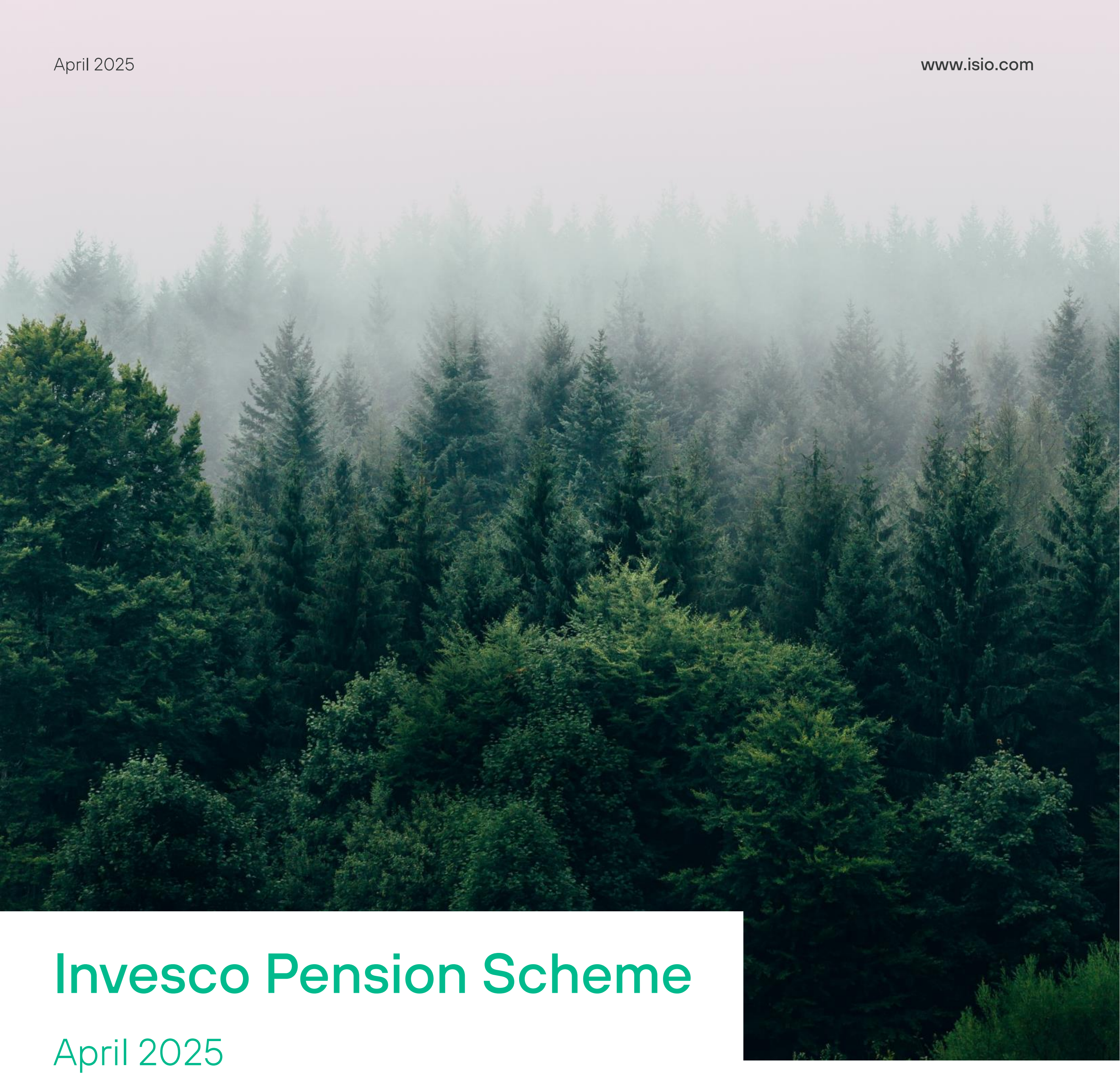

Invesco Pension Scheme

April 2025

isio.

Background and Implementation Statement

Background

In recent years the regulatory landscape has evolved as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities and regulatory guidance relating to voting and engagement policies and activities is now in place. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address here. There were no changes to the Scheme's Statement of Investment Principles over the reporting year to 31 December 2024. The Implementation Report details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- as at 31 December 2024 the Scheme is no longer invested in funds containing equities therefore there are no voting records to provide

Summary of key actions undertaken over the Scheme's reporting year

In July the Scheme disinvested from the Insight Sterling Liquidity Fund and reinvest the proceeds in the Insight High Grade ABS Fund to increase the Scheme's expected return whilst maintaining sufficient liquidity.

In November, the Invesco Buy and Maintain Funds were liquidated and the proceeds transferred to the Insight High Grade ABS Fund to pick up an additional return above cash whilst the broader strategy review which was being implemented (due Q1 2025).

There were no other changes to the Scheme during the year to 31 December 2024.

