Santander (UK) Group Pension Scheme

RESPONSIBLE INVESTMENT POLICY

Approved by the Santander (UK) Group Pension Scheme Board: September 2023

The Responsible Investment Policy complements the policies and frameworks of both the Santander (UK) Group Pension Scheme ('SUKGPS') and the Santander (UK) Common Investment Fund ('CIF') which underpin the risk management and governance of investment decisions in order to best protect the value of the assets and generate capital growth in the long term.

The trustee of the SUKGPS, Santander (UK) Group Pension Scheme Trustees Limited (the 'Trustee') is responsible for the implementation and oversight of this policy. The Trustee is supported by the Central Pensions Unit (CPU) and several subcommittees, including a Sustainability Committee focusing exclusively on ESG and sustainability matters.

The Responsible Investment Policy focuses on specific risks and opportunities which may have a material financial impact on the performance of the investments, which should be taken into consideration when making investment decisions over the time horizon for the funding of future benefits of the SUKGPS.

The primary duty of the Trustee is to act in the best interests of the beneficiaries of the Scheme and meet certain objectives as detailed in its Statement of Investment Principles ('SIP'). In order to meet these objectives an appropriate assessment of factors such as sustainable growth, environmental and climate change impacts, as well as other social and governance considerations, will need to be undertaken.

The Trustee has worked with its advisors to develop detailed beliefs regarding various investment matters, which include responsible investment and climate change. In summary, the Trustee believes appropriate assessment of responsible investment practices and climate change will result in better outcomes for the underlying companies and ultimately enhance their performance.

This can be achieved by investors using their rights as shareholders to influence sustainable corporate strategies, performance, risk management, capital structure, tax transparency and corporate governance, including culture, diversity and remuneration, potential conflicts of interest and social and environmental impact (including climate change). Whilst there are more opportunities for influence and engagement related to equity holdings, engagement is also possible through instruments such as real estate and corporate bonds.

This Responsible Investment Policy also aims to expand on the responsibilities associated with holding investments in the members' and beneficiaries' best interests through the full suite of stewardship activities including:

- Consideration of environmental, social and governance factors, with special focus on climate risks, modern slavery and human trafficking and board diversity
- Monitoring investments and investment managers
- Engagement with investment managers
- Voting and sponsoring or co-sponsoring shareholders' resolutions
- Managing non-alignment between an investment manager and the Trustee's investment beliefs.

In this Policy, reference to "investment manager(s)" includes both discretionary investment managers for segregated portfolios and investment managers of pooled funds.

Environmental, Social and Governance (ESG) Factors

The SUKGPS believes that a full range of factors, within the ESG spectrum, should be considered when deciding whether to invest, maintain an investment, disinvest or engage as appropriate due to the material impact of these factors to long term investment performance.

Examples of ESG factors are:

Environmental	Social	Governance
Climate change Deforestation Greenhouse gas emissions Pollution Resource efficiency	Community relations Human rights Labour standards Modern slavery & human trafficking	Bribery & corruption Cyber risks Executive remuneration Inclusion & diversity Tax transparency

It is possible there may be both risks and opportunities relating to any of these factors.

The Trustee has primary responsibility for consideration of ESG factors through its investment advisors and investment managers in consonance with the relevant asset class and investment mandate.

The Trustee has specifically set out ESG factors, including climate-related factors, within its risk register and key risk indicators to allow for the effective identification, assessment, management and reporting of such issues. The document is reviewed, updated and circulated to the Trustee regularly.

The Trustee has selected some ESG priorities to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee reviews the themes regularly and updates them if appropriate.

Climate Factors

Climate change has been identified as a material concern amongst ESG factors and the Trustee has appointed a sustainability consultant to advise on climate related issues. The Trustee believes that appropriate treatment of climate related risks and opportunities is likely to improve outcomes for members through enhanced long-term returns and mitigation of risks.

Climate-related factors fall into two main categories:

- Transition factors: i.e., the factors that arise as we transition to an economic system with much lower greenhouse gas emissions. Changes in government policy, regulation, consumer preferences and technology will take place and could impact current and future investment returns.

- Physical factors: i.e., factors arising from the physical impacts that will occur as the global average temperature rises. For example, the rise in sea levels could have impacts such as flooding and mass migration. These events could threaten physical assets and disrupt supply chains.

With the help of its advisors, the Trustee collects and reports on climate related data on a regular basis. This includes the production of sustainability and climate dashboards for the CIF's listed equity and corporate bond portfolios, which help to identify key areas of focus when engaging with the investment managers.

The Trustee also undertakes climate scenario modelling at a full portfolio level, to provide further insights and identify key climate risks and opportunities across the SUKGPS' investments over short, medium and long-term time periods, helping to provide a view of the resilience of our assets and investment strategy in various climate scenarios. Our TCFD report provides further information on the results of the climate scenario modelling.

Also within the TCFD report are the metrics selected to measure the scheme's progress towards reducing its climate risk exposure. These metrics will be reviewed periodically to ensure they remain appropriate.

