Cadent Gas Pension Scheme

Implementation Statement – Year ending 31 March 2023

1. Introduction

This Implementation Statement has been prepared by the Trustee of the Cadent Gas Pension Scheme (the “Scheme”) in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and regulations issued by the Department for Work and Pensions (DWP) in 2022. This Statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Scheme’s Statement of Investment Principles (“SIP”) over the 12 months to 31 March 2023. The Scheme did not have any holdings in public equities over the period, and all of the investment managers have confirmed that no voting was undertaken on any of the Scheme’s investments.

Details of how and the extent to which, in the opinion of the Trustee, these policies have been followed during the year are set out in sections 4 and 5 below.

2. Statement of Investment Principles and Investment Objectives

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme’s investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the Scheme and the Trustee’s approach to responsible investing (including climate change).

The Scheme’s SIP (which can be found on the Scheme website/here) was last reviewed in March 2023. During the year, the SIP was updated to incorporate the DWP regulations on the Trustee’s policy on exercising voting rights and engagement on relevant matters[1]. In the opinion of the Trustee, the SIP has been followed appropriately during the year.

The Trustee’s decision about investment risk depends on the Scheme’s funding level and the financial position and willingness of Cadent Gas Limited as the principal employer (the “Company”) to support the Scheme.

Following the year end, the Trustee concluded the Scheme’s triennial valuation as at 31 March 2022. The valuation showed the Scheme’s funding level on the technical provisions basis had improved since the last full valuation in 2019 (of the National Grid UK Pension Scheme - Section C).

In addition, the Trustee monitors the Scheme’s funding position on a quarterly basis and measures progress against the Long-Term Funding Objective[2]. As at 31 March 2023, the Trustee was comfortable that the Scheme was on target to meet its Long-Term Funding Objective based on expected projections of the future funding levels.

[1] The Regulations define “relevant matters” as matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance

2 The Long-Term Funding Objective is to target full funding on a low dependency basis (Gilts plus 0.1% p.a.). This objective was reviewed after the year end

The Trustee monitors the strength of the Company's covenant quarterly. During the year, the Trustee undertook a formal review of the covenant which included an overview of the impact of climate change and considerations around the strength of the covenant, to provide a covenant rating for the triennial actuarial valuation at 31 March 2022 and over the medium term. The Trustee took advice from its covenant, legal and actuarial advisers in agreeing the principles of the security arrangements, which were finalised after the year end.

The Trustee reviewed the investment strategy following the triennial valuation as at 31 March 2022 and considered ways to make the portfolio more resilient following the movements in the gilt market over 2022. This included making changes to the level of collateral held to support the Liability Driven Investments portfolio, the level and composition of assets within the credit portfolio, and considerations on how to improve overall liquidity in the portfolio. These changes are due to be implemented and no changes were made over the year.

3. Policy on Environmental, Social and Governance, Stewardship and Climate Change

The Trustee believes that Environmental, Social and Governance ("ESG") factors are important for risk management and can be financially material. The Trustee recognises that there is a need for the Scheme to be a long-term responsible investor to achieve sustainable returns and, to support the Government's climate change ambitions, have an aspiration to target net zero (scopes 1,2 and 3) by 2050.

The SIP, Investment Beliefs and ESG Policy include the Trustee's policy on ESG factors, stewardship, and climate change. All three documents are reviewed annually or sooner if there is a reason to do so.

ESG integration and stewardship are delegated to the investment managers, but the Trustee is responsible for ensuring the managers have the requisite skills and resources to do this and monitor outcomes. The Scheme's investment consultant assists the Trustee in undertaking this oversight. Also, as part of its ESG Policy, the Trustee has established a governance structure setting out its process when considering ESG issues, including climate-related risks.

The Trustee ensures that ESG issues are considered as part of regular discussions at meetings, both as explicit agenda items and also considering the impact of ESG risks on other discussion items.

The Scheme has published its Task Force on Climate Related Financial Disclosures ("TCFD") report which is available on the Scheme website/here. The 2022/23 report includes information on scope 3 emissions (where this is available).

