.
- The Trustee monitors reporting from the investment consultant on an annual basis to ensure sustainability issues are assessed and taken account of in each investment manager's investment decision making process as appropriate. Should the investment consultant determine that a manager's approach to stewardship or ESG considerations is not appropriate, the investment consultant will raise this with the relevant manager and, if not remedied, will ultimately consider reflecting this by downgrading its strategy assessment of the product. The Trustee will then determine whether the Funds will disinvest from the strategy after considering additional consequences of doing so.

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- The timing of annual sustainability reporting for the Funds should be aligned where possible with the Trustee's required regulatory disclosures and the annual review of this policy.
- The Trustee will undertake a regular process of benchmarking its approach to Responsible Investment against those of peers, in order to inform an assessment of whether any additional activities might be required.
- Where new methods of monitoring and reporting on sustainability arise, the Trustee will consider whether this reporting adds value and allows the Trustee to make more informed decisions about the Funds' investments. If so, the Trustee will consider adopting this reporting.
- The investment consultant will provide the information required for the Trustee to make the required regulatory disclosures prevailing at the time of issue and ensure compliance with regulatory requirements.
- Reviewing and actively engaging with the portfolio monitoring is a key part of the Trustee's responsibility and will help identify instances of greenwashing or insufficient action, which will be challenged and escalated appropriately.
- The Trustee sets strategic objectives for its investment consultant(s) with respect to responsible investing and will monitor the Funds' investment consultant(s) against these objectives on an annual basis.
- The Trustee will publish its first Task Force on Climate-related Financial Disclosures (TCFD) Statement in 2023 and will produce this on an annual basis moving forward.
- The Trustee has committed to reduce the Fund's carbon emissions by 50% by 2030 and targeting net-zero by 2050. The Trustee will monitor its progress against these commitments annually as part of the TCFD Statement.

The format and approach to reporting is expected to continue to evolve, in line with changing regulatory requirements and increased availability of third-party products and services.

## Disclosure

The Trustee believes that the Fund's membership of the PRI provides a guide to best practice disclosures and facilitates external benchmarking of the Trustee's policies and practices.

The Trustee will provide this policy to the investment consultant and the Funds' underlying investment managers.

The Trustee will disclose the sustainability credentials of the Funds' portfolio to wider stakeholders to encourage all participants in the investment industry to improve transparency and increase their accountability around impact.

This policy will be made available to the Sponsor and members via the Funds' website, with views being sought from each where appropriate.

## Governance of this policy

This policy has been written in conjunction with the Funds' investment consultants (WTW and LCP) and takes account of the views of the Sponsor as set out in the Sponsor Policy.

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