DHL Group Retirement Plan (DHL GRP)
DB Sections

UK STEWARDSHIP CODE REPORT

SEPTEMBER 2023

CONTENTS

DHL Trustees Limited (DTL Board) is Trustee of the DHL Group Retirement Plan (the DHL GRP). The DTL Board supports the UK Stewardship Code 2020 (the Code) which it recognises as best practice.

This annual report sets out how the DTL Board has ensured that the DHL GRP (also referred to as the Plan) has fulfilled its stewardship responsibilities over the year ending 31 March 2023 and the outcomes of this activity. This report covers the Defined Benefit (DB) assets of the DHL GRP, but not the Defined Contribution (DC) Section, and has been set-out in line with the 12 Principles of the Code.

The DHL GRP is a long-term supporter of the Code, having initially become a signatory in 2016. Environmental, Social and Corporate Governance (ESG) factors, in particular those related to stewardship and engagement and climate-related risks and opportunities, are integral to the DHL GRP's investment process and are embedded throughout its culture.

The DHL GRP is the sponsored pension plan for UK employees of DHL. The DHL GRP has approximately 179,000 members across the DB and DC Sections. There are 6 DB sections of the DHL GRP, and the assets of the DB Sections are commingled in the DHL Pensions Investment Fund (DHL PIF).

The DHL PIF is a common investment fund which was established on 22 July 1988 and is available to all DB Sections of the DHL GRP. The members of the Investment Implementation Committee (IIC) are the Directors of the DHL PIF and are responsible for all aspects of the operation of the DHL PIF. The IIC has delegated certain operational responsibilities to the IIC sub-committee, which is currently comprised of the Chair of the IIC, and one other member of the IIC.

The IIC works closely with the Funding and Investment Strategy Committee (FISC) which has operational responsibility for identifying and considering the funding objective and determining the investment objectives for all DB sections of the DHL GRP.

In 2023, the IIC produced its third annual Stewardship and Engagement Report to cover the calendar year 2022. This provides details of the Stewardship and Engagement activity across the DHL PIF for each investment manager for all asset classes. In this report, we have provided exerts of the Stewardship and Engagement Report under the relevant principles.

On behalf of the DHL Group Retirement Plan

Peter Flanagan

Peter Flanagan, representing P.F. Trustee Limited, Chair of the DTL Board

PRINCIPLE 1

PURPOSE, STRATEGY AND CULTURE

Signatories' purpose, Investment Beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

Purpose, Values & Culture and Diversity

The fiduciary duty of the DTL Board is to act in the best interests of its members, with the primary objective of meeting members' benefits.

The DTL Board strives to achieve best practice in all areas and has established a governance structure that ensures there is an appropriate level of focus on all areas. The culture which flows from the DTL Board through to the various Committees is one where significant value and importance is placed on:

- **Continuous improvement**
- **Effective Governance and decision making**
- **Achieving best practice**
- **Collaboration between all stakeholders**

The DTL Board recognises that it is a long-term investor and therefore places a significant amount of emphasis on being a responsible long-term steward of capital. The DTL Board supports the Code which it recognises as best practice.

Over the period, the culture of continuous improvement and achieving best practice has led to the following actions or outcomes:

- The DTL Board published its first annual Climate Report in line with the requirements, specifically to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.
- The report addressed the specific disclosure requirements in the regulations which are based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).
- The report is available on the Plan's member website.
- The IIC received training on forward-looking alignment metrics (in particular binary target measurements) that are to be reported on as the fourth metric within the Climate Report for the DHL GRP.
- The third annual Stewardship and Engagement Report being completed which included detailed reporting on all of the investment managers within the DHL PIF on their Stewardship & Engagement and voting activities over 2022. As part of the review, the investment managers were rated in terms of whether they are 'behind', 'catching up' or 'leading' with respect to Stewardship & Engagement.
- The IIC agreed to set three Stewardship Priorities, in relation to climate change, modern slavery and diversity and inclusion. As part of the third annual Stewardship and Engagement Report, a baseline was set for the proportion of engagements made by the DHL PIF's managers that were in relation to these Stewardship Priorities (detailed under Principle 7).
- During the Gilt crisis, the IIC and IIC sub-committee met on short-notice, and were able to agree and execute actions quickly and effectively.
- A third-party provider (ClearGlass) produced their second set of reports on the transaction costs incurred by the DHL PIF's investment managers over the calendar year 2021.
- The terms of reference for the FISC and IIC were reviewed and updated during the Plan year.
- The investment beliefs were reviewed over the Plan year and were updated to provide further clarification in relation to the risk metrics used to quantify the potential downside risk that the Plan is exposed to.
- A Communications advisor (WTW) helped to produce member-friendly versions of the Plan's governance documents, such as the Statement of Investment Principles (SIP) and Implementation Statement, to improve communications that are issued to members.
- The appointed Cyber Security Adviser continued to support the DTL Board with the implementation of its Cyber Risk Management Journey Plan.
- The Audit and Risk Management Committee (ARMC) progressed the work associated with the Effective System of Governance (ESOG) and Own Risk Assessment (ORA) as prescribed by the Pensions Regulator's New Code of Practice, with help from the Risk Management Adviser (Muse Advisory).

These are examples in addition to the business as usual activities in relation to effective stewardship which are covered in more detail within this report.

Beliefs

The DTL Board has agreed a set of Investment Beliefs, (a summary is shown on the next page and a full copy of the Beliefs is included in the Appendix), that reflect their core, long-term views, which are reviewed annually. The Investment Beliefs drive all decisions in relation to asset allocation. These Beliefs capture the Directors' views on ESG factors, Stewardship and Engagement and climate risks and opportunities, which are captured under Belief 7. We have outlined the underlying Beliefs in relation to ESG factors. In particular, the Directors believe that ESG factors, including climate change risks, can be financially material to security prices and should therefore be considered as part of the investment process.

Strategy

These Beliefs are applied consistently across asset classes, and feed into how the IIC approaches and monitors the Stewardship and Engagement activities of its investment managers.

The IIC is highly engaged with managers on ESG considerations and seeks to work through their expectations with managers in a collaborative manner. It expects all of its investment managers to be signatories of the Code and/or the UN PRI and managers are questioned and challenged on their decision if, as an organisation, they have not committed to these principles. Evidence of the outcome in terms of requesting managers to sign up to the UN PRI is explained in Principle 8.

Assessment

The DTL Board believes that its culture, values and governance structure enable appropriate focus on stewardship. However, it also recognises that there is always room for improvement. Climate risks and the opportunities arising from a transition to a low carbon economy are significant areas of focus over the period and the activities being progressed in this area are described in later sections of the report.

Diversity and Inclusion

The DTL Board believes that having a diverse board leads to effective decision making. The Board formalised its Diversity and Inclusion Policy in March 2023. The Board believes that having a diverse Board, with a range of skills, knowledge, experience, background, personal characteristics (taking account of gender, age, ethnicity, culture, disability and sexual orientation) and viewpoints leads to effective decision making. It is the Board's strong belief that all Directors of the Board should have a voice and that they are listened to. The Board is committed to having a culture of openness and mutual respect at all levels of its governance structure, where Directors of the Board can feel comfortable in asking any questions and challenging any recommendations or decisions. For the decisions to be balanced and take account of all members, we believe our advisers need to be diverse and willing to share their views. Diversity to the Board means diversity of thought and skills. This means the aim is not to look for exact representation or quota, instead the aim is a wide diversity of thought and skills.

Investment Beliefs* for the DB Sections

1. Risk and return are related.
2. Return requires risk but risk does not guarantee return.
3. Diversification of risky assets reduces volatility.
4. The world is complex.
5. Behavioural issues are important.
6. Governance is important.
7. ESG factors:
   - The Directors believe that ESG factors can be financially material to security prices.
   - The Directors believe that good active managers have considered how to incorporate ESG factors into their investment process.
   - The Directors believe that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation.
   - The Directors believe that the impact of, and potential responses to, climate change creates a material financial risk. In particular, the Directors believe that companies should adjust their business strategies to align with the 2015 Paris Agreement.
   - The Directors believe active stewardship can improve investment returns.
   - The Directors believe that investments in controversial weapons are not appropriate under any circumstances.

*refer to appendix for full Beliefs.

The activities performed by the IIC over the period under review have the ultimate aim of benefiting the beneficiaries of the DHL GRP and the Directors take the view that the activities listed in the bullet points to the left have all been helpful in promoting this and in supporting the decisions made. For example, the setting of stewardship priorities helps the Trustee to monitor and engage with managers to ensure that the Trustee's objectives are met.

Ultimately, the purpose of the DHL GRP is to meet beneficiaries' benefits. During the year, effective action was required to react to a period of significant volatility in government bond markets. Based on the IIC's belief, the strategy was to maintain the liability hedging exposure (as far as possible). The impact on the funding level over the reporting period was modest against a backdrop of significant market volatility. Furthermore, changes were made to improve the robustness of the approach adopted in relation to collateral, including increasing the overall level of collateral, and expanding the asset coverage to support the collateral arrangements. This was supported by the focus on clear beliefs and objectives and clarity of responsibilities for the Trustee's Committees and sub-committees.

PRINCIPLE 2

GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship.

Governance Structure

The DTL Board is ultimately responsible for managing the DHL GRP and ensuring its fiduciary duty and objectives are met. The structure and composition of the DTL Board is illustrated to the right.

The DTL Board believes that an effective governance structure is critical for success in achieving best practice with respect to its fiduciary duty. To ensure that the appropriate level of skill, attention and diligence is applied to all areas of managing the DHL GRP, the DTL Board has appointed a number of Committees to oversee specific areas. These are detailed in the figure to the right (bottom). The Pensions Secretariat team which consists of 5 experienced team members support the DTL Board and the Committees in their activities.

The Committees that have a significant focus on the DB assets are the FISC and the IIC. At a high-level, the FISC is responsible for considering and identifying the appropriate funding objectives and investment strategy for the DB Sections. The IIC is responsible for implementing investment strategies for the asset pools of the DB Sections within set parameters. The IIC delegates part of its responsibilities to a sub-group of the IIC (the IIC sub-committee). Individuals are carefully chosen to represent the FISC, IIC and IIC sub-committee (and other Committees) based on the skill sets and experience that are required for the roles within each Committee.

The FISC is responsible for a number of areas (outlined in its terms of reference) including recommending to the DTL Board the appropriate level of risk or expected return to be targeted within the DB Sections (the investment objective).

The IIC is responsible for the implementation of the investment objectives which includes decisions on asset allocation and the selection, retention and termination of investment managers. The IIC has appointed a number of investment managers with delegated authority to invest the DHL PIF's assets, within mandated guidelines and restrictions. The investment managers are responsible for implementing the DTL Board's ESG Beliefs on the IIC's behalf. The IIC has the responsibility for overseeing and monitoring each manager's stewardship activities, supported by the investment consultant. To ensure that sufficient time is allocated to perform a diligent review of each manager, the IIC delegates to the IIC sub-committee the responsibility to meet with a selection of managers on an annual basis.

DTL Board

Committees

PRINCIPLE 2

GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship.

Oversight of Stewardship

The DTL Board believes that the governance structure, choice of service providers and investment managers enables it to be an effective steward of assets. There is always room for improvement and, as such, the IIC has set a target for its investment managers to engage with each of the top 10 contributors to carbon emissions within their portfolio over a 2-year period, as part of DHL GRP annual Climate Report, published in September 2022. The progress towards this target has been set out within the DHL GRP's second annual Climate Report, published in September 2023.