4. Implementation of Engagement and Stewardship Policy

This section sets out the extent to which the Trustee has followed its policies on engagement, covering engagement actions with its investment managers and, in turn, the engagement activity of the investment managers with the companies they invest in.

Incumbent investment managers

The Trustee's investment managers provide regular reports, including details on the underlying investments' performance and how the managers have engaged with companies on matters including ESG issues. The Trustee scrutinises the extent to which the investment managers assess, monitor, and reflect ESG issues in making their investment decisions as part of their review of these reports.

The Trustee has a rolling schedule of manager review meetings at which the investment manager presents to the Trustee, including how ESG, stewardship and climate change considerations are incorporated into their investment process. During the year, the Trustee met with LGIM, focussing on the Liability Driven Investment (LDI) portfolio, as the largest mandate in the Scheme.

The investment consultant engages with the investment managers on relevant matters, on the Trustee's behalf. On an annual basis, the Scheme's investment consultant provides an assessment of how the investment managers incorporate ESG within their processes, and how this compares against the Trustee's ESG beliefs. Any actions to improve ESG integration are taken to the investment managers by the investment consultant.

The Trustee also receives quarterly monitoring reports from its investment consultant, who maintains a regular dialogue with the investment managers and monitors their stewardship and engagement activities as part of their ongoing assessment. The investment consultant also engages with the investment managers on matters that have impacted/may impact on the investment performance of the mandate, on behalf of the Trustee.

To improve ESG (climate change) integration, the Trustee agreed to reduce carbon emissions in the liquid credit portfolios and target a reduction in carbon footprint (scopes 1 and 2) vs 2021 of 38% by 2030. The risk dashboard in the quarterly monitoring report keeps track of the carbon intensity measure in the liquid credit portfolios. The emissions reduction target has been communicated to the investment managers, and the investment management agreements with the Buy & Maintain Credit managers are being updated to reflect the target and some other broader measures to improve ESG and climate integration.

During the year, the Trustee considered whether to sign up with a professional body/collaborative investor initiatives. Although no commitments were made, the Trustee agreed to review further once it had set its stewardship priorities.

Manager selection exercises

In appointing new investment managers, the Trustee considers the investment manager's expertise, investment track record and stated policies and frameworks on ESG related issues, with the assistance of the investment consultant. During the year, the Trustee did not undertake any investment manager/fund selection exercises.

Underlying investments

All decisions about the day-to-day management of the assets have been delegated to the investment managers via written agreements, including the day-to-day investment decision-making, climate change considerations, undertaking engagement activities with investee companies and other stewardship obligations attributed to the investments, in accordance with their corporate governance policies and best practice. The investment managers are expected to report at least annually on ESG considerations.

The Trustee requested details from its investment managers on how ESG factors are integrated into their investment processes and how they engage with the underlying companies. There have been no significant changes to the investment managers' policies since last year. All of the Scheme's investment managers are signatories to the UN PRI (United Nation Principles for Responsible Investment) and/or FRC's (Financial Reporting Council) Stewardship Code. Many of the investment managers are also members of other industry bodies, including the Net Zero Asset Managers Initiative[3] and Climate Action 100+[4]. The investment managers provided information on their engagement policies, including how ESG factors are integrated into their policies and a summary of their engagements with underlying investee companies. The table in Appendix A summarises comments provided by the Scheme's managers on their engagement activities during the period.

5. Voting Activity

The Trustee's policy is to delegate the exercise of rights (including voting rights) to its investment managers. Where relevant, the Trustee expects its investment managers to exercise voting rights and stewardship obligations attached to the investments in accordance with their corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Scheme did not have any holdings in public equities over the period, and all of the investment managers have confirmed that no voting was undertaken on any of the Scheme's investments.

The Implementation Statement was adopted by Cadent Gas Pension Trustee Limited as trustee of the Cadent Gas Pension Scheme with effect from:

Date: 11 October 2023

[3] Asset manager alliance committed to aligning the financial sector and supporting the goals of the Paris Agreement.

[4] Organisation to help ensure the world's largest greenhouse gas emitters take necessary action on climate change.

