UPM-Kymmene UK Pension Scheme
Implementation Statement – for the period 1 April 2020 to 31 March 2021

Introduction

The Trustee of the UPM-Kymmene UK Pension Scheme (the 'Scheme') has prepared this statement to provide stakeholders with a transparent and accurate review of how it has acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles ("SIP") during the accounting year. This includes both the 2019 SIP that was in force during the first half of the accounting year and the new SIP, adopted in September 2020. The new SIP can be found myupmpension.co.uk.

This statement is intended to improve accountability, highlighting the proactive steps taken by the Trustee and its service providers to ensure members' assets are invested responsibly and for the long-term.

This statement includes details of:

- How the Trustee has complied with its stewardship and voting policies as set out in the Scheme's SIP;
- Any changes made to the stewardship and voting policies during the year; and
- Specifically, how the Scheme's investment managers voted and engaged on the Trustee's behalf

This statement has been prepared by the Trustee to cover the scheme year period of 1 April 2020 to 31 March 2021 and relates to the Defined Benefit ("DB") assets only. For the avoidance of doubt, the Scheme historically also had a Defined Contribution ("DC") section, which has now been transferred out. In addition, from 1 January 2021, the Scheme moved to a sole Trustee model. For ease, we refer only to the 'Trustee' throughout this document.

The statement is publicly available at myupmpension.co.uk

Executive Summary

The day to day management of the Scheme's assets is delegated to Cardano Risk Management Limited (the 'Fiduciary Manager'). In advance of the appointment, the Trustee took steps to ensure that the management of assets and the Fiduciary Manager's policies were aligned with the Trustee's own policies. The Trustee continues to monitor Cardano, as part of its regular interactions with them.

The Trustee monitors the voting and engagement activity of the investment managers, and, through the Fiduciary Manager, challenges their decisions.

The Trustee focuses its efforts on those investment managers where voting and engagement is material. Given the nature of our strategy, none of our managers held assets where they were able to vote during the year. However, engagement has been relevant. Policies and examples of activities undertaken during the year are summarised in this statement. The Trustee is comfortable that our Fiduciary Manager has an appropriate approach for all investment managers, and it receives a summary of their assessments once a quarter.

To the best of the Trustee's knowledge it has complied with the Scheme's Stewardship Policy during the year.

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Section 1 – Our Stewardship Policy

What is Stewardship?

"Stewardship" is the responsible allocation, management and oversight of capital to create long-term value for our members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising the right to vote on any shares which are owned by the Scheme and engaging with the management of any companies or properties where an investment has been made.

The Scheme does not hold any investments directly. All shares, bonds and other assets owned by the Scheme are held through pooled vehicles that are managed by investment managers that were inherited or appointed by the Fiduciary Manager. The reasons the Trustee does this are:

- It provides a broader range of investment opportunities than would be possible if the Scheme were to own the assets directly, particularly given the Scheme's size;
- This can improve the overall diversification of the Scheme's investments and help reduce risk;
- Fixed costs are shared amongst other investors, thereby reducing the Scheme's overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing overall governance burden both on the Trustee and the Sponsor.

In practice, therefore, the Trustee delegates voting and engagement matters to the relevant investment managers. However, it remains responsible for setting the Scheme's voting and engagement policies and ensuring that the investment managers that the Trustee or Fiduciary Manager appoint act consistently with them.

What is the Scheme's Stewardship Policy?

During the financial year, the Trustee refreshed its Stewardship Policy to better reflect more recent regulations and current industry codes of practice. It now reads as:

> ***Financially material considerations over the appropriate time horizon of the investments***
>
> *The Trustees have a long-term time horizon for their portfolio and therefore acknowledges the importance of being a responsible investor. The Trustees consider responsible investment to be the integration of environmental, social and governance factors into investment decisions in respect of their portfolio where financial risk and / or return is or could be materially affected ("Responsible Investment").*
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> *The Trustees have delegated responsibility to take account of environmental, social and governance factors (ESG) in investment decision making to the Fiduciary Manager. This includes investments made directly by the Fiduciary Manager as well as those in pooled funds managed by third parties. In the latter case, where new investments are made with external investment managers, the Trustees expect the Fiduciary Manager to take into account ESG (including but not limited to climate change), consistent with its approach to Responsible Investment. The Fiduciary Manager is responsible for monitoring how external investment managers take into account ESG within their investment process. Monitoring by the Trustees of the Fiduciary Manager is undertaken on a regular basis.*

The Trustees do not take the views of individual members and beneficiaries, including (but not limited to) their views in relation to governance, social and environmental impact, into account when making investment decisions. The Scheme's assets are largely held in pooled arrangements therefore, it is not possible to reflect individual member views. However, the Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.

The exercise of the rights (including voting rights) attaching to the investments

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustees believe that by being a responsible investor, they are managing investment risk with the aim of enhancing long-term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme. Beyond these requirements of responsible investing, the Trustees do not explicitly target any nonfinancial matters in their investment decision making.