The IIC has set three Stewardship Priorities in relation to the following E, S and G factors:

- Climate change;
- Modern slavery; and
- Diversity and inclusion.

As part of the third annual Stewardship and Engagement Report, a baseline was set for the proportion of engagements made by the DHL PIF's managers that were in relation to these Stewardship Priorities (more information is provided under Principle 7).

Incentives

The IIC takes a long-term approach to assessing investments and has a preference for 'investing' over 'trading', which is articulated clearly to the investment managers from the outset of their appointment.

This preference for a long-term approach is also reflected in the way in which mandates are structured and the types of managers that are appointed e.g. equity managers that have a long-term, low-turnover approach and investment-grade credit portfolios which are managed in line with a 'buy-and-refresh' approach. Managers that align with this long-term philosophy fully integrate active Stewardship and Engagement into their investment process to ensure that they are creating long-term sustainable value for the DHL PIF.

In terms of other incentives, there is currently no direct link between the incentives of the in-house team and the approach to integrate stewardship into investment-decision making. In terms of the investment consultant, there is a performance-related fee structure in place which is described in Principle 8. The quality of advice and reporting that is provided to the IIC on ESG considerations (e.g. advice on Beliefs, Stewardship & Engagement Report, TCFD reporting) forms part of the assessment of the performance-related fee.

Training

The DTL Board and the IIC undertake regular training to ensure they are kept informed of the latest developments. The IIC holds an annual training day and ESG has been a significant topic of discussion for a number of years. For example, at the training day held in June 2022, Impax Asset Management provided a training session on impact investing to the DTL Board, covering the areas of Environmental Markets, the risks and opportunities of the companies delivering environmental solutions, as well as looking at selected companies to understand how their business models deliver both attractive financial returns as well as environmental benefits. As another example, in June 2023 the IIC held a training day where a member of the Social Factors Taskforce gave an insight on the current thoughts of the Taskforce, and Legal & General Investment Management ran a session to help the IIC understand what they should expect from managers in relation to social factors. In addition to annual training days, the DTL Board and the Committees are kept informed by their advisors through quarterly 'Hot Topics' and industry and legal updates.

The DTL Board has agreed a target of 15 hours Continuous Professional Development (CPD) per annum for each non-professional Trustee Director, in line with the Pensions Management Institute's (PMI) Trustee Group. For the year to 31 December 2022, the PMI certified that the DTL Board had completed the required standard of CPD. Appointed professional trustees are accredited and follow their own rigorous CPD programs.

PRINCIPLE 2

GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives support stewardship.

Resources

Investment Implementation Committee (IIC)

The IIC or the IIC sub-committee meets with each of the DHL PIF's investment managers on an annual basis, during which the investment managers must present metrics and examples on how they have engaged with issuers and other entities over the course of the year on ESG factors.

Investment Consultant

The DTL Board has appointed an investment consultant, Momentum Investment Solutions & Consulting (Momentum) to aid with ongoing monitoring of the DB assets and their investment managers. The investment consultant carries out an annual review of the Stewardship and Engagement activities of the investment managers, which is then reviewed by the IIC. The Momentum consulting team has on average c.13 years of experience advising large DB clients on all aspects of investment strategy, including the integration of ESG considerations in all aspects of investment policy. In addition, Momentum partner with Gordian Advice, a boutique firm specialising in responsible investment, to further enhance the capabilities of the team.

The investment consultant supports the IIC in the selection, monitoring and termination of investment managers. As part of this process, the investment consultant is responsible for reviewing the ESG Beliefs, policies and practices for each of the investment managers. The investment consultant is also responsible for monitoring the integration of the managers' ESG Beliefs, policies and practices into the investment process.

Other Advisors

The IIC uses WTW to advise on climate scenario analysis.

In-house Team

The in-house team is responsible for ensuring that there is effective governance, risk management and internal controls in operation. The Pensions Secretariat Team is headed up by Stuart Dunn who is a Fellow of the PMI with over 30 years pensions experience. Stuart is supported by Daniel Baker, who has over 25 years pensions experience and is Secretary to the IIC. Both Stuart and Dan have extensive experience supporting Trustee Boards and investment committees with their investment duties. Further, the Finance function of the in-house team prepare the annual Report and Accounts, co-ordinate the annual audit and is responsible for ensuring all financial transactions are correctly processed and recorded. The Finance Team is headed up by Margaret Lumley who is a Chartered Accountant with over 20 years pensions and investment experience. Both Stuart and Margaret report to Dan McDonald, who is a Fellow of the Institute of Actuaries with over 14 years experience in the pensions industry.

Custodian

Whilst the investment managers are able to provide much of the data that is used as part of the reporting for the DHL PIF, the IIC is also working with the Custodian, BNY Mellon, to ensure that there is a single, independent source of ESG data and metrics that can be used to assess and challenge investment managers.

Cost Transparency

On an annual basis, ClearGlass provide data on the costs incurred by the investment managers to the IIC, as a means of providing further transparency of these costs.

The Trustee believes that its governance structure (as updated during the year) is appropriate and helps to ensure that the Trustee can develop and implement its strategy, respond to developing circumstances (as demonstrated by the response to developments in gilts markets) and hold managers to account through the monitoring and review process.

PRINCIPLE 3

CONFLICTS OF INTEREST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts of Interest Policy

The DTL Board has clear policies in place which address the identification, management and disclosure of conflicts of interest that may arise for Directors and its officers when making decisions on its behalf, which includes those in relation to stewardship activities. The Conflicts of Interest Policy is reviewed formally by the DTL Board at least every 3 years. A Conflicts of Interest Register is maintained for all officers of the DTL Board and this is reviewed at the start of each formal meeting.

The Conflicts of Interest Policy sets out the broad framework for identifying and dealing with actual or potential conflicts. This applies to both the DTL Board, professional advisors and the in-house team. A summary of the framework is set out below:

- Recognising potential conflict situations.
- Declaration and register of interests.
- Declaration and register of conflicts.
- Evaluating and managing conflicts.
- Conflicts arising in relation to the different sections of the DHL GRP.
- Trustee awareness and understanding.
- Managing advisor conflicts.
- Review.

The Conflicts of Interest Policy can be found in full in the appendix to this report.

The Trustee monitors any potential conflicts of interest to ensure that they are appropriately managed. Over the period under review, no material conflicts of interest have arisen at a Trustee Board level. The Trustee, through the IIC (and IIC sub-committee), has a focus on the fiduciary responsibility performed by the investment managers, which is considered below.

Investment Managers

Day-to-day implementation of the DHL PIF's stewardship activity has been delegated to external investment managers. The IIC expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the DHL GRP's members are prioritised.

The IIC's investment consultant receives and reviews the conflicts of interest policy for each of the DHL PIF's managers and highlights any potential area of concern (if any) to the IIC. Factors considered in the review of each manager's policy include:

- An explanation of how the manager acts in the best interest of clients.
- A description of how conflicts of interest arise and how they are identified.
- The process that is followed when a conflict of interest is seen to exist.

At present, there is one concern regarding a potential conflict with one of the DHL PIF's investment managers. This is described in the box to the right.

Example – Conflicts Identified with an Investment Manager

The IIC recently identified a potential conflict of interest with one of the DHL PIF's investment managers whereby the manager proposed a managed wind-down of the fund. While the proposal involved a managed wind-down of the fund over a period of 5 years and the removal of investors rights to seek a redemption of their holding during the wind-down (subject to two additional one year extensions), a conflict of interest was identified whereby the manager may be incentivised to hold the assets for longer than necessary in order to benefit from the additional fees. As such, the IIC agreed to vote against the wind-down of the fund as proposed. As the wind-down received majority support from investors and is proceeding, the IIC will continue to meet with the manager on an annual basis, to monitor and challenge the pace of wind-down and help ensure conflicts are being appropriately managed.

PRINCIPLE 4

PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The IIC's investment consultant provides the first response to market-wide and systemic risks. The investment consultant reviews market conditions on a weekly basis and updates the IIC on market-related considerations quarterly (or sooner if required) through the regular reporting. Regular dialogue takes place between the investment consultant and market participants to help identify market-wide and systemic risks, which is communicated to the IIC/IIC sub-committee as appropriate. In addition, the appointed investment managers raise potential issues directly with the IIC sub-committee. The quarterly reporting provided to the IIC also provides an update on the risks within the DHL PIF (using Value at Risk and funding level volatility metrics) and includes detailed reporting on the collateral and counterparty risks within the liability hedging mandate. Given the importance and complexity of the liability hedging mandate, the IIC meets at least semi-annually with the liability hedging manager and the investment consultant to review market conditions and risks in relation to the liability hedging mandate. The effectiveness of the investment consultant in identifying and responding to market-wide and systemic risks is reviewed as part of their annual performance review outlined in Principle 8.

Once a risk is identified, there is a governance structure in place that these can be easily and quickly relayed back to the IIC and any action required can be implemented quickly. A good example of this is the response to the material increase in UK government bond yields over September and October 2022, which is detailed below.

Climate Risks

The IIC monitors emerging risks, with the current focus being on climate-related risks. The DTL Board is a supporter of the TCFD and has completed the implementation of the various requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, including:

- Ensuring the appropriate governance arrangements are in place including outlining the roles and responsibilities for the DTL Board and the various Committees.
- Carrying out climate training for the DTL Board and relevant Committees.
- Undertaking scenario analysis.
- Collecting climate metrics from the investment managers to obtain a baseline position.
- Ensuring metrics and targets are aligned with the DTL Board's ESG Beliefs and investment philosophy.
- Agreeing a Climate Risk Policy.

In addition, for the second annual Climate report, the IIC has collected data on Scope 3 emissions (where available) for the DHL PIF's mandates, as well as the number of investments in companies which have SBTi (Science Based Targets initiative) targets in place, the latter of which has been agreed by the IIC as the 4th Metric to include within the Climate report.

Although the DTL Board has considered implementing a net zero target, it has opted not to adopt this at the moment. Rather, the DTL Board has agreed to target 100% engagement on climate-related issues for each of the top 10 carbon emitters in each portfolio over a 2-year period. The second annual climate report also includes the progression towards this target from the baseline set in the previous year.

Case Study: Gilt-crisis

UK government bond yields increased over the reporting period, and the IIC's investment consultant provided regular updates to the IIC and IIC sub-committee on the level of collateral (and collateral headroom) in relation to the liability hedging portfolios. Rebalancing of the asset allocation was performed to top-up the collateral holdings over several months at the start of the reporting period. It was necessary to respond urgently in September and October 2022 during the gilt-crisis, following rapid rises in UK government bond yields which led to turmoil in investment markets. As a result, several meetings were scheduled to discuss this issue, and investment policy decisions were made to support the ongoing management of the liability hedging portfolios. In addition, the IIC explored utilising existing assets to help reduce the collateral strain in times of market stress, and to reduce the risk of forced selling, which helps to promote a well-functioning financial system. Overall, the Trustee was able to protect the Plan and maintain the DHL GRP's strong funding level and security for beneficiaries' benefits.

PRINCIPLE 4

PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Industry Wide Initiatives

The DTL Board and the IIC encourage their advisors and investment managers to participate in industry-wide initiatives where this is aligned with the DTL Board's fiduciary duty to its members.