Appendix A: Summary of investment managers' engagement activities

Manager	ESG policy changes/process on engagement	Engagement activity	Examples of engagement
AXA	AXA have increased the number of professionals within the Responsible Investing team and have split their engagement activities into two categories: 1. Engagement with objectives – active engagement seeking to undertake change at the investee companies 2. Sustainability dialogue – regular discussions with the investee companies around their sustainability practices. AXA is currently working to integrate the Trustee's climate-related objectives into the Buy & Maintain credit mandate.	In 2023, AXA will aim to: • Increase the number of engagements to improve the chances of seeing engagement succeed. • Improve oversight of the engagement process to increase the chances of achieving the desired change within the company • Pursue public policy efforts, on sustainable finance aspects, but also real economy issues, and acting with industry groups to do that, such as the Institutional Investors Group on Climate Change. Over the period. AXA undertook 55 engagements. The breakdown was: Environmental: 35 Social: 10 Governance: 10	AXA contacted the Home Depot as part of a broad engagement programme, where they sent an email explaining that they expect the company to implement two shareholder resolutions adopted at the AGM: Production of a racial equity report and a report on Efforts to Eliminate Deforestation in Supply Chain. The company responded to AXA's request by mentioning a Press Release published on September 15th 2022 announcing that they would prepare racial equity and deforestation assessments. Both of these assessments will be conducted by expert third party firms and will expand on the information previously shared in their latest ESG report. It is early days on this work, but they look forward to sharing more on both of these assessments as they progress. The Home Depot's plan is to provide the results of these assessments by the end of 2023.

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Aviva	No change in policy. Aviva note that once the origination process is complete there is little opportunity or ability to engage with the issuers. At the origination process, ESG factors are part of the due diligence process.	Four sustainability linked loans are held in the portfolio, with KPIs agreed as part of the engagement process before the loan completes. KPI assessments are carried out annually.	CEG, one of the sustainability loans, has the following commitments: 1. Maintain zero exposure to landfill across all operational buildings 2. Decrease in Scope 1 and Scope 2 emissions of the financed portfolio in line with the Science Based Targets initiative (SBTi) methodology 3. Obtain BREEAM[5] In Use (Excellent) certificate for the Development Property.
Barings	Barings have made a number of enhancements to their process including the development of their technology and research platforms to further embed ESG and stewardship information within traditional fundamental analysis. Barings will look to offer ESG ratchets (pricing incentives based on companies' disclosure of ESG information and	Dialogue with private companies typically involves regular discussion with both the portfolio company and the private equity sponsor on identifying and steering improvements to ESG performance. In 2022 89% of new deals within the Global Private Finance team were offered ESG ratchets, of which over 90% were agreed.	Barings agreed a financing agreement with a borrower, in which the borrower and private equity sponsor had six months from the closing date to engage a third-party ESG consultant and establish a baseline position for the company off which to set sustainability performance targets which would activate financial incentives under the loan agreement if achieved. The external ESG consultant's report highlighted six relevant ESG themes for the borrower and proposed five KPIs on which to base the sustainability performance targets. Barings rejected one of the KPIs on the basis that the corresponding target was not sufficiently ambitious. The borrower agreed to having only four KPIs . Barings also

[5] BREEAM – building research establishment environmental assessment method - is a science-based suite of validation and certification system for sustainable build environment

