Newcastle Building Society Pension and Assurance Scheme - Responsible Investment Policy

The Trustees of the Newcastle Building Society Pension and Assurance Scheme ("the Scheme") are committed to being responsible investors. Responsible Investment ("RI") ensures the management of environmental, social and governance ("ESG") factors, including those of climate change, and the requirement for asset owners and investment managers to consider stewardship are incorporated into an investment strategy.

Introduction

The purpose of the RI policy is to set out:

- The underlying objectives of the RI policy, beliefs of the Trustees on behalf of the Scheme and what the Trustees expect to achieve from having this policy in place;

- The actions that the Trustees will take to achieve these objectives; and

- The means by which the actions will be assessed in order to judge whether the expected outcomes have or have not been achieved.

Defined below are a series of key words or phrases used throughout this policy:

- **Climate risk** is the potential impact on future financial returns that may arise from climate change. Climate risk is typically split between transition risk, i.e. the impacts that may arise from policy change and technological advancement, and physical risk, i.e. from changing weather patterns or the greater frequency/severity of extreme events.

- **Environmental, Social and Governance (ESG) factors**. Companies and assets may be exposed to different risk factors arising from ESG issues which could materially impact the returns derived from such assets. The effective identification and management of ESG factors is expected to reduce risk and improve financial outcomes.

    - **Environmental factors** include resource scarcity, waste management, pollution, carbon emissions and energy efficiency;

    - **Social factors** include health & safety, workforce diversity, working conditions and data protection;

    - **Governance factors** include board structure, business ethics, shareholder rights and executive compensation

- **Responsible Investment (or stewardship)** is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the environment and society.

- **Engagement** is the purposeful dialogue by investors with their investee companies with a specific objective in mind, typically in relation to the improvement of companies' business practices, often in relation to the management of ESG factors.

- **Net Zero** is a state of carbon neutrality where carbon (and other greenhouse gases 'GHG') emissions are balanced with their removal from the atmosphere, or by simply eliminating greenhouse gas emissions altogether.

Objectives

The Trustees of the Newcastle Building Society Pension and Assurance Scheme recognises that the Scheme is an investor with the primary goal to deliver sustainable pension benefits to its members and an affordable level of contributions for the employer.

The Trustees' overriding funding principle for the Scheme is to set the employer contribution at a level which is sufficient to:

- recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustees acknowledge that Environmental, Social and Governance considerations pose a financially material key risk as well as an opportunity to the Scheme having the potential to significantly affect investment outcomes. As such these beliefs provide a framework for the Trustees engagement with investment managers and for investment decision making. The Trustees consider RI to have two key components:

- **ESG Integration** – considering the financial impact of ESG factors in investment decision-making.
- **Effective Stewardship** – acting as responsible and active investors, through the pro-active engagement with portfolio companies.

As part of this ongoing governance of the Scheme, the Trustees undertook a beliefs workshop in October 2024, where they discussed and agreed their initial RI beliefs with respect to ESG and climate-related issues. These beliefs provide the framework for the Trustee's engagement with investment managers and for investment decision making. These beliefs will be reviewed on a periodic basis and at least on a triennial basis.

The Trustees' full Responsible Investment beliefs are set out in Appendix 2.

ESG Integration

The Trustees recognise that ESG factors can be integrated into all stages of the investment decision-making process and have the potential to affect investment outcomes.

The Trustees will consider the impact of ESG factors with respect to their impact on financial risk/returns to the Scheme when setting the Scheme's investment strategy and the structure of its investments.

The Scheme delegates many investment decisions to LGIM as the sole manager if the Schemes assets. They are expected to have clear policies on RI and integrate consideration of ESG factors into their investment decision-making.

The Trustees will incorporate RI considerations into its selection process for new investment managers. Potential managers' approach to RI and the extent to which they incorporate ESG issues into their investment processes will be a factor in the Trustee's decision making.

The Trustees receives regular reporting from its investment managers on RI matters and will monitor compliance with their stated RI policies. The Trustees will undertake regular training sessions that cover RI.

Stewardship

The Trustees consider that effective stewardship can enhance investment outcomes and is consistent with its fiduciary duty to members of the Scheme. It believes that positive change brought about by stewardship can benefit the Scheme directly in terms of the financial return on its investments and indirectly, by contributing to improving the performance of the economies in which it invests.

The execution of voting rights is delegated to the Scheme's investment manager, where rights exist. As such, the Scheme should rely on the voting policies of its investment manager, subject to those policies being acceptable, rather than setting its own policy.

The Trustees believe that monitoring investment managers and engaging with them is crucial to ensure that managers are accountable for their voting decisions as well as embedding RI factors into their investment decision making. Manager monitoring will therefore play a crucial part in the Trustees' stewardship approach.

The Trustees consider the Scheme's investment managers to be best placed to engage with portfolio company management. This is due to the Scheme being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with portfolio companies that are available to the Scheme's investment managers.