The investment managers also participate in initiatives to promote responsible investment. An example of this is illustrated in the case study below, where the IIC has received regular updates on the manager's work in this area since the issue was identified.

Case Study: Real Estate Debt

Context: The IIC invests in real estate debt in their Secure Income portfolio. The manager had a meeting with five other lenders to encourage Real Estate lenders to develop a CREFC (CRE Financial Council) Europe ESG Charter. This would be a voluntary commitment to request a baseline level of ESG-related data and information from all borrowers, particularly energy and water use in line with the Sustainability Accounting Standards Board (SASB) Materiality Matrix for Real Estate. However, the manager will be looking to ensure biodiversity and waste are also covered by the charter.

Objective: The manager's ultimate objective is to encourage widespread adoption across the real estate lending industry, thereby increasing consistency and transparency across the market.

Action: The manager continues to remain engaged within the group. Currently work remains focused on putting together an industry-wide ESG questionnaire, with lenders who sign up to the voluntary charter then able to use this to share with their borrowers to collect ESG information.

Outcome: Given the need to have this alignment, this is still a work-in-progress, and the manager continues to engage with the group on this matter.

PRINCIPLE 5

REVIEW AND ASSURANCE

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Statement of Investment Principles

The DTL Board reviews its Statement of Investment Principles (the SIP), with input from the IIC, at least every three years and after any significant change in investment policy. Changes to the SIP can only be made once the DTL Board has obtained and considered the advice of someone who the DTL Board believes to be qualified in their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the DHL PIF's investments. The SIP can be viewed by clicking **here**.

Investment Beliefs

As mentioned under Principle 1, the DTL Board has adopted a set of Investment Beliefs that reflect their core, long-term views. These are reviewed annually and are included in the Appendix.

Risk Register

The DTL Board maintains a Risk Register, summarising the key risks to which the DHL GRP is exposed to, and which Committees are responsible for managing these risks. The Risk Register is reviewed annually and has been amended over the year to include greater emphasis on risks relating to ESG and climate risks.

Climate Policy

The DTL Board has a Climate Policy setting out how it will manage climate-related risks and opportunities. The DHL PIF's investment managers will be expected to invest in a manner that aligns with the policies set out in the Climate Policy.

The DTL Board continually seeks to improve all policies in relation to stewardship as evidenced by its work on the Climate Policy. The governing documents mentioned above were all reviewed over the period under review. In particular, the SIP was amended as follows:

- The responsibilities of the FISC and the IIC were updated to align with the Terms of Reference. The only additional responsibilities for the IIC include the following:
  - to review the optimal target hedge ratios periodically, and after any significant changes in investment policy; and
  - to agree a framework to monitor the level of collateral for the DHL PIF's liability, longevity and currency hedging arrangements and ensure that sufficient collateral is available to support these arrangements.
- The belief that liability-related risks could be rewarded was removed.
- The expectation that investment grade credit should outperform UK government bonds over the long-term was clarified.
- The alignment of the investment objective of the Ocean Section with the other DB Sections.
- The longevity hedging arrangements for the Exel, Ocean and T&B Sections were set out.

The Terms of Reference for the IIC were separately updated with the aim of further clarifying roles and improving the stewardship of the Plan's assets.

PRINCIPLE 5

REVIEW AND ASSURANCE

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

External Assurance

Each year, the IIC asks each investment manager to report any exceptions that are raised in their internal controls reports. Any exceptions are discussed with the investment manager and followed up by the investment consultant until they are resolved in a satisfactory manner. The IIC has chosen this approach, given these are industry standard reports which are carried out by auditors.

Over the period, the IIC has continued to monitor one of the investment managers whose accounts had been qualified. There have been a number of investor calls organised by the manager to discuss this issue. The qualification was in relation to an ongoing lawsuit in respect of three of the assets held within the manager's portfolio, which was settled shortly after plan year-end.

Quality of Reporting

The DTL Board continues to improve the manner in which its Stewardship activities are reported. The DTL Board has a communications advisor who is involved in reviewing documents such as the SIP, the Implementation Statement, the Climate Report and from the point of view of effective presentation the Stewardship Code Report. These reports are also reviewed by external legal and investment advisers as appropriate. Their main objective is to ensure that communications which are available to members are presented in a manner which is easy to understand.

The preparation of the annual implementation statement also involves a review (with input from external advisers as appropriate) of the DTL Board's stewardship and progress with its investment principles.

PRINCIPLE 6

CLIENT AND BENEFICIARY NEEDS

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

The Membership

The DHL GRP is a UK-based pension scheme with c.43,000 members in the DB Sections. Around 58% of the membership is pensioners and dependants, with the remaining c.42% representing deferred members. The DB Sections of the DHL GRP are relatively mature – as at the 31 March 2021 Actuarial Valuation, the average age of the pensioner population is 70 years and the average age for a deferred member is 55.

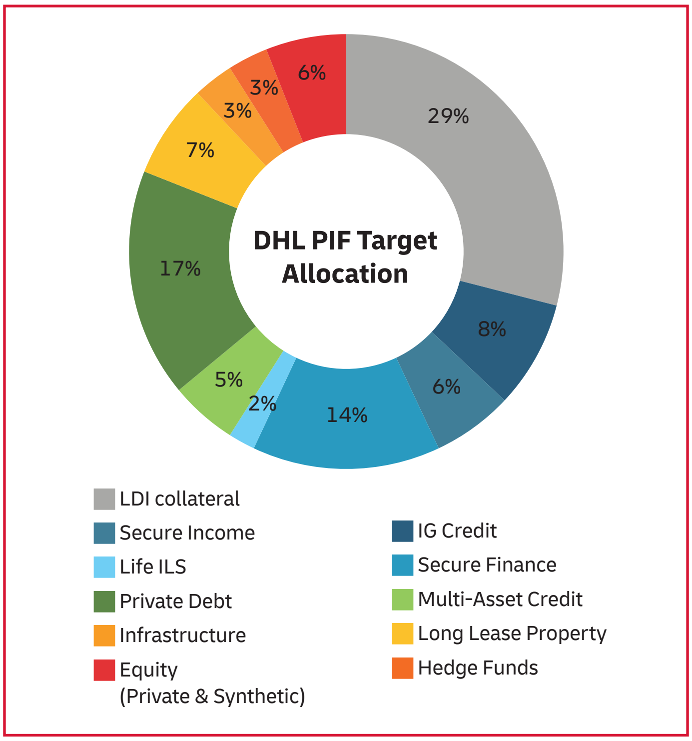
The majority of deferred members are expected to retire in the next 10 years and the overall duration of the DHL GRP's DB liabilities was around 16 years as at 31 March 2021. It is the Trustee's primary duty to ensure the members' benefits are paid in accordance with the rules of the DHL GRP. To this end, it operates an Integrated Risk Management policy to consider funding, investment and the Company's covenant. The FISC takes into account the duration of the liabilities when recommending the overall level of risk/return to the DTL Board to target for each DB Section. There is therefore a direct link between the profile of the membership and the time horizon that feeds into the integrated funding and investment strategy, which in turn drives the investment strategy adopted. The approach is summarised in the Integrated Risk Management Summary which sets out how funding, investment and covenant risks in relation to the DB Sections are managed. The framework covers the DB Sections' risk oversight structure, objectives, the key risks to meeting these objectives, and how these risks are monitored and mitigated. An Integrated Risk Management Monitoring Dashboard was also approved in September 2022, and is prepared on a quarterly basis.

Asset Allocation

Near to the end of the Plan year, the IIC agreed to adopt a more strategic based rebalancing policy, with the IIC reviewing the position each quarter on a qualitative basis. Factors such as expected excess return, tracking against the funding targets, and collateral headroom would be considered, and rebalancing decisions made accordingly. As such, the 6 sections of the DHL PIF no longer follow a specific strategic asset allocation. However, the current asset allocation for the DHL PIF as a whole, as at 31 March 2023 is shown below.

Asset Class	Geography*	Allocation
Liability hedging	UK	29.0%
Investment Grade Credit	Global	8.0%
Secure Income	UK	5.9%
Secured Finance	Global	14.0%
Life ILS	Global	2.1%
Multi-Asset Credit	US & Europe	5.5%
Private Debt	US & Europe	17.0%
Infrastructure Income	UK	3.3%
Property	UK	6.8%
Hedge Funds	Global	2.6%
Equity (Private & Synthetic)	Global	5.8%

Geography*	Allocation
Global	32.5%
UK	45.0%
US & Europe	22.5%



*These represent the broad geographies in which the assets for each mandate are invested. As such, there is no overlap in the allocation of UK and US & Europe based assets within the global allocation.

PRINCIPLE 6

CLIENT AND BENEFICIARY NEEDS

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Communication of the Plan's first Climate Report & Investment Activity

The DTL Board produces an annual newsletter for members, which provides members with key updates over the year. The newsletter in the period included a section called 'The First Climate Report for the Plan's DB Sections', which sets out a summary of the DTL Board's first Climate Report and its potential impact on funding and the investment strategy. This is issued by post to all members. The DHL GRP has a website where different forms of communication are used such as videos and written explanations. The website covers a number of areas including:

- How the DHL GRP works.
- Plan Governance.
- Saving and Planning for Retirement.
- Automatic enrolment.
- Tools such as a Pension Tracker app.

The link to the website is: **mypension.dhl.co.uk**

The IIC takes an active approach across the investment policy which ensures that the IIC can hold investment managers to account in the way in which Stewardship and Engagement activities are carried out.

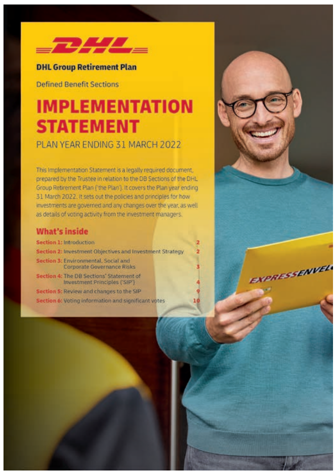
The IIC's investment consultant conducts an annual review of the DHL PIF's managers' Stewardship and Engagement activities and produces an annual Stewardship and Engagement Report for the IIC.

The DTL Board also produces an Implementation Statement which is included in the annual Report and Accounts and details how the DHL PIF has followed the policies set out in the SIP, including those related to ESG, Stewardship and Engagement over the year.

The statement is designed to be easy to read and visually appealing (see extracts on the right) to allow for better engagement with members. The in-house team also produces a member-friendly version of the SIP and works with the investment consultant to produce Implementation Statements that are consistent across both DB and DC Sections. The Implementation Statements and the SIP are available to members on the DHL GRP website.

The DTL Board has appointed a communications advisor, WTW, to aid with communications to members, including the annual reports mentioned above. For example, in May 2022, a letter was sent to all members regarding the Russian invasion of Ukraine, which included details on the effect of the conflict on the DHL GRP's assets. The letter also noted that the DTL Board has a long-term investment strategy, and that the assets have been selected to ensure short-term volatility such as this can be managed.

The annual review invites members to ask questions or provide feedback. During the reporting year, the Trustee has not received substantive feedback on investment or stewardship of the DB Sections. The Trustee has not sought feedback during the year on specific questions relating to investment, although does expect to review in the future whether it would be helpful to do so.



PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities.

Integration of Investment Beliefs

The DTL Board takes an integrated approach to stewardship which flows from the Investment Beliefs, shown below. These reflect their long-term, core views and are embedded fully into all aspects of the investment process, across asset classes and across geographies.