Undertaking engagement activities in respect of the investments

Where relevant, the Trustees prefer its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with relevant persons (an issuer of debt or equity, an investment manager, another stakeholder or holder of debt or equity) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

In practice, the Trustees would not typically expect to engage directly, but rather via their investment managers or Fiduciary Manager. The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustees to review all of the above aspects in sufficient detail each year. The Trustees will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

How has the Trustee implemented the Stewardship Policy?

The Trustee acknowledges that the investment strategy is achieved predominantly through derivative instruments, which provides limited opportunity to hold individual stocks and integrate ESG (environmental, social and governance) factors. This in turn impacts the implementation of the Trustee's policy on voting and engagement.

The Fiduciary Manager continues to align with the Scheme's Stewardship Policy and has been a signatory to the UN Principles of Responsible Investment since 2011. They are also a signatory to the UK Stewardship Code and have a Tier 1 rating from the Financial Reporting Council.

Several core beliefs help drive the Fiduciary Manager's approach to engagement. They believe in:

- Focused governance – spending most time on the most material issues
- Transparency – improved reporting allows better quality dialogue, risk awareness and higher engagement impact
- Engagement – through education and close, regular dialogue
- Integration – leads to consistency, clarity of messaging and improved dialogue leading to greater engagement impact

In addition to directly managing the majority of derivative based investments, the Fiduciary Manager implements part of the investment strategy using third-party investment managers. Each manager that is appointed by the Fiduciary Manager will be subject to manager research and due diligence, including an assessment of the manager's ESG integration. The Fiduciary Manager keeps the Trustee updated on the ESG ratings of each appointed manager and wider sustainability activities as part of their sustainability and ESG monitoring, found within the Fiduciary Manager's quarterly investment report. The Trustee monitors any voting and engagement activity of its investment managers, and, through the Fiduciary Manager, challenges their activity.

The Fiduciary Manager, on behalf of the Trustee, categorises managers used according to how material voting and engagement is in their mandate. The majority of the Scheme's managers don't own very many assets such as equities or corporate bonds. For example, at the current time all of the Scheme's equity exposure is accessed using derivative instruments which don't come with voting rights and therefore voting or engagement is less likely to be relevant or significant.

The Trustee focuses its efforts on any managers where voting and engagement is material but expects its Fiduciary Manager to engage with all managers, via their ongoing meetings and discussion of managers' annual ESG questionnaire responses.

An example stewardship policy of one of the Scheme's third party investment managers is included below, summarised in their own words:

Asset Class	Stewardship Policy (in Manager's own words)
Emerging Market Debt	Constructive engagement with issuers is the most effective way to improve ESG characteristics over time. For emerging markets sovereigns, environmental, social, and governance (ESG) factors have long been embedded in our country research process used to assess the relative credit strength of all the countries under their research coverage. Our stewardship activities are driven by the E, S, and G factors that we have integrated into our investment philosophy and process. Social stability and the quality of governance – political stability, quality of policies, and strength of institutions – are all critically important factors in assessing both the probability of default and the relative value of government debt. Governance is a key component in our country scoring quantitative model that is used across countries. We use both external data from sources such as the World Bank and Transparency International as well as the internal assessments of our experienced sovereign analysts to evaluate these risks.

The Scheme also invests in a series of Private Market and Real Estate investments. A critical means of value creation for many such strategies is ensuring that each business or asset has the best governance possible. For example, the Scheme's Real Estate investment is via a fund which owns large properties. A crucial part of their ongoing management is evaluating how environmental factors (such as energy efficiency, waste disposal, water supply and carbon footprint) will impact. Social issues also play an important part, through factors such as health & safety standards, workers rights and diversity / inclusion standards. Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report.

Compliance with our Stewardship Policy

To the best of our knowledge the Trustee has complied with the Scheme's Stewardship Policy.

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Section 2 – How the Scheme's managers have engaged in respect of the investments held

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship.

We provide examples of engagement activity for managers in the tables below.

Public market investments

Engagement activity (in Manager's words)
South African utility The manager discussed coal usage and impact on emissions, discussed COVID safety measures for company labour force, discussed governance in light of recent management changes. **African sovereign** The manager discussed structural rigidities that lead to high youth unemployment and limited wage flexibility; also discussed potential labour reforms that could ease social challenges.

