James Donaldson & Sons Pension Plan ("the Plan") - Investment Accounting Disclosures for year ended 5 April 2021

Trustee's Policies

This section sets out the policies in the Statement of Investment Principles ('SIP') in force at the Plan year end relating to the following:

- Financially Material Considerations
- Non-Financial Matters
- Investment Management Arrangements

Stewardship including the exercise of voting rights and engagement activities is set out in the 'Voting and Engagement' section.

<u>Financially Material Considerations</u>

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Plan for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund manager and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Plan's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Plan with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations though the following means:

• Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Plan and its investments;

• Use ESG ratings information provided by its investment consultant, to assess how the Plan's investment managers take account of ESG issues; and

• Request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment

Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Non-Financially Considerations

The Trustee has not considered non-financial matters in the selection, retention and realisation of investments.

Investment Manager Arrangements

Incentives to align investment managers investment strategy and decisions with the trustees' policies
The Plan invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Plan.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.
If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustee reviews the performance of each fund quarterly from a performance report they receive from the fund manager. As long as funds track the performance of the benchmark within an *acceptable range until buy-out, the Scheme intends to retain the manager. The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.*

<u>How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range</u>

The Trustee does not monitor turnover costs directly. However, the investment manager is incentivised to minimise costs as they are measured on a net of cost basis.

<u>The duration of the arrangement with the asset manager</u>
The Trustee plans to hold each of its investments for the period until the buy out contract is finalised. This is expected to be completed in the short/medium term.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

Voting and Engagement

The Trustee is required to disclose the voting and engagement activity over the Plan year. The Trustee requested this information from its investment managers. BlackRock and Aviva confirmed that there is no information to report given the nature of the assets. Royal London have not confirmed if there was any voting or engagement activity.

<u>Voting and Engagement Policy and Funds</u>

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

The following table details the assets which the Plan invested in over the Plan year.

Asset Class	Fund Manager	Investment Period 6/4/20 - 5/4/21	Proxy advisor	Voting Activity/ Significant Votes	Engagement Activity
Cash	BlackRock	Whole Period	N/A	N/A	None reported
Gilts and Index Linked Gilts	BlackRock	Whole Period	N/A	N/A	None reported
Additional voluntary contributions (AVC)	Royal London	Whole Period	TBC	TBC	TBC
Buy-in/insurance policies	Aviva	Whole Period	N/A	N/A	None reported

Conclusion

The BlackRock funds invest into gilts, index linked gilts and cash like instruments therefore there is no voting activity to report. BlackRock also confirmed there was no engagement activity on the funds, which the Trustee believes is reasonable given the asset classes.

Aviva confirmed that there was no reportable voting and engagement activity over the Plan year. Royal London has not confirmed if there is any reportable voting and engagement activity over the Plan year.