DTL Board Investment Beliefs

A summary of the Investment Beliefs is included on page 6 (with full details shown in the Appendix). The Beliefs in relation to ESG are summarised below:

ESG factors

- The Directors believe that ESG factors can be financially material to security prices.
- The Directors believe that good active managers have considered how to incorporate ESG factors into their investment process.
- The Directors believe that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation.
- The Directors believe that the impact of, and potential responses to, climate change creates a material financial risk. In particular, the Directors believe that companies should adjust their business strategies to align with the 2015 Paris Agreement.
- The Directors believe active stewardship can improve investment returns.
- The Directors believe that investments in controversial weapons are not appropriate under any circumstances.

Climate Policy

The DTL Board has identified climate risks and the opportunities arising from a transition to a low carbon economy as specific areas of focus over the period under review and has a formal Climate Risk Policy.

Investment Exclusions

The IIC has discussed investment exclusions in detail and concluded that investments in businesses and corporate entities that are involved in the production of controversial weapons pose significant reputational and regulatory risks which may be financially material. The IIC further understands that, given the nature of the DHL PIF's segregated mandates, this exclusion is unlikely to have a material negative impact on the financial outcomes of the investment portfolios. These investments are therefore prohibited within the DHL PIF's segregated mandates.

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities.

Manager Selection and Monitoring

ESG factors, including Stewardship and Engagement, are integrated fully into the IIC's investment process, across all asset classes and investment managers. When selecting a new manager, the IIC's investment consultant will review the manager's approach to ESG to ensure that this is in-line with expectations and the IIC will engage with and question the manager on its ESG integration. The IIC's investment consultant reviews any changes in each manager's approach and managers are expected to report on any changes to their ESG approach at their annual meeting with the IIC or the IIC sub-committee.

The investment consultant reviews the investment managers' approach and any changes or enhancements to their approach are discussed as part of the annual manager review process. Over recent years, the common theme across investment managers has been the overall enhancement of ESG integration and processes, particularly with respect to climate reporting. In particular, many managers are now able to more consistently report on Scope 1 & 2 emissions, and are beginning to also incorporate Scope 3 emissions into their reporting.

The IIC looks to apply the same rigour and process to integrating stewardship across all asset classes and geographies. However, the IIC accepts that the approach to stewardship by investment managers will vary according to asset class.

Integration of ESG Across Asset Classes

As described above, the IIC integrates Stewardship and Engagement across all asset classes and investment managers. Ratings for each investment manager in terms of whether they are 'behind', 'catching up' or 'leading' with respect to Stewardship and Engagement are provided to the IIC by the investment consultant, together with quantitative and qualitative information on the quality, quantity and variety of engagement topics. The IIC, or a sub-committee of the IIC, uses this report as a basis for its monitoring of and engagement with the investment managers as part of their annual review meeting. This is supplemented by quantitative reporting provided by the Custodian in relation to ESG metrics.

Stewardship Priorities

During the Plan year, the Trustee agreed to set Stewardship Priorities in relation to the following E, S and G factors:

- E – Climate Change: For example, investment managers engaging with companies on their climate change policies and/or voting on resolutions requiring publication of a business strategy that is aligned with the Paris Agreement on climate change;
- S – Modern Slavery: For example, investment managers engaging with companies on their modern slavery policies especially with regard to their supply chains; and
- G – Diversity & Inclusion: For example, investment managers voting against a director appointment where the board is not sufficiently gender diverse.

Shortly after the Plan year-end, these priorities were communicated to the DHL PIF's investment managers noting that, while they were not expected to have prioritised engagement in these areas over the past year, they will be expected to prioritise engagement in these areas going forward. As such, as part of the annual Stewardship and Engagement Report, the managers were asked to provide the number of engagements they had in these areas, such that a baseline could be set to compare against in future years. The case study on the next page details an example of when the IIC sub-committee has engaged with one of the DHL PIF's investment managers in relation to one of the Stewardship Priorities.

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities.

Case Study: Cruise Ships (Modern Slavery)

As part of their ongoing monitoring of the DHL PIF's managers, the IIC sub-committee invited the manager to attend one of the quarterly meetings. At the meeting, the manager highlighted an investment in a cruise ship operator as an ESG example.

The sub-committee noted that one of the Plan's Stewardship Priorities was to prevent modern slavery and, whilst the manager believed that the external recruitment company in place had robust checks on this, the manager agreed to provide a copy of the operator's policy on modern slavery after the meeting.

As part of the follow-up after the meeting the manager noted that, as part of the investment team's ESG due diligence for the investment, they reviewed the company's Modern Slavery Act Policy. They were supportive of the company's Modern Slavery Act Policy and believed the specific section on 'Supply Chain: vendor engagement' was most relevant due to the nature of the cruise business. This was because:

- Each supplier must explicitly agree to comply with a Supplier Code of Conduct;
- Notably, the company utilises external agencies to recruit its workforce and requires them to be compliant with the International Labour Organisation, Maritime Labour Convention; such compliance is verified by an independent third party.
- In addition, periodic management reviews are carried out by the company to ensure suppliers abide by these conditions.
- The company upholds similar standards with its tour operators.

These all form part of the company's ESG efforts, which are reported in the company's SASB-aligned sustainability report on an annual basis.

Public Equities and Bonds

The DHL PIF's listed equity and bond managers are able to demonstrate high levels of engagement and stewardship. Examples of their approach are covered in Principle 9. An example of the approach to engagement taken by one of the DHL PIF's global equity managers is shown on the next page.

Private Assets

The IIC is satisfied with the manner in which the investment managers integrate stewardship within their investment processes. However, the reporting that is currently available from investment managers on their engagement is a work in progress. A good example is provided in the response to Principle 9.

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material ESG issues, and climate change, to fulfil their responsibilities.

Case Study: Global Equity

This manager managed a global equity mandate for the DHL PIF. The manager is a signatory to both the UN PRI and the Code.

Global Equity – Modern Slavery

Rationale for the engagement:

Follow up to a shareholder proposal concerning supply chain issues.

The engagement:

The manager engaged on the company's cotton sourcing policy with respect to their human rights disclosures. The engagement was led by a portfolio manager, and the Head of ESG Research also attended.

Outcomes and next steps

- The company stated they were actively working on tools to verify suppliers' claims on sourcing, adding two senior positions within the firm.
- The manager strongly encouraged the company to look into working with a sustainable cotton NGO that offers traceability and a company providing a new technology helping verify the origin of raw materials. The manager continues to follow up on the subject of supply chain management since this engagement.

Through monitoring and engagement with managers, the Trustee believes that there have been improvements and will continue to work with managers to enhance reporting and stewardship where appropriate.

PRINCIPLE 8

MONITORING MANAGERS AND SERVICE PROVIDERS

Signatories monitor and hold to account managers and/or service providers.

Arrangements with Service Providers

The IIC employs a number of investment managers and service providers to meet their investment objectives. The roles and responsibilities, including details of how the IIC monitors these, are summarised below.

Investment Managers

The IIC has appointed a number of investment managers in various asset classes across both public and private markets. The investment objectives for each manager are specified in investment management agreements with clear guidelines as to how the investments are to be managed. Fees are agreed in advance of the manager appointment being confirmed and the IIC seeks to ensure that 'Most Favoured Nation' clauses are agreed with the investment manager to ensure fees are competitive and fair. The IIC reviews the suitability and performance of each investment manager through quarterly reporting provided by the investment consultant and carries out a thorough review with each investment manager on an annual basis. Should the IIC believe that the manager is no longer suitable to deliver the overall objectives of the DHL PIF, or confidence in the investment manager to deliver their specific objectives has reduced, the manager will be terminated and the IIC will look to replace the manager with a suitable alternative.

As part of their annual monitoring meeting, the IIC expects each manager to report on the following:

- Whether or not they are a signatory to the Code and UN PRI.
- How ESG factors are considered within the investment process, including relevant ESG examples and metrics.

In 2023, to further enhance reporting, the IIC systematically collated this information as part of their third annual Stewardship and Engagement Report. The IIC reviews the information provided by the investment managers, asks challenging questions and follows up where a manager's approach is deemed as unsatisfactory. In particular, managers will be expected in future to prioritise engagements according to the Stewardship Priorities set by the IIC (being Climate Change, Modern Slavery and Diversity & Inclusion). If a manager was not prioritising areas in these areas to a satisfactory level, the IIC would follow-up with the manager accordingly.

The IIC and/or IIC sub-committee meets with all of the appointed investment managers on an annual basis to perform a review of the relevant mandate(s). Over the period under review, the IIC is satisfied that the majority of investment managers have operated as expected. The IIC engages with managers to encourage improvement where appropriate.

Case Study: Private Debt

Following engagement in 2021 with one of the DHL PIF's private debt managers whereby the manager became a signatory of the UN PRI, the manager has made further developments in their ESG procedures and has, more recently, made the most recent vintage of their direct lending funds Article 8 under the SFDR regulation.

The IIC has found that investment managers are receptive to these dialogues and often it's a resource issue internally that needs to be solved rather than any change to the way in which ESG is integrated throughout the manager's process (which is considered as part of the manager selection and retention).

PRINCIPLE 8

MONITORING MANAGERS AND SERVICE PROVIDERS

Signatories monitor and hold to account managers and/or service providers.

Investment Consultant

The IIC has appointed an investment consultant who advises the DTL Board, the FISC and the IIC on all aspects of investment strategy including setting investment objectives, asset allocation, manager selection & monitoring and implementation. The contractual arrangements between the DTL Board and the investment consultant specify the services that are to be provided and the fee arrangements.

The DTL Board has set clear objectives for the investment consultant and the performance of the investment consultant is reviewed annually against these objectives.

The fees of the investment consultant have a discretionary performance-based element which is based on the IIC's assessment of the quality and quantity of work that has been undertaken by the investment consultant. The level of the performance-based element is also reviewed as part of the annual review. The performance of the investment consultant was most recently reviewed in December 2022. As part of the 5-year strategic plan of the DTL Board, a market tender exercise was initiated for this role in June 2023.

Custodian and Custodian Advisor

BNY Mellon UK and MJ Hudson-Amaces have been appointed as the DHL PIF's Custodian and Custodian advisor respectively. In addition, BNY Mellon US were appointed by the DTL Board to be the Custodian of the DHL GRP's assets in respect of the longevity swap. The contractual arrangements between the DHL PIF and the providers specify the services that are to be provided and the fee arrangements. Both providers attend an annual meeting with the IIC to discuss the Custodian's performance over the year. If the IIC was dissatisfied with the performance of either provider, the appointment would be reviewed immediately. BNY Mellon and MJ Hudson-Amaces attended a meeting in February 2023 and although the IIC were satisfied with MJ Hudson-Amaces' appointment, there were areas of concern raised with regards to BNY Mellon's appointment. Most notably, concerns were raised that their reconciliation teams were understaffed and that this was in the context of a wider firm initiative to reduce global staff levels. As a result, the IIC agreed that these points should be raised with the BNY Mellon Relationship manager, to inform him that if the services did not improve over the next six months, then the IIC would consider reviewing the market for an alternative custodian.

Cost Transparency

ClearGlass produced their second set of reports on the transaction costs incurred by the DHL PIF's managers over the calendar year 2021. The IIC reviewed these and noted that the ongoing charges incurred by the Emerging Market Debt manager were high relative to its peer group, as was the case in the previous year's report. However, the mandate was terminated in September 2022 as part of investment strategy changes in the Plan.