Private market / real estate investments

Engagement activity (in Manager's words)
Healthcare communications agency purchase In March 2020 we provided acquisition financing supporting Bridgepoint's acquisition of an independent healthcare communications agency with global reach, supporting pharmaceutical and biotechnology companies in the commercialisation of new therapeutic assets. Given the nature of the service offering, combined with the historical 'buy-and-build' strategy that management had enacted, the primary intrinsic ESG concerns for the business were that (i) materials produced for clients must adhere to regulations before distribution, and (ii) there was potential for governance issues when acquiring and integrating businesses into the platform. Over the course of our work, we spoke at length to Management on these topics, and also spent time with Bridgepoint to understand the work that they had done to get comfortable with the risks. We concluded that there were appropriate controls and protections for the business with regards to regulatory risks, with the backstop being that regulatory and legal burdens ultimately always sit with the therapeutic asset owner rather than the Company. We also found that the Company had a well-defined and structured acquisition and integration plan, which had been demonstrably executed successfully in the previous years. Finally, we took comfort that Bridgepoint, as a highly regarded large-cap European sponsor, is an appropriate custodian of the business and will continue to develop the Company's Corporate Social Responsibility approach and governance structures.
Central London property development <u>Energy</u> We installed a building management system (BMS) to control the space and optimize resource use. The BMS monitors energy use during all seasons to optimize the use of solar shading during the summer and heat during the winter. The building also obtained an Energy Performance Certificate (EPC) Grade B, an indicator of energy efficiency ranging from A (most efficient) to G (least efficient). To obtain the EPC, the Development utilizes high-performing building fabric, high-efficiency boilers and chillers to reduce the overall energy demand of the building. Moreover, the building obtains some of its power from photovoltaic solar panels we installed on its rooftop.

<u>Tenant well-being</u> We placed occupier amenities at the heart of the Development's design and specification, from the light-filled floors to a multi-functional ground floor experience with integrated cafés, a restaurant and health facilities. These include 22 showers, 331 cycle racks and 342 lockers to enable tenants' to cycle to work and encourage a healthier and more sustainable lifestyle. Tenants also benefit from access to public transport including both Liverpool Street station and the incoming Elizabeth Line. More recently, during the COVID-19 pandemic, we upgraded some of the buildings features to further enhance tenants' well-being. For instance, we modified air handling units to improve air quality and integrated SmartSpace technology to allow seamless, touchless travel from the entrance to every desk. <u>Community relations</u> Finally, during construction, the site conducted regular Considerate Constructors Scheme (CCS) audits, designed to assess construction operations against best practices in minimizing impact on surrounding communities. The Development scored 39-40 out of 50, achieving excellent performance in four of the five core scoring sections. The audits highlighted that the site continues to set high standards in all checklist sections, including a note on its robust system for the removal and recycling of waste
Education provider Through monitoring and controlling heating, ventilation, air conditioning (HVAC)and lighting centrally across 1,000 learning centres we were able to reduce energy consumption by 12% **Environmental improvements** For one company we launched software to optimise driving routes reducing miles driven by 10% and fuel consumption For another we developed a bio-degradable alternative to aluminium that maintains high-quality food stuff standards reducing aluminium consumption by 30%
Occupier ESG data We have embarked on a targeted exercise to improve data coverage. Property managers have been contacting occupiers directly for meter audits and utility usage data, targeting 100% coverage for the portfolio. **Net Zero Roadmap** We have worked with a pub chain to identify two pub sites for a Net Zero Carbon pilot project. An initial survey with recommendations will be carried out, followed by implementation of steps to bring the operational carbon emissions at these sites down to net zero. **University** solar development They are building a solar farm on land adjacent to our student accommodation site and the site will in time be powered by solar power from the farm. We are tracking this initiative closely and providing support to our occupier where required with the process.

Section 3 – How the Scheme's shares were voted

How the investment managers voted

Relevant managers have confirmed that there were no opportunities to vote on any holdings over the year. This is consistent with our expectation, due to the nature of the strategies employed by the Scheme.

Where voting opportunities do arise, the Trustee requires the Fiduciary Manager to provide an ongoing assessment as part of their service. The Scheme's investments are discussed at each quarterly Trustee meeting, which provides the Trustee with opportunity to raise questions and challenges. Outside of the formal meeting structure, the Trustee will engage with the Fiduciary Manager on an ad hoc basis.

Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the Financial Reporting Council's Stewardship Code.

However, the potential concern is that the manager who has chosen to invest in the company is arguably in the best position to vote and engage with the company, and by failing to do so directly, may be signalling indifference to the management.

As per the comments above, given the nature of the Scheme's strategy (with most investments made using derivatives) there were also no managers who used proxy voting services in the running of their mandates. However, should the EM debt manager ever have an opportunity to vote, we include a summary of their proxy voting position, here:

Manager	Use of proxy voting service	Comment
EM Debt manager	No	We subscribe to the research services of Glass Lewis & Co. and ISS. They also subscribe to the Viewpoint voting platform provided by Glass Lewis & Co. to facilitate electronic receipt and execution of ballots.

The Trustee is comfortable with the manager's decision to use research services that are widely recognised and used across the industry.

Conclusion

The Trustee has regularly monitored the Fiduciary Manager, and with their support, conducted a review of the SIP which was revised in September 2020.

The Trustee remains comfortable that the Fiduciary Manager has managed Scheme assets in accordance with its our stewardship and voting policies as set out in the SIP.

If you have any questions, please contact Capita in the first instance.

The Trustee of the UPM-Kymmene Pension Scheme