In 2022, the Trustee set a Net-Zero target, aiming to achieve Net Zero greenhouse gas emissions by 2050 or sooner across its portfolio, with an interim target of having 60% of its corporate bond portfolio aligned with Net Zero (defined as the issuer having a science-based emissions reduction target) by 2030.

During 2023, the Trustee has agreed two additional targets for the corporate bond portfolio in relation to:

- **reduction of scope 1+2 emissions intensity by 2030**
- **percentage of scope 1+2 emissions that relate to issuers which are Net Zero, Net-Zero aligned or the subject of engagement by the manager.**

Further details on roles and responsibilities for identifying, assessing and managing climate-related risks and opportunities are included within our Climate Governance Policy. The risks identified and mitigating actions agreed are summarised in the Trustee's risk register and Key Risk Indicator documents.

Modern Slavery and Human Trafficking

The SUKGPS supports the objectives of the Modern Slavery Act (2015) to eradicate modern slavery and human trafficking and it believes that investments should not support criminal activity and human suffering.

The Trustee will review its managers, advisors and other suppliers' modern slavery statements, in which companies, which are subject to the legal requirement, set out the steps they have taken in order to help prevent slavery and human trafficking in their supply chain.

For those managers, advisors or suppliers which do not publish a statement, either because they are not obliged to, or because they elect to state that they do not take any steps to help prevent slavery and human trafficking in their supply chain, further analysis will be done to understand the risk of slavery and human trafficking in their supply chain. This includes focusing on their jurisdiction of operations and industry sector and/or, when applicable, the jurisdiction and industry sectors of the investments they manage, in order to assess if the level of risk of there being incidences of modern slavery or human trafficking is high, medium or low.

Should the risk be medium or high, a thorough review of their ESG Policies will be undertaken to assess steps taken by such manager, advisor or provider to avoid supporting modern slavery or investing in companies which carry a significant modern slavery risk.

A report on the findings will be presented to the SUKGPS board on an annual basis. If there are areas of significant risk, there will be a consideration to terminate engagements with the relevant advisor, manager or supplier. The Trustee monitors its managers' voting and engagement approach in relation to modern slavery.

Board Diversity

Diversity on company boards, by both gender and ethnicity, has been selected by the Trustee as an area of focus, as it believes there is a correlation between diversity and the performance of a company.

Data on board diversity is readily available, particularly relating to gender, and the Trustee regularly engages with the investment managers on the subject. Whilst an explicit target has not been set by the Trustee, we are initially focusing on engagement where there is less than 30% female representation on the company board.

Monitoring investment managers' ESG capabilities

Investment managers are assessed on their ESG capabilities through an initial assessment and ongoing monitoring.

- Initial assessment: the operational due diligence of new investment managers includes a review of the integration of ESG policies in their investment processes and objectives.

- Ongoing monitoring: investment managers are monitored regularly and their review will include ESG considerations, information regarding changes to their ESG policies and impacts of ESG considerations on their decision making and results.

Investment manager assessments and reports are presented at least every six months to the Trustee as part of its investment advisors' ongoing monitoring of investment managers.

The assessments are based on the Trustee's ESG framework, which sets out minimum standards for assessment, reporting and how the investment managers are rated. The table below summarises key features of the policy, depending on the high or low relevance of ESG to the investment strategy of the investment manager.

ESG Relevance to investment strategy	Ratings* for each of	Total rating	Monitoring and engagement
High- The investment strategy requires thorough consideration of ESG Risks considerations	• Policies • Process embedding, including through investment philosophy, processes, integrated research • Understanding of ESG Risks • Portfolio exposure analysis • Stewardship activities and effectiveness • Reporting capabilities on ESG Risks analysis and monitoring of those risks, their impact on portfolios and evolution **weighting of each factor will differ depending on the ESG relevance of the investment strategy*	Strong Good Standard Weak	Six monthly review Progress report for low rated managers Momentum (=, ↑, ↓)
Low- The investment strategy will not be significantly impacted by ESG Risks considerations (e.g. LDI)		Strong Good Standard Weak	Yearly review Progress report for low rated managers Momentum (=, ↑, ↓)

Engagement with investment managers

The SUKGPS expects its rights as an investor and any engagements relating to relevant matters to be exercised by its investment managers who are better positioned to drive engagement initiatives, directly interacting with the companies in their portfolios and exercising voting rights, as well as engaging with regulators and policymakers on relevant topics, particularly in relation to systemic and market-wide risks as appropriate, and acting alongside other investors, investment managers and stakeholders where appropriate. To ensure our investment managers actively and positively engage with companies in alignment with the Trustee's beliefs on responsible ownership, we normally expect our investment managers to adhere to the UK Stewardship Code published by the Financial Reporting Council and generally to report on their engagement and stewardship policies and activities as part of their ongoing monitoring. Where investment managers do not adhere to the Stewardship Code we would expect them to closely align to the spirit of the Code (when appropriate).

The Trustee writes to its key investment managers from time to time to ensure they are aware of the Trustee's stewardship priorities and expectations.