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	setting or reaching emission reduction targets) to the underlying issuers.		pushed back on how one of the sustainability performance targets was defined. The borrower agreed to the changes suggested by Barings and the loan is now an active sustainability-linked loan.
BlackRock	BlackRock are developing a methodology for measuring and tracking company engagement on a consistent basis. One of the changes they have made to their process over the year was an increased focus on their ESG margin ratchet programme. This is currently focussed on European direct lending, but is also being rolled out in the US.	Within BlackRock's DPD European Direct Lending Investments 26 companies (out of 29 in the portfolio) were sent ESG questionnaires and 25 companies have ESG ratchets	The due diligence process for an investment made in 2021 showed that the company wished to explore ESG ratchets and had an intention to transition to net zero. BlackRock's Investment team made an introduction to a 3rd party provider of carbon data assessments and helped manage the relationship with the ESG lead at the company. BlackRock's investment team engagement also drove the company's registration with the 3rd party provider and within three months, first carbon emissions report covering scope 1, 2 and 3 data was produced, along with gap analysis showing where further emissions reductions could be made. In the last 12 months, BlackRock engaged via meetings three times with the company.
DTZ	DTZ's engagement focus this year has been on understanding and improving the occupiers' energy (and water) consumption.	All properties are inspected annually, and the data is used to engage with tenants on reducing carbon emissions and energy and water usage. All occupiers (except residential) are sent a tenant satisfaction survey to help take any corrective	The April 2023 MEES (minimum energy efficiency standards) deadline meant that DTZ had to carry out 35 EPC (energy performance certificate) surveys in order to ensure compliance. This meant DTZ had to engage with tenants to not only access their properties and understand performance but also to review how DTZ might be able to improve the energy performance of the asset.

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		action needed. The residential asset has a dedicated management team to lead on tenant engagement and build a sense of community.	
Insight	ESG data within asset-backed markets is at a less developed stage than other asset classes. ESG factors are considered in the decision-making process, although they are not a primary factor for investing. If issues are identified, the team will engage with the issuer to understand how the risks are being mitigated.	Engagement with the issuers is driven by a specific issue relevant to an industry or sector on relevant and material issues, with all engagement and stewardship activity categorised by theme. Insight are working on a more comprehensive reporting package as data availability and coverage improves.	Insight engaged with a borrower (Iwoca) to better understand their lending practices and servicing governance. Insight wanted to ensure Iwoca were not abusing the UK government guarantee or engaging in abusive loan pricing. During the engagement Insight understood that the lending facility will limit lending to higher credit scores and that upfront fees will be capped at a level lower than Iwoca's usual upfront fees. The proper use of the guarantee will be monitored through independent audits. Pricing of these loans was a key focus of the discussions, and Iwoca have reduced the interest rate charge to recognise the benefit of the UK government guarantee, to the benefit of small/mid-cap borrowers. This has led to an overall pricing cap at 15%, while historically Iwoca has lent at rates ranging from 12.0% to 29.0% on the same product. This engagement is ongoing.
LGIM	LGIM have expanded their Climate Impact Pledge	LGIM undertook a total 168engagements with the	Prior to 2023, Tesco (held in the Buy & Maintain and Short Maturity Credit portfolios), was the only

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	engagement programme from 14 sectors to 20 which is used to shape relevant engagement with the underlying issuers. LGIM is currently working to integrate the Trustee's climate-related objectives into the Buy & Maintain credit mandate.	underlying issuers, broken down as follows: Environmental – 61 Governance – 50 Social – 47 Other – 10	listed food retailer to not be paying the real living wage – LGIM engaged with them on multiple occasions on this topic. In April 2022, Tesco raised the rates to £10.10 and £10.78 for inner London based employees, but outer-London-based employees remained below the real living wage. As part of its firm wide ESG activity, LGIM had planned to file a shareholder resolution to ask Tesco to raise the rates for their London based employees (inner/outer) to the real living wage. However, in October 2022,Tesco made a further announcement of a 20p per hour wage increase to employees. In February 2023, Tesco announced they would be paying the real living wages for all employees. LGIM will continue to engage with Tesco and their peers on the living wage as the cost-of-living crisis and the economic backdrop continue to evolve.
Octopus	Octopus is an active investor in either real infrastructure assets or directly into privately held investee companies related to developing or managing renewable energy or energy transition technologies. In many	Octopus engage with all the investee companies on all areas of ESG annually. The key themes of engagement this past year have been biodiversity, human rights, climate change risk and carbon footprint. This has extended to	Octopus have partnered with a climate risk assessment data provider (Climate Scale) to some of the fund's developer/platform companies to inform their own climate risk processes.

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	cases, Octopus has direct control of the assets under management through 100% ownership enabling full control and decision making for those investments. Regardless of ownership percentage, Octopus's aim is to fully engage in all of the investments they make in renewable energy and energy transition technologies.	the external asset managers Octopus work with to manage the assets.	