PRINCIPLE 9

ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Engagement with issuers is carried out by investment managers on the Trustee's behalf and, to incentivise and understand that engagement, the IIC monitors the Stewardship and Engagement activities for each of its investment managers. The IIC expects its investment managers to directly engage with the debt or equity issuers on ESG issues to improve the issuer's performance on a medium to long-term basis. The IIC or a sub-committee of the IIC communicates this expectation to investment managers both as part of the initial selection and as part of their annual review meeting. In addition, the investment consultant reinforces these expectations as part of their regular monitoring on behalf of the IIC. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

While the number of engagements made over 2022 decreased relative to 2021, this is to be expected given a number of the DHL PIF's mandates were terminated over the course of the year.

	2022	2021
Percentage of the portfolio for which data was available:	54%	37%
Of the mandates for which data was available:		
Number of engagements:	1,123	1,291
Total number of entities engaged with:	413	530
Percentage of portfolio engaged with (by NAV)**:	38%	52%
Percentage of eligible resolutions voted on:	100%	100%
As a proportion of total NAV:		
Total weight of the entities that were engaged with*:	21%	19%

*In practice, the total weight of the underlying entities that were engaged with is likely to be higher than this, given that there will have been engagements in respect of the mandates where we have not received data.

**The lower percentage in 2022 (compared to 2021) reflects the higher allocation to UK government bonds which is expected to have a lower level of engagements.

Case Study: Global Equities

The manager managed a global equity mandate on behalf of the DHL PIF. The manager is also a signatory to the UN PRI and the Code. Detailed below are some of their engagement highlights over 2022.

98% of the AUM of the portfolio was engaged with

32 entities engaged with over 2021

100% of the resolutions were voted on for which the manager was eligible

94% of the entities within the portfolio were engaged with

100 engagements over 2021

11% of the votes were against management

PRINCIPLE 9

ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Engagement Priorities

During the Plan year, the IIC agreed to set the following three Stewardship Priorities, following new guidance from the Department of Work and Pensions. These Stewardship Priorities were communicated to the investment managers.

- E – Climate Change: For example, investment managers engaging with companies on their climate change policies and/or voting on resolutions requiring publication of a business strategy that is aligned with the Paris Agreement on climate change;
- S – Modern Slavery: For example, investment managers engaging with companies on their modern slavery policies especially with regards to their supply chains; and
- G – Diversity & Inclusion: For example, investment managers voting against a director appointment where the board is not sufficiently gender diverse.

The priorities tie in well with the TCFD requirements and can pose a material financial and/or reputational risk. Many of the investment managers are already focusing their engagement strategy on these areas.

The IIC has also collated information on the distribution of engagements made by each of the investment managers across a range of E, S and G factors. An example of the information that is collected from the DHL PIF's managers is shown on the next page. This particular case study illustrates the manager's engagement priorities over 2022. This is used to compare and contrast approaches within asset classes and to challenge managers on their actual activity.

In this instance, the managers are asked to confirm the number of engagements made for each topic.

PRINCIPLE 9

ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Case Study: Global Equities		Number of engagements
Environment	Climate change	27
	Natural resource use/impact (e.g. water, biodiversity)	21
	Pollution, waste	7
Social	Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying)	0
	Human and labour rights (e.g. supply chain rights, community relations)	6
	Human capital management (e.g. inclusion & diversity, employee terms, safety)	19
	Inequality	0
	Public health	0
Governance	Board effectiveness (e.g. diversity, independence, oversight)	10
	Leadership – Chair/CEO	9
	Remuneration	0
	Shareholder rights	0
Strategy, Financial and Reporting	Capital allocation	29
	Corporate reporting (e.g. audit, accounting, sustainability reporting)	0
	Financial performance	0
	Firm strategy/purpose	0
	Risk management (e.g. operational risks, cyber/information security, product risks)	0

PRINCIPLE 9

ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Case Study: Global Equities

Rationale for the engagement:

Contribute to the spirit of the UN Sustainable Development Goals (SDGs). Specifically Goal 5, which seeks to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.

The engagement:

The manager explored the company's targets for gender parity by 2030 at the executive level, and questioned whether they had conducted pay gap analysis.

Outcomes and next steps

- The company shared that they conducted a global pay-gap analysis in 2021, but have not yet made it public. The manager urged them to do so, especially as they already disclose EEO-1 data.
- The company was receptive to the manager's feedback on their executive compensation scheme. The manager will follow up to review their compensation changes at a later date.

Case Study: Multi-Asset Credit

Rationale for the engagement:

The company is a power generation business, based in the UK. A documentary was televised claiming that the company was engaged in non-sustainable practices in relation to procuring biomass, which contradicts their ESG and sustainability objectives.

The engagement:

The Research Analyst contacted the investor relations team to understand the company's side of the story before deciding how to proceed. The manager asked a few questions to try and understand if they had logging licenses in primary forests and if so, how compatible this was to their environmental commitments. The manager also wanted to understand the makeup of material in their pellets and where the company source pellet material from.

Outcomes and next steps

- The company informed the manager that they do not hold any Canadian Primary Forest licences but hold two Category Two licences in British Columbia. Category Two licences allow the company to bid for plots of land and if they are successful their name appears on the paperwork. This does not mean they directly undertake any harvesting activity in these areas. They will not be pursuing any further Category Two licences due to tension surrounding the legitimate legal commercial rationale for holding them and the negative press from the documentary.
- The company feel their current process of procuring biomass is compatible with their environmental commitments because Canadian forests are one of the most regulated forest industries and the government carefully select areas for harvest based on an exhaustive list of environmental requirements.
- The documentary claimed only 11% of wood pellets used was classified as low grade while the rest of the logs used by the company were higher grade and could have other commercial uses. The company argued that the figure only considers the very lowest quality of material and that most of the material they use is classified as low grade pulp logs. This is material that would normally have another use but when there is no market it becomes waste.
- Although the company is not involved in determining which logs can be sold for commercial use, higher grade logs attract a much higher price than the company would pay for biomass material. They argue biomass is a much better outcome for the climate as if they did not use it the material would be burned as a waste product, without generating energy.
- Overall, the manager was satisfied with the answers they received but ultimately decided to exit the position in October/November 2022.

PRINCIPLE 9

ENGAGEMENT

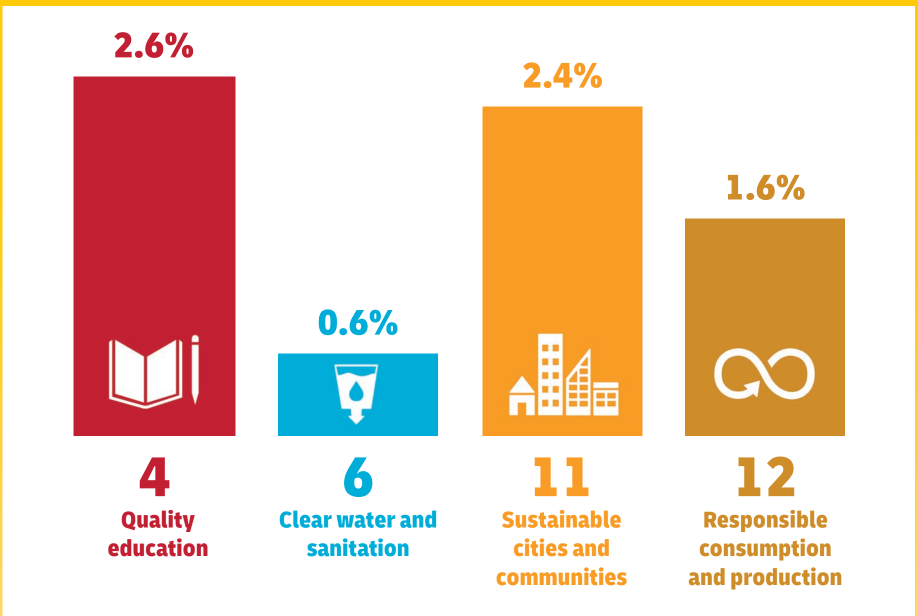
Signatories engage with issuers to maintain or enhance the value of assets.

Case Study: Private Debt

The manager manages private debt on behalf of the DHL PIF. They are a signatory to the UN PRI and became a signatory of the Code in 2022.

UN SDGs

The manager assesses each portfolio company based on its alignment with the UN SDGs. The chart below shows the proportion of portfolio companies that contribute to specific SDGs for one of the manager's private debt funds that the DHL PIF is invested in, as at 31 December 2022.



This is an example of working with an investment manager to drive for better data to be made available. The expectation is that this drive will continue in future and that more useful data will be made available.

Target Improvement Plans

In March 2021, the manager formalised their engagement approach and began offering Environmental & Social (E&S) Target Improvement Plans (TIPs) to all new primary borrowers, whereby borrowers are offered financial incentives for meeting E&S performance targets. For the 12 months to 31 December 2022, there were 10 TIPs that had been signed and documented.

Data Availability

Whilst many of the managers are able to provide good quality data on their engagements, it can be inconsistent across asset classes and investment managers. This is something that the IIC is looking to take forward into the future, with a particular focus being on climate data.

Whilst data for liquid mandates is typically more readily available than for illiquid mandates, a case study of one of the Private Markets managers that has been able to provide excellent quality data is shown on the previous page.

PRINCIPLE 10

COLLABORATION

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Where practical, the IIC encourages its investment managers to work collectively with other managers in order to encourage positive change. The IIC encourages its fund managers to engage with Climate Action 100 and Nature Action 100. The IIC also expects its investment consultant to be a member of the Investment Consultants Sustainability Working Group (ICSWG). Furthermore, the IIC expects and encourages managers to collaborate on collective stewardship and seeks confirmation on this from the managers as part of the monitoring process.

Case Study: Investment Consultants Sustainability Working Group

The investment consultant is a member of the ICSWG. The ICSWG is a collaboration between 19 firms formed in 2020 taking action to support and accelerate sustainable investment initiatives in the UK.

The ICSWG views reporting on ESG metrics such as carbon emissions and engagement as a key priority. As such, over the 12 months to 31 March 2023, the investment consultant has collaborated as part of the ICSWG to update the standardised list of ESG metrics that the group expect investment managers to be able to report on. These templates have been produced with the key objective of improving the standard and consistency of reporting on these metrics across the industry. A member of the investment consultant's client team for the DHL PIF is also a member of the working group responsible for refreshing the ESG metrics template.

The ICSWG also produce an engagement reporting template, which was used as part of the data collection process for the third annual Stewardship and Engagement Report. As a result, the reporting on engagement within private assets improved considerably over the 12-month period since the last Stewardship and Engagement review.

Case Study: Investment Manager

The investment manager is a non-majority shareholder in a private company which underperformed expectations. The manager has been able to collaborate with another investment manager with aligned interests to themselves and, in combination, they together hold a majority shareholding. As a result, the manager now can collaborate with the other investment manager to ensure desirable outcomes from shareholder proposals, benefiting both parties.

Other Collaborative Engagements

White Paper on Social Investing

As chair of the CFA UK Pensions Expert Panel, Natalie Winterfrost led a working party to produce a white paper on social investing. Further information can be found via the following **link**.

Pensions for Purpose

Natalie Winterfrost, Chair of the IIC (as representative of The Law Debenture Pension Trust Corporation p.l.c. (Law Debenture) as director), has served as a judge for the Pensions for Purpose awards during the year.