The Trustees believe that successful engagement is preferable to divestment but recognises that there are circumstances where divestment is appropriate. Divestment refers to the partial or complete sale of existing investments.

Examples of engagement activity are considered on an annual basis, and this includes a summary of the engagement outcomes that have been achieved.

Monitoring

The Scheme expects its investment managers to incorporate RI matters into their regular reporting. This will include information on voting and engagement, as well as any actions they are taken in assessing and managing ESG-related risks in relation to their mandates.

The Trustees meet with its manager on a regular basis to discuss many aspects of their mandates. Engagement activity, with relation to ESG factors, is often a topic discussed at these meetings.

The Trustees will continue to monitor the RI policies of its investment manager, and their implementation of these policies, to ensure alignment with the Scheme's RI policy. The Trustees have agreed to take remedial action if issues are identified.

This policy will be reviewed annually.

Appendix 1: Governance Structure

Scheme management – Key parties

Trustees

The Trustees incorporate RI considerations into its management of the Scheme's assets, identifying and managing ESG related risks and opportunities in all areas including asset allocation decisions, manager appointments and its monitoring of the Scheme's current investment managers. The Trustees rely on information provided by the Scheme's investment and actuarial advisers alongside the investment manager in making these assessments.

The Investment Adviser reports to the Trustees on its activities at regular Trustee meetings which will include actions taken in regard to RI.

The key aim with respect to RI is to identify and carry out all key tasks required to enable the Trustees to:

- Act in line with the beliefs and principles set out in the Trustees' agreed RI policy.
- Continue to progress towards becoming more active in all areas of RI.

Investment Advisers

The Scheme 's Investment Advisers, Hymans Robertson, are responsible for assisting the Trustees to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the Trustees regarding regulatory requirements and are expected to incorporate RI considerations into any advice regarding any strategy changes or manager appointment.

The Trustees has set objectives for its Investment Adviser which include objectives relating to the adviser's support in all RI considerations. The Investment Adviser is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate. The current Investment Adviser objectives are available as separate document and are updated on a regular basis.

Investment Managers

The Scheme 's investment managers are expected to integrate ESG considerations, to the extent possible, into their management of each of the Scheme 's mandates.

On the appointment of any new manager, the Trustees will assess each manager's RI capabilities, with assistance from their Investment Adviser, to determine if that manager's approach is aligned with the Scheme's RI Policy.

Once appointed, the Trustees will monitor all managers regularly, assessing each manager's RI processes and policy at the manager meetings and challenging managers on any issues identified. The Trustees also liaise with the investment managers in relation to RI matters, as required.

Any issues identified and the outcome of the Scheme's monitoring is discussed at regular meetings.

Appendix 2: Trustees Responsible Investment beliefs

The Scheme is a long-term investment vehicle which should be managed to generate sustainable investment returns over the long-term. This will be achieved by Responsible Investment (“RI”), which is the practice if integrating consideration of Environmental, Social and Governance, (“ESG”) factors, including climate change into the investment process (as further defined by the UN Principles for Responsible Investment).

The Scheme should be considered a broad a range of investments opportunities as possible, subject to these being compatible with its risk appetite and RI considerations.

The Trustees have considered their main values, principles and priorities as part of setting a number of investment beliefs. These beliefs underpin the Scheme ’s approach to Responsible Investment and are set out below:

Strategic and Structural considerations

Fiduciary duty - The Scheme’s responsible investment beliefs apply in the context of our legal and fiduciary duties.

Financial obligations - The Trustees should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

Risk associated with climate change - Climate change and the expected transition to a low carbon economy represents a long-term financial risk to the Scheme.

Implementation and Engagement (via LGIM)

Delegation - The underlying manager is better placed than the Trustees to consider ESG factors in investment decisions. The Scheme should rely on the voting policies of its investment managers, subject to those policies being acceptable, rather than setting its own voting policy.

Monitoring - The Trustees will monitor and actively challenge the investment manager to make sure they embed Responsible Investment factors into their decisions and investment processes. Investment managers which fail to embed the consideration of responsible investment factors into their investment process and decision making should have their place in the portfolio reassessed.

Commitment - Investment managers should demonstrate their commitment to responsible investment by being signatories to professional bodies for example Principles for Responsible Investment, UK Stewardship Code etc.

Engagement – The Scheme will pursue change through engagement rather than disinvestment, but the latter is an option to consider if meaningful improvements in responsible investment processes are not seen over time. Restrictions on ESG issues will also be considered within discussions with managers. The trustees should also seek additional information to evidence that the underlying managers approach to engagement is effective and adding value.

Scheme governance and reporting

Training - The Trustees should receive regular training on Responsible Investment issues to understand the nature and importance of these issues as they affect the Scheme.

Manager reporting - The Trustees should receive reporting from the managers on Responsible Investment matters, alongside financial performance, to allow it to fulfil its responsibilities in relation to understanding and monitoring. This will allow the Scheme to fulfil its responsibilities.

Stakeholder - It is appropriate for the Scheme to make itself accountable to key stakeholders by disclosing its activity on responsible investment.

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