Implementation Statement

This report demonstrates that Invesco Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Risk of Inadequate Returns	Over the long-term, the Scheme should generate its target return so that it has adequate assets to meet its liabilities as they fall due	The Trustee therefore invests the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been taken into account in setting the investment strategy and is monitored by the Trustee on a regular basis.	There have been no changes to this policy over the reporting year.
Risk from Lack of Diversification	This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets	The Trustee has managed this risk by investing in a relatively low risk portfolio consisting of corporate bonds, ABS, LDI and cash. The Trustee believes that the Scheme's assets are adequately diversified within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustee on a regular basis.	There have been no changes to this policy over the reporting year.
Investment Manager Risk	This is the risk that an investment manager fails to meet its investment objectives	Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.	There have been no changes to this policy over the reporting year.
Climate Related Risks	Climate change is a source of risk, which could be financially material over both the short and longer term. This risk relates to the transition to a low carbon economy, and the physical risks associated with climate change (e.g. extreme weather).	The Trustee seeks to appoint investment managers who will manage these risks appropriately, and from time-to-time review how this risk is being managed in practice.	There have been no changes to this policy over the reporting year.

Liquidity/Marketability Risk	For the Scheme, this is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due, or that the Scheme will become a forced seller of assets in order to meet benefit payments.	The Trustee is aware of the Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments, having a defined LDI collateral waterfall and by investing in income generating assets, where appropriate. The Scheme also receives regular payments from the bulk annuity contract, which are used to meet a portion of the benefit payments.	There have been no changes to this policy over the reporting year.
Environmental Social and Governance Risk	Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially significant, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance	The Trustee seeks to appoint investment managers who will manage these ESG risks as part of their investment process of the funds (to the extent it's applicable) on the Trustee's behalf and from time to time reviews how these risks are being managed in practice.	There have been no changes to this policy over the reporting year.
Collateral Adequacy Risk	Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result.	To manage this risk, the Trustee ensures that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.	There have been no changes to this policy over the reporting year.
Credit Risk	This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is exposed to direct credit risk in relation to the solvency of the investment manager and custodian of the pooled fund it is invested in The Scheme is also exposed to direct credit risk arising from the insolvency of the insurance provider guaranteeing the bulk annuity contract	The Trustee manages its exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and predominantly invests in bonds that are classified as "investment grade". This risk is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment managers, the regulatory environment in which the investment managers operate. The Trustees, with the help of their advisers, carry out due diligence checks on the appointment of any new investment manager or fund, and monitor for changes to the operating environment of the existing pooled funds.	There have been no changes to this policy over the reporting year.

		Insurer insolvency risk is largely mitigated by the regulatory controls on the UK insurance market.	
Currency Risk	The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets	Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, this risk is mitigated by the managers, who hedge overseas currency exposure back to Sterling.	There have been no changes to this policy over the reporting year.
Interest Rate and Inflation Risk	The Scheme's assets and annuity contracts are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds and interest rate swaps. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities	The Trustee considers interest rate and inflation risks to be generally unrewarded investment risks. As a result, the Trustee aims to hedge the Scheme's exposure to interest rate risk and inflation risk by investing in a mixture of bonds as well as leveraged LDI arrangements managed by Insight. The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.	There have been no changes to this policy over the reporting year.
Counterparty Risk	This is the risk that one party to a contract (such as a derivative instrument) causes a financial loss to the other party by failing to discharge a contractual obligation. This risk applies in particular for those contracts that are traded directly between parties, rather than traded on a central exchange	In particular, Liability Driven Investing makes use of derivative and gilt repo contracts and this fund is used by the Trustee to efficiently match a portion of the Scheme's liabilities. Counterparty risk is managed within the fund through careful initial selection and ongoing monitoring of trading counterparties, counterparty diversification and a robust process of daily collateralisation of each contract, to ensure that counterparty risk is limited, as far as possible, to one day's market movements.	There have been no changes to this policy over the reporting year.
Other Non-Investment Risks	Examples of other non-investment risks include: • Longevity risk (the risk that members live, on average, longer than expected); and • Sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).	The Trustee recognises that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements as part of its assessment of the other aspects of the Scheme's Integrated Risk Management framework.	There have been no changes to this policy over the reporting year.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk

This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

The Trustee has considered how environmental, social and governance ("ESG") factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members, and since it recognises that these factors can be relevant to investment performance.

The Trustee cannot usually directly influence investment managers' policies on ESG factors where assets are held in pooled funds; due to the collective nature of these investments, but it encourages and challenges its managers to improve their practices where appropriate. The Trustee considers it necessary to act in the best financial interests of Scheme members and, therefore, it expects the investment managers to take account of financially material considerations (including climate change and other ESG considerations), considering the nature and time horizon of the investments.