PLSA

Peter Flanagan, Chair of the DTL Board, is a member of the DB Committee of the PLSA and a member of the Pension Dashboards co-ordination committee.

Legal Advisor

The Plan uses Sackers and Stuart O'Brien specifically, to review its policies in relation to Climate Risk and compliance with the Climate Change Governance and Reporting Regulations. Stuart is a leading industry figure for ESG investment issues. He chairs the Pensions Climate Risk Industry Group and sits on a number of high profile committees including recent PLSA working groups providing guidance to trustees on ESG and implementation statements.

The Society of Pension Professionals (SPP)

Samantha Pitt, representative of Law Debenture as Director of the DTL Board acted as Chair of the SPP's Covenant Committee and Natalie Winterfrost acts as Chair of the SPP's Investment Committee. In her role as Chair, Natalie led the delivery of a paper considering future governance and possible challenges to DB pension schemes. Further information can be found via the following **link**.

PRINCIPLE 11

ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

The IIC recognises that the use of constructive engagement with company management can help protect and enhance shareholder value. Typically, the IIC expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are being inadequately addressed. This expectation is formally communicated to the investment managers by the IIC and/or IIC sub-committee and/or investment consultant.

The IIC, or a sub-committee of the IIC, reviews the engagement carried out by investment managers as part of their annual meeting, in conjunction with research carried out by the IIC's investment consultant. This includes consideration of:

- For equities, whether or not voting activity has led to any changes in company practice;
- Whether the investment manager's policy specifies when and how they will escalate engagement activities;
- Overall engagement statistics (volume and areas of focus); and
- Examples of most intensive engagement activity discussed as part of the manager's annual review meeting.

The IIC is satisfied that a number of the DHL PIF's managers have demonstrated areas in which they have escalated their stewardship duties through the case studies that have been discussed as part of the annual review meeting.

The following page provides further detail on a couple of case studies from one of the DHL PIF's Private Debt managers.

Engagement Versus Disinvestment

Whilst engagement is always preferable, disinvestment from a portfolio company is used as a 'last resort' where the manager is unsatisfied with the lack of positive outcomes following continued engagement with the investee company. The manager may also wish to issue a public statement about the investee company in order to encourage change.

PRINCIPLE 11

ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

Case Study: Modern Slavery

Rationale for the engagement:

The company has c.200 suppliers. Companies in the industry typically contract with suppliers in countries with the lowest costs. Therefore, the industry's products are often manufactured in countries that have limited regulations or enforcement protecting workers. This exposes the company to reputational risks.

The engagement:

The manager set two objectives for the company to meet over the coming five years. The first was a target for an increased response rate on their supplier questionnaire, in order to improve the questioning surrounding the protection of workers. For instance, increase the response rate to 82% in their 2022 financial year. The second was to improve Scope 1 & 2 greenhouse gases emissions each year. The manager signed into the deal which contained the sustainability-linked margin ratchet.

Incentives

- Should the company achieve both their targets each year, they will be awarded a 0.075% discount on their loan.
- The manager is awaiting evidence from the company as to whether their objectives have been met.
- Failure to meet both their objectives will induce a 0.075% premium on their loan. If one target is met there is no adjustment to the margin on the loan.

Outcomes

The first test date is 31st December 2023.

Case Study: Diversity & Inclusion

Rationale for the engagement:

To understand and minimise ESG risks to promote better ESG performance.

The engagement:

The manager set two objectives for the company to meet over the coming five years. The first was a target for increased proportion of women amongst the company's executives, directors, officers and managers. For instance, 28.25% female representation by December 2022. The second was to encourage a reduction in cyber security incidents. The manager signed into the deal which contained the sustainability-linked margin ratchet.

Incentives

- Should the company achieve both their targets each year, they will be awarded a 0.1% discount on their loan.
- Failure to meet both their objectives will induce a 0.1% premium on their loan. If one target is met there is no adjustment to the margin on the loan.

Outcomes

Both targets have been met over the financial year for the company. As such, a discount of 0.1% on the loan has been awarded.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

Voting Policy

The IIC believe that good stewardship can enhance long-term portfolio performance, and expects its investment managers to directly engage with the debt or equity issuers to improve the issuers' performance on a medium to long-term basis. The IIC has not formulated its own voting policy and therefore votes are cast in accordance with each manager's voting policy. However, as the DHL PIF no longer has exposure to physical listed equities, a policy on voting equity rights is not required. The voting records of the equity managers that were in place for the first part of the year are summarised in the Stewardship and Engagement Report and on the following page. The investment consultant has also reviewed the voting policies of its investment managers and is comfortable that these are in line with the DTL Board's Investment Beliefs.

Monitoring

The IIC also requires managers to report regularly and disclose all voting and engagement activity undertaken on behalf of the DHL PIF, and may engage with the managers as part of its stewardship monitoring process. The IIC reviews these voting records as part of its annual Stewardship and Engagement review. Where the DHL PIF's equity managers have proxy voters in place, the manager is also expected to report on where they have voted against the advice of their proxy voter and their rationale behind this.

Proxy Voting

The investment managers do make use of proxy voting services to analyse vote issues and make recommendations. They are not obliged to follow these recommendations and vote all proxies based on their own voting policies.

Stock Lending

Stock lending is not permitted.

Voting Activity

The voting activity for each of the investment managers over 2022 is summarised in the table on the following page. The voting information for the individual managers, including significant votes, has been reviewed by the IIC.

Other Areas of Investment Policy

With regards to the fixed income areas of the investment policy, the IIC accepts that they cannot directly seek amendments to terms and conditions for these assets as this is delegated to the investment managers. The case studies on private debt outlined in Principle 11 highlight how incentives are being designed by fixed income managers to promote effective stewardship. We are encouraging the investment managers to develop this area and to develop reporting as part of our monitoring.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Voting Activity

The voting activity for each of the relevant investment managers over 2022 is summarised in the table below:

	Manager 1	Manager 2	Manager 3
How many meetings were you eligible to vote at?	30	53	24
How many resolutions were you eligible to vote on?	454	384	418
What % of resolutions did you vote on for which you were eligible?	100%	98%	100%
Of the resolutions on which you voted, what % did you vote with management?	89%	94%	89%
Of the resolutions on which you voted, what % did you vote against management?	11%	6%	11%
In what % of meetings, for which you did vote, did you vote at least once against management?	87%	28%	58%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy advisor? (if applicable)	8%	12%	11%

Examples of the significant votes cast by the managers over the year are shown on the following page.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Voting Activity

Significant Votes

The investment managers are also required to report on any significant votes that have taken place over the period. The voting information for the individual managers, including significant votes, is then reviewed by the investment consultant. A couple of examples of significant votes are included below.

Case Study 1:

On 18 May 2022, one of the managers voted against the issuance of equity or equity-linked securities without pre-emptive rights, and voted against the authorisation of the reissuance of repurchased shares. The manager believes the company is increasingly unlikely to need the flexibility to issue this many shares, due to its large market capitalisation and a maturing of investments. However, the vote was passed.

The manager believes voting against these motions will not compromise the company's capital strategy and has stated that they will likely continue to vote in this way in the future.

Case Study 2:

On 22 April 2022, the manager voted against a resolution to elect three people as Directors. This was due to concerns about a non-independent Board. The manager engaged unsuccessfully with the company over these concerns and this action was an escalation of the unsuccessful engagement. However, the vote was still passed.

The manager has previously voted against similar proposals and has stated that it will likely continue to vote against non-independent board directors in the future.

DHL Group Retirement Plan (DHL GRP)
DB Sections

APPENDIX

APPENDIX: DHL GROUP RETIREMENT PLAN (THE PLAN) INVESTMENT BELIEFS

DEFINED BENEFIT (DB) ASSETS – SEPTEMBER 2023

1. Introduction

The purpose of this paper is to document the Investment Beliefs that have been adopted by the Trustee Directors (the Directors). These Beliefs guide all decisions relating to the investment of the Plan's DB assets, and form the foundation of discussions on strategy and asset allocation.

Although these Beliefs reflect core, long-term views which are not expected to change frequently, the Directors intend to review them annually.

The paper is broken into 2 main sections. Section 2 (below) sets out a number of fundamental propositions which underpin the more specific Investment Beliefs. This is followed in section 3 by the specific Investment Beliefs that the Directors have adopted.

2. Fundamental Propositions

This section sets out a number of fundamental propositions which were used to develop the specific Investment Beliefs.

Risk[1] and return are related.

Capital markets are broadly efficient over the medium to long term – if the expected return on an asset exceeds that on a second similar asset, there is likely to be an additional risk associated with holding the former asset.

The Directors accept, however, that there will be periods when markets do not operate efficiently. Whilst such periods will provide exposure to additional risks, they also present an opportunity to enhance return.

Return requires risk but risk does not guarantee return.

Risk-taking does not guarantee that an additional return will be achieved even over long time periods.

Diversification of risky assets reduces volatility[2].

Combining assets, whose returns are less than perfectly correlated, reduces the volatility of overall portfolio returns. It also reduces the Plan's reliance on each individual component of the investment policy.

The world is complex.

Financial market theories are of considerable assistance in understanding real world investment issues, but they should not be relied upon in isolation when establishing a suitable investment policy.

Behavioural issues are important.

Behavioural issues apply at the security level, at the asset class level and in the construction of the overall investment portfolio.

Governance is important.

Good decision-making procedures and effective controls improve the chances of successful management (i.e. better risk-adjusted returns) of investment portfolios.

Environmental, Social and Governance (ESG) factors can be financially material to security prices.

ESG factors, including climate change risks, can be financially material to security prices and should therefore be considered as part of the investment process.

[1]Risk is a measure of uncertainty. In its broadest sense, 'risk' refers to the possibility that actual outcomes are worse than expected outcomes. For the Directors, the key 'risk' that needs to be managed is the risk that the assets and future contributions from the sponsor will not be sufficient to meet the Plan's obligations to its beneficiaries.

[2]Volatility is a measure of the variability of returns, and is often used to quantify 'risk'. However, it should be noted that, whilst volatility is a useful measure of risk, it is a far from perfect measure.

APPENDIX: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2023

3. Investment Beliefs

This section sets out the specific Investment Beliefs that have been developed based on the fundamental propositions covered in section 2 on the previous page.

3.1. Risk and return are related

The Directors believe that the liabilities are bond like.

The ‘risk free’[1] assets are government bonds with similar characteristics to the liabilities[2] (i.e. by maturity and nature). Government bonds therefore provide a ‘hedge’ for the liabilities. In practice any liability hedge would need to make use of derivatives, as physical bonds are not sufficiently flexible (by term and nature). Corporate bonds also have bond-like characteristics which provide a hedge for the liabilities, but also have an expected return which is higher than the expected return on government bonds. This higher expected return is not risk free, however, and so the credit component of a corporate bond investment can be viewed as a ‘risky’ asset.

The Directors believe that assets that do not match the liabilities of the Plan are risky relative to the liabilities, and that these risks need to be understood, quantified, and monitored. They also need to be sufficiently well rewarded to justify the risks taken.

Asset and liability modelling (ALM) can be used to consider the risks inherent in the investment policy. Whilst the Directors accept the limitations of modelling, they should consider the output of an ALM exercise periodically.

