

## **ZF UK Pension Plan**

### **Environmental Social and Governance Policy and Beliefs Statement**

#### **1. Introduction**

This Environmental, Social and Governance (“ESG”) Policy and Beliefs Statement (“the Policy”) has been prepared by the Trustee of the ZF UK Pension Plan. The purpose of the Policy is to sit alongside the Plan’s Statement of Investment Principles (“SIP”), formalising the Trustee’s ESG beliefs and its policy on how ESG factors should be integrated in investment decision-making. The Policy will be made available to members upon request.

The Trustee defines Responsible Investment (“RI”) in line with the UN-backed Principles for Responsible Investing (“PRI”), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

The Trustee works alongside Isio, as its investment consultant, to implement the principles outlined in this policy.

#### **2. Rationale for the Policy**

The Plan is a large institutional investor, investing on behalf of its members. As part of the Trustee’s fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. The Trustee recognises that there is a need for the Plan to be a long-term, responsible investor in order to achieve sustainable returns. The Trustee believes that it should be a responsible steward of the Plan’s assets and consider the wider impacts of its investment decisions on the environment and society.

#### **3. Impact of the Policy on investment decision making**

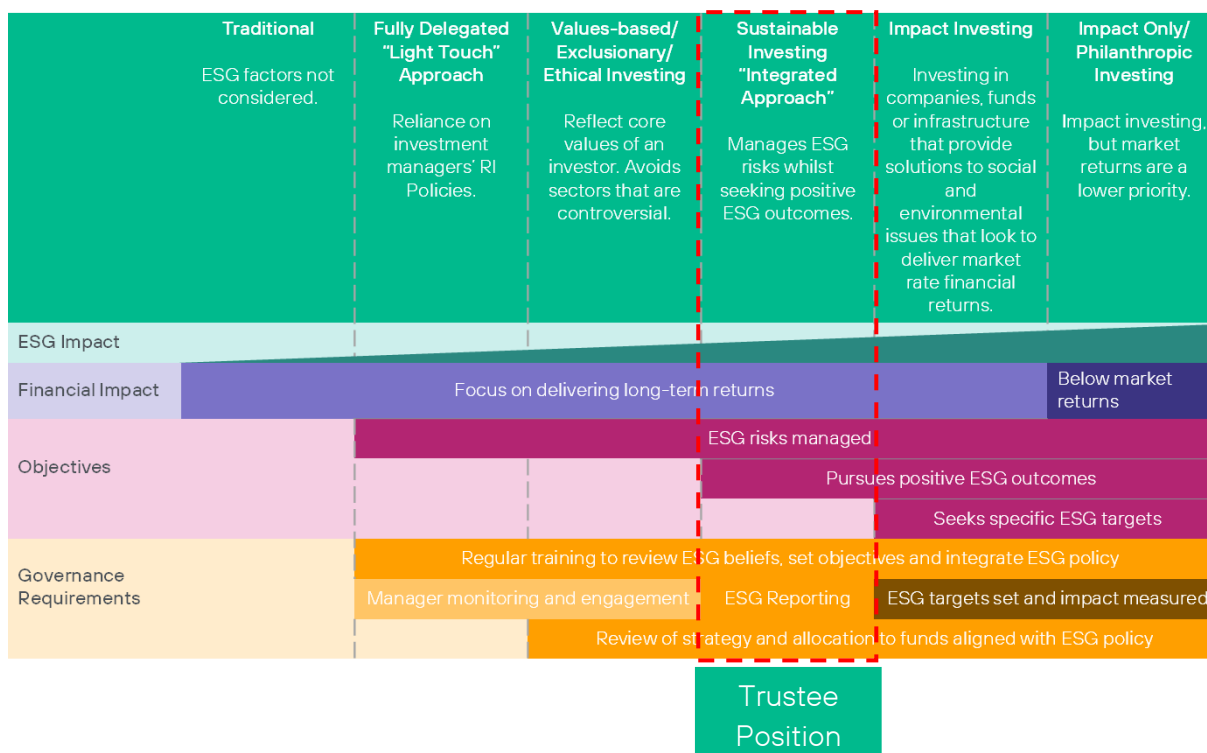
The Trustee decides the Plan’s investment strategy and asset allocation. This includes in which asset classes the Plan should be invested in e.g. equity and credit. In making any portfolio construction decisions, the Trustee will have regard for the Policy.

Within each asset class, the Trustee delegates the day-to-day investment decision making to the investment managers – e.g. holding a bond issued by a particular company or exposure to a particular sector. In appointing and reviewing the Plan’s investment managers, the Trustee considers the manager’s expertise, track record and stated policies and frameworks on ESG related issues. Going forward, as part of the initial and ongoing due diligence of the Plan’s investment managers, the Trustee will assess and monitor their considerations of ESG factors and how these are incorporated into their investment decision making.

In addition, the Trustee will consider opportunities that may arise from regulation on ESG factors or market dislocations. It will receive training periodically to update them on these trends and opportunities.

#### **4. ESG Approach**

As per the spectrum of ESG approaches chart presented below, the Trustee wishes to pursue a “sustainable” investment approach that integrates ESG risk analysis into investment decision-making.



## 5. The Trustee's ESG beliefs

The Trustee has formulated a set of ESG beliefs to help underpin overall investment decision making. The Trustee's ESG beliefs have been summarised below.

- i. Climate change and the expected transition to a low carbon economy is a financial risk to the Plan. The Trustee should consider climate risk factors in its investment decisions along with other risks.
- ii. The Trustee should set the policies for Responsible Investment and climate risks, and delegate management to investment managers who will act in line with the Plan's policies where practical. It is necessary to know investment managers' policies and performance to do this properly.
- iii. The Trustee believes that engaging with managers is more effective to initiate change than disinvesting and so will seek to communicate key ESG actions to the managers in the first instance. The Trustee prefers engagement to achieve this but would consider disinvestment, whilst also considering a range of other factors, if this is not effective.
- iv. ESG factors can be financially material, and it is important to consider them for risk management. Managing these risks forms part of the fiduciary duty of the Trustee and can lead to better risk adjusted outcomes.
- v. The Trustee will seek to monitor key ESG metrics within the Plan's investment portfolio to understand the impact of its investments. The Trustee will consider its own and the Sponsor's ESG priority areas when setting targets for the managers.

## 6. Implementing the Policy

The Trustee will implement the policy through the following steps:

- i. The Trustee will continue to develop its understanding of ESG factors through regular training on ESG and keep itself up to date on the latest sustainable investment opportunities.
- ii. The Trustee's ESG beliefs will be reviewed regularly.
- iii. The Trustee will consider ESG factors when selecting new investment managers.
- iv. The Trustee will undertake regular reviews of the investment managers' approach to integrating ESG factors.
- v. After the review, the Trustee will feedback the proposed actions to the managers, and then periodically receive updates on the managers' progress.
- vi. The investment managers' stewardship and engagement activities will be monitored on an ongoing basis via the Plan's implementation statement.
- vii. The Trustee has agreed climate change as its stewardship priority, and this will be clearly shared with the investment managers with the aim of influencing their stewardship activity.

## **7. Monitoring and reviewing the Policy**

The Trustee will monitor the Plan's assets against this Policy on an ongoing basis. The Trustee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time.

**Signed:** Mike Smaje  
Trustee of the ZF UK Pension Plan

**Name:** Mike Smaje

**Date:** 23 April 2024