The Trustee seeks to appoint managers that have appropriate skills and processes to do this by undertaking investment due diligence which, with the help of its advisers, includes assessing the manager's ESG policy at the time of appointment. From time to time the Trustee reviews how its managers are taking account of financially material considerations (including climate change and other ESG considerations) in practice. The Trustee has invited specialists from the Invesco Asset Management ESG team to attend Trustee meetings when necessary in order to better understand the manager's arrangements and allow opportunity to ask questions about the ESG policies.

The Trustee's primary objective is to maximise the investment return of the assets and to protect the funding level, as noted in Section 2 of the Statement of Investment Principles. The Trustee recognises that non-financial factors (ie matters relating to other views of members and beneficiaries, rather than considerations of financial risk and return) will vary between individual Scheme members and, in some cases, may conflict with the primary objective of the Trustee. As such, the Trustee believes that non-financial factors should not necessarily be the primary focus when making investment decisions such as the selection, retention and realisation of investments. However, the Trustee believes that, in many cases, issues considered to be non-financial will, over time, be sufficiently addressed by incorporating financially material ESG considerations into the managers' investment processes due to the efficient nature of investment markets.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Insight, High Grade Asset-Backed Securities	The Insight ABS Funds received a "Partially Meets Traditional Criteria" rating. Insight have a net zero commitment by 2050, including interim targets, in line with NZAMI. The firm also has a strong approach to firm-level stewardship and collaboration, including in its approach to escalation. At a fund level, Insight's process identifies ESG opportunities beyond just managing ESG risks. However, in-line with peers, reporting is a laggard due to data quality limitations in the ABS market.	We encourage the manager to: - Consider incorporating ESG objectives and priorities as part of ESG/RI policy. - Further expand connections with academic institutions to develop risk management frameworks. At the Funds level: - Develop an approach to estimate carbon footprint in reporting (Scope 1 & 2 emissions). - Establish a formal exclusion of thermal coal and tar/oil sands	Over the Scheme year, Isio engaged with Insight on the Scheme's behalf in a number of areas in relation to the ABS Funds and note the following progress against actions previously identified: - Insight have now published their stewardship policy Insight continue to engage with ABS originators to improve the quality and quantity of ESG data collection
Insight, LDI	The Insight LDI Funds received a "Meets Traditional Criteria" rating. Insight have a net zero commitment by 2050, including interim targets, in line with NZAMI. The firm also has a strong approach to firm-level stewardship and collaboration, including in its approach to escalation. At a fund level, Insight integrate ESG factors for counterparty evaluation in their LDI funds, however, there are no specific fund-level ESG objectives for the LDI funds.	We encourage the manager to: - Consider incorporating ESG objectives and priorities as part of ESG/RI policy. - Further expand connections with academic institutions to develop risk management frameworks. At the Funds level: - Consider reporting ESG scores for LDI counterparties within the pooled funds or segregated mandates.	Over the Scheme year, Isio engaged with Insight on the Scheme's behalf in a number of areas in relation to the LDI Funds and note the following progress against actions previously identified: - Insight have now published their stewardship policy. - Insight are continuing efforts to evolve LDI engagement reporting in order to produce a disclosable narrative. Insight is working to provide climate reporting on LDI counterparties as part of their regular reporting. They, however, maintain climate risk ratings where such counterparties are also bond issuers to inform their engagement activities.

Engagement Activity

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category covering the reporting year up to 31 December 2024. Please note that not all categories sum to the number of total engagements, as some engagements covered more than one ESG area.

Fund name	Engagement summary	Commentary
Insight, High Grade Asset-Backed Securities	Total engagements: c.40 Number of entities engaged: c.50	Process: Insight describe engagement as a form of collaboration in which investors work with each other in some way to achieve a common goal, of which can take various forms. Insight regularly meets with issuers to discuss ESG related and non-ESG related issues and follow a research-based approach to identify poor performers to enable targets engagements that encourage positive improvements across specific themes. Example: Insight has engaged with **MSCI**, an American investment research firm, on improving their carbon metrics across ABS assets. Insight felt like there was no reliable external data providers for ESG and carbon metrics across the ABS funds. MSCI are a leading provider of data for a wide range of fixed income assets, so Insight engaged with MSCI to see if they could provide reliable carbon metrics across ABS assets. As a result, MSCI is engaging with a number of industry participants in this area to help guide their objectives.
Insight, LDI	Total engagements: 16 Number of entities engaged: 4	Process: Insight notes that their forms of engagement, though a key part of its credit analysis and monitoring, can be different in nature due to the long-term investment horizons for liability-driven investments, which impacts their business focus. Example: Insight has engaged with **Morgan Stanley,** a global financial services firm. This engagement was identified as part of Insight's benchmarking of their 25 largest banking counterparties to understand how ESG risks are managed by the organisations. Insight's engagement with the bank focused on their disclosures on the impact of financing on natural capital and their commitment to decarbonisation initiatives via green and social bond issuance. Insight felt the firm didn't have a clear approach around how to deal with clients that are subject to the EU Deforestation Regulation. Insight communicated that they expect EU Deforestation Regulations to be part of the due diligence of clients going forward.

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