Regarding risk measurement, the Directors acknowledge that there is no one right way of measuring the risk of the Plan’s investment strategy. However, in terms of measuring potential adverse scenarios, Value at Risk and funding level volatility are considered to be useful metrics for quantifying the potential downside risk that the Plan is exposed to.

The Directors also believe that risks should only be tolerated to the extent that the Directors are satisfied they can be fully underwritten by the Founder.

The Directors regularly seek confirmation from the Founder that it has the resources to ensure that the risk of failing to meet the obligations to beneficiaries is extremely low. The Directors also seek independent confirmation of the Founder’s ability to do so. However, the Directors believe that provided the Founder covenant can support the risks involved, taking investment risk in order to control expected future cash contribution requirements is perfectly reasonable.

The Directors believe that equities and credit should be expected to outperform government bonds over the long-term.

There is a fundamental economic rationale for equities and credit to outperform government bonds over the long-term (i.e. a 10-year period), but the Directors accept that this expected excess return is not guaranteed, and that over long periods of time, equities and credit can underperform relative to government bonds.

The Directors believe that assets with low liquidity should offer a liquidity premium.

Asset classes which can be expected to offer a liquidity premium include private equity, property and corporate bonds (both public and private debt). For those pension schemes which have a relatively long-term investment horizon, there is the potential to benefit from liquidity premia.

[1]The Directors recognise that government bonds are not truly risk free given the inherent default risk of bonds, but that they are the lowest level of risk that can be taken in the investment policy.

[2]The Directors recognise that the liabilities themselves are a series of uncertain future cashflows. The expected cashflows can be estimated in advance, but the accuracy of these estimates will be dependent on a number of financial (e.g. inflation) and demographic (e.g. mortality rates) assumptions.

APPENDIX: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2023

3.2. Return requires risk but risk does not guarantee return

The Directors believe that unrewarded risks should be removed if markets allow at a fair price.

For example, if markets are fairly priced, currency risks should not be rewarded.

UK investors take on currency risk when they invest in assets that are not denominated in sterling. They do this because they wish to hold the non-sterling securities in question rather than in the expectation of the foreign currency appreciating relative to sterling. This clearly introduces risk, because the foreign currency could either appreciate or depreciate relative to sterling, affecting the sterling value of the security. However, in the absence of currency mis-valuation, this risk should not be rewarded over the longer-term.

The Directors accept, however, that there will be periods when certain currencies are not 'fairly valued' and that these mis-pricings can result in a secular expectation that some currencies will appreciate relative to others.

3.3. Diversification of risky assets reduces volatility

The Directors believe that diversification of risky assets, both across and within asset classes, reduces risk and volatility.

This Belief has been a central goal of the Directors when establishing a suitable investment policy. In particular:

- The equity exposure should be diversified between UK and overseas markets, and across international equity markets.
- The credit allocation should be diversified internationally. However, it is not necessary for the underlying credit portfolios to be diversified internationally.
- Where possible, the management arrangements should be diversified across a range of investment managers, ideally with contrasting approaches. However, diversification of the management arrangements should not result in material compromises to the overall investment arrangements. For example, the use of a single credit manager would be acceptable if it were the only practical way to ensure that credit could also be used to support the collateralisation of the liability hedge.
- Allocations to alternative asset classes such as property, private equity, growth fixed income and active strategies such as Global Tactical Asset Allocation (GTAA) are an appropriate means for achieving diversification of the Plan's assets.
- Another key reason for limiting diversification is that governance is limited, so for practical reasons mandate size also matters. It is acknowledged that there is a trade-off between governance and cost.

3.4. The world is complex

The Directors believe that judgement and qualitative research are at least as important as quantitative analysis.

In particular, the Directors would not invest in a new asset class simply because an optimisation process suggests it is attractive. The Directors would need to be convinced that there is a fundamental rationale for making any investment.

The Directors also recognise that highly unlikely events occur, and that they occur more frequently than modelling would suggest they should. The Directors will therefore invest in an asset only if they believe they are able to understand the nature of the risks involved, and how these risks can be managed.

The Directors believe that high quality, proprietary research is needed to construct portfolios capable of generating superior risk adjusted returns.

Developing best practice investment portfolios requires a substantial commitment to research, as some form of competitive advantage or insight is required to achieve better than average outcomes. This is true for investment managers when building portfolios capable of beating market returns, and also true for consultants when evaluating asset classes and investment managers.

APPENDIX: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2023

3.5. Behavioural issues are important

The Directors believe that investor behaviour can result in market inefficiencies.

A belief that market inefficiencies exist is a necessary, but not sufficient condition, for active management to be worthwhile. The additional requirements are that:

- Skilled investors who are able to exploit market inefficiencies exist.
- It is possible to identify these skilled investors.
- The excess returns achievable (through the use of active management) provide sufficient compensation for the additional fees charged by active managers, transaction costs, and the additional risks taken by active managers in pursuit of these excess returns.
- That assets under management of a particular investment strategy are such that this does not impede the active manager's ability to implement effectively their best ideas.

The Directors also believe that market inefficiencies (and therefore the scope for outperformance) are more prevalent on a global basis (rather than regional) as well as in less developed markets.

These additional requirements are not Beliefs, but factors that the Directors will review periodically on a market by market basis. The following inefficiencies should be considered:

- Stock price inefficiencies in global equity markets.
- Security mis-pricing in global bond markets.
- Market mis-valuations across global equity, bond and currency markets.
- Asset class mis-valuations (e.g. under-valuation of corporate bond market).

The Directors believe that active management of investment grade credit is preferable compared with a passive approach.

The forced selling/buying of issues that are downgraded/upgraded from/to a particular credit index can have a material impact on investment returns. This is due to the behaviour of index-tracking investors who are forced to sell/buy issues at any price, and consequently the value of certain assets can be under-valued/over-valued relative to their assessed fundamental value for a period of time.

Other disadvantages associated with a passive approach include any unintended concentration to certain sectors and issuers who comprise the largest constituents of an index when assessed on a market capitalisation weighted basis.

The Directors believe that market sentiment can result in opportunities for long-term investors.

Whilst market sentiment can result in over and under-valuation of securities and markets in the short-term, over the long-term, fundamental factors should drive markets. Long-term investors such as pension funds should, therefore, be able to exploit short-term inefficiencies. However, this does require a long-term perspective, and it is unrealistic to expect fundamental views, or fundamentally driven active management strategies, to be rewarded over short periods.

The Directors believe that the implementation of any change in policy needs to allow adequately for prevailing market conditions.

For example, when making a policy change, in volatile markets, there may be a case for implementing the change slowly over time.

APPENDIX: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2023

3.6. Governance is important

The Directors believe that good governance improves the quality of investment decision making (i.e. better risk-adjusted returns).

Where the Directors do not have the skills or resources to make good decisions, they seek to obtain the skill or resource or they delegate decision making to third parties with demonstrable skill, resources and expertise (e.g. day-to-day investment management is delegated to professional fund managers).

The Directors believe that it is appropriate to set investment guidelines which control the risks taken within investment mandates.

The Directors seek to set controls which limit risk without compromising an investment manager's ability to construct efficient investment portfolios.

The Directors believe that the interests of investment managers should be aligned with the interests of the Plan.

The Directors do not believe that performance-related fees change behaviour, but they do align interests. Where performance-related fees are used, these should be fairly structured (i.e. the manager's 'share' of the alpha generated needs to be appropriate). Furthermore, the Directors will always seek to ensure that managers are incentivised to achieve the targeted performance rather than to gather assets. They will also seek to ensure that the Plan is treated fairly by negotiating 'Most Favoured Nation' clauses whenever possible.

The Directors believe that effective monitoring improves the timeliness of decision making.

Performance and risk should be monitored to ensure that the reasons for making an investment remain valid. This applies to both investments in broad markets, and investments in particular investment manager arrangements.

The Directors believe that governance processes and controls need to evolve over time.

Good governance is not a static concept and the Directors recognise that processes and controls need to adapt in response to, inter alia, changes in the circumstances of the Plan, the Founder, the investment environment, and the regulatory environment.

The Directors believe that an ability to make decisions quickly can be advantageous.

This belief recognises that market conditions can change quickly, and that opportunities can be missed if decisions are not made in a timely fashion.

The Directors believe that training and education is important.

Without adequate training and education on investment issues, the Directors recognise that their ability to make well informed decisions could be compromised.

The Directors believe that good planning is important.

Time is a scarce resource, and time available to the Directors needs to be used effectively. This requires good planning to ensure that the Directors do not spend time on activities that could be dealt with outside formal meetings. In particular, the Directors support the use of sub-committees to progress any implementation work and to fulfil some of the Directors' monitoring responsibilities between formal meetings.

APPENDIX: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2023

3.7. ESG factors can be financially material to security prices

The Directors believe that ESG factors can be financially material to security prices.

ESG factors such as environmental disasters, poor labour practices and accounting failures can lead to poor performance. The Directors also believe that consideration of ESG factors can lead to outperformance through the increased focus on the long-term sustainability of returns. Therefore, active managers conducting security level research should consider ESG factors in their investment research process.

The Directors believe that good active managers have considered how to incorporate ESG factors into their investment process.

ESG factors can be financially material, so good active managers will consider them. An active manager's approach to ESG factors should be understood. Material weaknesses in their approach would count against their selection and retention.

The Directors believe that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation.

Stronger investment team approaches to ESG are likely to be found when the broader organisation shows strong ESG commitment. This can often be seen through broader resources and better internal discussion and debate. More detailed diligence on the strength of a manager's ESG approach may be required where their broader organisation does not show strong ESG alignment.

The Directors believe that the impact of, and potential responses to, climate change creates a material financial risk. In particular, the Directors believe that companies should adjust their business strategies to align with the 2015 Paris Agreement.

There is a wide range of uncertainty in both the future climate scenarios and the timing and choice of policy responses. A carbon tax, as just one example, could have financial implications for the profitability and competitive position of companies that are impacted. Climate change risks should be considered in the selection of individual investments by investment managers. In particular, companies that do not adjust their business strategies to align with the 2015 Paris Agreement can face significant downside, and stranded asset risks. Investment managers should take into account how companies are adjusting their business strategies to align with the 2015 Paris Agreement, and ensure that any exposure to stranded asset risk is considered in the selection of individual investments.

Climate risk scenario testing can also be useful in understanding the Plan's exposure to climate risks. The Directors accept that there is an ongoing concern with the lack of consistency, availability and quality of data to quantify the exposure to climate risk. The Directors accept that this position is likely to improve over time and should be kept under review.

The Directors believe active stewardship can improve investment returns.

Some academic evidence shows improved investment returns from a range of activist engagement approaches. The Directors prefer managers with good stewardship approaches.

The Directors believe that investments in controversial weapons are not appropriate under any circumstances.

The Directors believe that investments in businesses and corporate entities that are involved in the production of controversial weapons are not appropriate under any circumstances. The definition of controversial weapons is likely to develop over time as the Directors consider this and discuss it with investment managers, but is defined as weapons which are contrary to international treaties or conventions. These investments are prohibited within the Plan's segregated mandates. The Directors understand that given the nature of the Plan's segregated mandates, this exclusion is unlikely to have a material impact on the financial outcomes of the investment portfolios.

4. Summary

This paper sets out the Investment Beliefs that have been adopted by the Directors. These Beliefs should form the basis of all investment policy decisions. The Beliefs will be reviewed annually, but it is not expected that changes will be needed this frequently.