Manager stewardship monitoring

Investment managers are required to report on their stewardship policies, proxy voting and engagement initiatives as part of their initial assessment and on-going monitoring.

The Sustainability Committee receives information each quarter to enable it to monitor its key managers' stewardship practices and check how effective it is being. This includes a selection of engagement examples relating to the stewardship priorities over the course of the Scheme year, and annually, a summary of the key managers' voting and engagement policies in relation to the stewardship priorities, and summary statistics for their engagement over the previous year where available.

The Committee also uses the sustainability and climate dashboards to focus its engagement efforts. Details of engagement activities are maintained by the Trustee.

If the Committee's monitoring identifies any areas of concern, the Trustee will seek to work with the manager collaboratively to resolve them.

Escalation

In certain circumstances, there may be a requirement to formally engage with an investment manager to address concerns relating to their sustainability or engagement practices, holdings data or risk events. Upon identification and confirmation of an issue:

- The CPU will communicate with the Sustainability Committee the issue identified, the objectives for the engagement with the manager and potential target dates for remedial actions.
- The CPU (on behalf of the Committee) will contact the manager to raise the concern and set out the expectations in relation to the issue. The manager may be invited to a meeting to discuss the concern.
- The CPU will agree an improvement/remedial plan with the manager with target dates for achieving engagement objectives.
- The Committee will review periodic progress reports as the plan is implemented. This may include further manager engagement.
- As appropriate, CPU may seek to escalate the concern with a more senior individual at the manager and invite committee members to join meetings.
- If the concerns are not addressed, the Trustee may consider prioritising the mandate on the disinvestment waterfall, reducing the allocation to the mandate, not renewing the mandate beyond current arrangements or terminating the mandate.

From time to time, particularly in relation to directly held investments or those investments in which the CIF is a majority or relevant investor, the Trustee will actively use its rights to ensure that investee companies take into account ESG Risks, where relevant to the company.

Voting and sponsoring or co-sponsoring shareholders' resolutions

Voting rights are delegated to the respective investment managers, who are overseen by the investment consultant. Votes are expected to be cast in line with the Trustee's investment beliefs.

The Trustee receives details of votes cast and engages with the investment consultant, accordingly, focusing on particular areas of interest or concern. Details of votes cast are considered by the Sustainability adviser and contained within our Implementation Statement.

Managing non-alignment

The Trustee aims to build long term value and capital growth through medium to long term relationships with its investment managers. At the core of this approach is effective engagement which occurs throughout the investment lifecycle. Through this engagement the Trustee will work with the investment managers to be responsible asset owners and act consistently with its investment beliefs.

In a scenario where the alignment between the Trustee and the investment manager has deteriorated, the first step will be to understand the reasons for this dislocation and whether this can be rectified.

In circumstances where the Trustee is no longer satisfied with the investment managers' alignment, a decision could be made to terminate the arrangement or to disinvest from the fund, where it is possible to do so. In cases where disinvestment is not possible, the Trustee may decide not to renew contracts beyond current arrangements.

Social Impact and Ethical Investments

The SUKGPS believes that all investments need to be considered within the wider economy, society and environmental surroundings as they both impact and are impacted by those.

The SUKGPS may, from time to time, take into consideration other factors beyond those which are financially material in assessing investments and, where consistent with its investment objectives and fiduciary duties, it may favour investments where companies report and measure their wider impact on society.

This is different from ethical investments, where decisions are taken based on an ethical or reputational view regarding the particular industry, jurisdiction or other considerations, most times through screening and discarding investments in certain sectors (e.g. weapons, coal, alcohol, tobacco).

Whilst we do not specifically seek to invest in 'impact', 'ethical' or 'green' mandates, we will consider such mandates should they meet our risk appetite and return profiles.

The Trustee may request investment managers of segregated portfolios do not hold certain stocks or exclude specific industries. This decision will be based on the Trustee's investment beliefs, which are documented and form part of the scheme's governance arrangements, having regard to members' best financial interests. Any exclusions will be contained within the investment management agreements.

Members' views

In setting and implementing the investment strategy the Trustee acts in the best financial interests of the SUKGPS members and beneficiaries and each of its sections. Given this primary fiduciary duty, as well as the significant practical and cost implications of directly reaching out to individual members and beneficiaries to gather their views regarding ethical considerations, social and environmental impacts, or present and future quality of life matters, the Trustee does not currently plan to take into consideration individual member's views. The Trustee will, however, make publicly available its Responsible Investment Policy, Implementation Statement, TCFD report and Statement of Investment Principles which provide detail on our ESG activities to date. It may also from time to time, publish details of its ESG activities on its website or within its newsletter.

Codes and industry initiatives

The SUKGPS believes that industry-led action increases success, that is why the SUKGPS will consider, from time to time, signing up to industry groups that advocate for further sustainability and transparency. The Trustee is currently a member of the Institutional Investors Group on Climate Change (IIGCC), Occupational Pensions Stewardship Council and is also a UN PRI signatory.

Review of policy

The SUKGPS will review its Responsible Investment Policy regularly and, at least, every three years to discuss and if appropriate agree enhancements to its framework, approach and reporting.