APPENDIX: CONFLICTS OF INTEREST POLICY

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

1. Purpose

This policy sets out:

- How DHL Trustees Limited (the Trustee) (as Trustee of the Plan) will deal with any actual or potential conflicts of interest;
- How the Trustee expects professional advisers to deal with conflicts of interest.

A summary of the general trust law principles which apply to conflicts is included in Annex 1 to this policy. It is understood that these principles are recognised by DHL when appointing Trustee Directors.

2. Identifying conflicts

Recognising potential conflict situations

Potential conflicts of interest arise in three key areas:

- Conflicts between the Trustee Director's duty to the Plan and the Trustee Director's own interest e.g. as a member. These are known as 'personal interest conflicts'.
- Conflicts between the Trustee Director's duty to the Plan and other fiduciary duty e.g. as a director of DHL. These are known as 'conflicts of duty'.
- Where the Trustee Director is in possession of confidential information (by virtue of another role) which he/she may not share with his/her fellow Trustee Directors because of a duty of confidentiality owed to another person. These are known as 'confidentiality conflicts'.

When undertaking Trustee business, Trustee Directors should ask themselves if they feel able, without restriction or undue bias, to answer yes to the following questions:

- Can I continue to act in the best interest of the beneficiaries of the Plan?
- If there are competing interests, can I maintain and hold the balance fairly between those competing interests?
- Am I in possession of information relevant to a decision that I believe/know other Trustee Directors do not know and I am able to disclose?

If the answers are not a clear 'yes', the Trustee Director should raise the matter with the Chair of the Trustee, and if appropriate with the Trustee's legal advisers. It is important for the Trustee Director to be careful that disclosing his/her potential conflict to the Chair does not put the Chair in a conflict position.

The Trustee Directors should take time to consider what decisions are scheduled for the year ahead and determine whether any conflicts are likely to arise. In preparing and considering a Trustee meeting agenda, the Chair and the Secretary to the Plan should consider any potential conflicts in issues arising for discussion.

Possible areas that could give rise to conflicts include, for example:

- Setting investment strategy and reviewing investment choices.
- Setting assumptions for actuarial valuations.
- Approving discretionary benefits to a member.
- Choosing different Trustee advisers.
- Setting contribution rates.
- Setting a recovery plan for correction of a deficit.
- Negotiating funding, including the choice of actuarial assumptions.
- Dealing with bulk transfers in or out.
- Discussing benefit changes proposed by DHL.
- Settling a death in service benefit claim and dealing with the allocation of any surplus.

A summary of the possible issues from DHL's perspective is set out in Annex 2 to this policy.

APPENDIX: CONFLICTS OF INTEREST POLICY

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Declaration and register of interests

New Trustee Directors are required to complete a declaration of interests upon appointment. All declared interests will be recorded on the register of interests.

The register of interests is included within all regular Trustee meeting packs and Trustee Directors must update their own declarations as and when any changes in circumstance occur.

Declaration and register of conflicts

As soon as a Trustee Director becomes aware that he/she has a conflict, or potential conflict, this must be declared to the Chair of the Trustee or, if appropriate, the Trustee Board as a whole.

Trustee Directors must declare any conflicts or potential conflicts at the beginning of each Trustee meeting (as regards items for discussion at that meeting) so that this declaration can be recorded in the minutes.

Any Trustee Director wishing to speak from DHL's view must state this clearly in a meeting and have this recorded in the minutes.

3. Evaluating and managing conflicts

When a conflict has been identified, the Chair of the Trustee or, if appropriate, the Trustee Board as a whole must assess its impact and decide whether an active form of management is needed.

To identify the appropriate option(s) for managing a particular conflict, the Chair or Trustee Board, as appropriate, must take into account the:

- Particular circumstances of the conflict;
- Actual risks the conflict poses; and
- Legal rules governing the Plan.

The Chair/Trustee Board will confirm if it is safe for the Trustee Director to participate in the meeting/discussion or will ask the Trustee Director to withdraw.

Where a Trustee Director's withdrawal has been pre-arranged, this is to be noted on the agenda.

Where the Chair, or any Trustee Director, has any doubt, the Trustee's legal adviser should be requested to advise. However, if this involves disclosing information that is confidential to DHL, the advice should be sought from DHL's legal advisers.

Any action taken to manage the conflict must be recorded appropriately. General principles to take into account include:

- A purely trivial/coincidental or hypothetical interest that may conflict with Trustee duties may be discounted.
- Where the matter in question is not considered significant by the Chair, the conflict may or may not be disclosed to the Trustee Board by the Chair, and if the Chair considers suitable, the Trustee Board may be asked to accept that the Trustee Director can continue to take part in decision making.
- Where a Trustee Director's interest is later thought to have been material to a decision, it is for the Trustee Director to show that it was not. For this reason, where a Trustee Director conflict is acute, the Chair should advise the Trustee Board that the Trustee Director has been asked to withdraw from discussions and decision making as the burden of proof is too onerous.

APPENDIX: CONFLICTS OF INTEREST POLICY

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

- Where information which is confidential to DHL is the issue, the Trustee Director may:
  - Seek DHL's agreement up-front to release him/her from the obligation to DHL not to disclose the information to his or her fellow Trustee Directors; or
  - Seek DHL's agreement so that the Trustee Director is not involved in situations where confidential information is passed to him/her in day to day employment (either generally or for a particular period or in connection with a particular matter, if appropriate).
- If the conflict is highly significant and pervasive, the Trustee Director may decide, or be asked, to resign as a Trustee Director.
- If there is to be negotiation with DHL, the parties should establish a clear procedure. Where required, there should be genuine 'Information Barriers' to protect the integrity of those on the Trustee side and the DHL side, and also their advisers. For example, DHL may establish a committee excluding any Trustee Director. The Trustee may set up a committee excluding anyone involved from DHL's perspective. Information (minutes/papers etc.) should also be carefully managed to prevent breaching the Information Barrier.
- The Trustee Board should ensure that its management of conflicts does not weaken its decision-making procedure or breach any quorum requirement.

Conflicts arising in relation to the different sections of the Plan

The Plan is a sectionalised scheme and the Trustee is Trustee of each section.

The Trustee Directors consider it unlikely that a conflict will arise as between the sections of the Plan but will be vigilant of the interests of each different section.

If the Trustee Directors consider that a conflict is likely to arise which requires active management, they will consider the appropriate action to take. This may include forming separate sub-committees of the Trustee Board, one for each conflicted section. Each sub-committee will have delegated authority to take decisions on behalf of the Trustee about the issue which is the subject of the conflict, and the conduct of those meetings will be as if the committee meeting were a Trustee Board meeting, with its decisions binding on the Trustee Board.

This policy is without prejudice to any special powers of the Ocean Section Trustee (currently Law Debenture) in relation to the Ocean Section.

4. Trustee awareness and understanding

To be able to identify and manage conflicts of interest appropriately, the Trustee Directors must understand:

- Their legal duties.
- The circumstances in which they may find themselves in a position of conflict of interest.
- This conflicts policy.

Trustee Director Candidates should be provided with information on the above key points and should be asked to carefully consider declining appointment if they anticipate any significant conflicts arising which could substantially frustrate their fulfilment of the role. It should be noted, however, that the Pensions Regulator recognises that it can be beneficial to appoint senior staff from the sponsoring employer as Trustees, particularly in terms of knowledge, expertise and experience.

The Pensions Regulator has issued guidance on conflicts of interests and a copy is available at the Pension Regulator's website at: **www.thepensionsregulator.gov.uk**.

APPENDIX: CONFLICTS OF INTEREST POLICY

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

5. Managing adviser conflicts

If a conflict (potential or actual) is identified by an adviser or manager they must notify the Trustee Board as soon as practicable and recommend an appropriate course of action to manage that conflict.

Where there is likely to be a conflict of interest in giving advice, the Trustee Board should consider carefully:

- Whether it is appropriate to appoint the adviser in the first place.
- Whether the adviser should be removed and/or a new adviser appointed, either generally or in respect of a particular project.

To avoid conflicts of interest when using external advisers, the Trustee Board has directly appointed external advisers under separate agreements with the Trustee (e.g. in the context of legal, investment and actuarial advice).

The DHL Pensions team includes individuals who undertake work for both DHL and the Trustee Board (although certain individuals work primarily for the Trustee). This helps to promote a good partnership between the Trustee and DHL, but can lead to conflict issues. In practice for these individuals the Plan operates similar procedures for considering and disclosing conflicts as for individual Trustee Directors – although in the first instance potential difficulties within the team would be raised with the Secretary to the Plan before the Chair. If the Plan Secretary has any potential difficulties these will be raised with the Chair. Where the Chair considers appropriate, the relevant pension's team member would be asked to leave a meeting.

6. Review

This policy will be kept under periodic review and may be amended from time to time in the light of Plan experience and guidance from the courts and Pensions Regulator.

APPENDIX: CONFLICTS OF INTEREST POLICY

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Annex 1

Reminder of general trust law principles which apply to conflicts

- Trustees are required to act on behalf of all classes of members.
- When acting in a Trustee capacity, Trustees are required to put their duties as Trustee above any other duties which they may have, for example any duties they have as an employee or officer of DHL. However, when a Trustee is an employee or officer of DHL and is taking a decision for DHL, they have a duty to DHL.
- Trustees are not prohibited from acting when they have conflicting duties. They are prohibited from choosing to put themselves in a position of conflict, but not from acting if a conflict arises through circumstances, so long as they manage the conflict appropriately.
- If a Trustee is in possession of confidential DHL information which is material to the conduct of Scheme business which the Trustee knows but his/her fellow Trustees do not, he/she must ask DHL to share the confidential information with his/her fellow Trustees or permit him/her to do so, so as to remove the conflict of duty. If the sharing of confidential information is not permitted, for whatever reason, then that Trustee must declare that he/she has a conflict so that it can be managed appropriately.
- Unless it is in the public domain, Trustees must keep any information (for example, about individual members or DHL's financial affairs) they receive as part of their role confidential.
- A Trustee should be alert to occasions when their personal interest may be paramount in their mind and may unduly influence their decision making. For example, a revision of a future benefit or scheme factor that would impact the value/timing of a Trustee's own imminent retirement.

Annex 2

Possible issues from DHL's perspective

- In practice DHL will have to disclose financially sensitive information to the Trustee and potentially consult with the Trustee over a range of corporate transactions.
- Appointing senior officers or board members of DHL as Trustee Directors has many advantages that outweigh the potential disruption that may be caused by dealing with conflict. In the main, when such individuals are Trustee Directors this helps maintain a strong relationship with DHL, a culture of openness and transparency in discussions and leads to more efficient and better quality scheme governance. Inclusion of such individuals also brings a range of skills and expertise to the Trustee Board, building confidence in the decision-making process.
- The real issue with such individuals is they may worry about becoming conflicted by knowledge or information, acquired in their positions during their employment which they may be prohibited, usually contractually or perhaps because of market abuse or insider dealing legislation, from disclosing.
- However, a Trustee Director (who is employed by DHL) should not feel conflicted if they are aware of matters that whilst not known by other Trustee Directors, would not be significant or relevant to the decision, or where it is not certain knowledge (e.g. informal discussion about a disposal where no decision has been made).
- The requirement, in certain circumstances, for DHL to report notifiable events or seek clearance, requires disclosure of many significant decisions that are relevant to the Plan. Reporting could help remove conflict for a Trustee Director.