The Co-operative Pension Scheme (Pace) ("the Scheme") Implementation Statement

13 July 2022

Background

From 1 October 2020, and on an annual basis, the Trustee is required to publish an "Implementation Statement" online and in the Scheme's annual report and accounts. This is Pace's third Implementation Statement and covers the Scheme year from 6 April 2021 to 5 April 2022. It sets out:

- How, and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles ("SIP") for each section of Pace has been followed over the year, along with details of any changes to the SIP;
- How the Trustee has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities and how these votes aligned with the Scheme's stewardship priorities; and,
- The voting behaviour of the Trustee, or that undertaken on its behalf, including the most significant votes cast.

The Trustee also publishes an annual governance statement from the Chair, which demonstrates how the DC Section of Pace has complied with broader governance requirements; this is also available online and in the report and accounts.

The Trustee's review of the SIP over the year

The Trustee maintains SIPs for the two sections of Pace (the Co-op Section and the Co-operative Bank Section), each of which set out the investment principles for both Defined Benefit (DB) and Defined Contribution (DC) investments. The two SIPs are reviewed at least annually and following any significant changes in investment policy.

The two SIPs were reviewed in December 2021, with no material changes made.

The current version of the Co-op Section SIP is available on Pace's website, via https://coop.pacepensions.co.uk/useful-information/pace-investments/, while the current version of the Co-operative Bank Section SIP is available via https://bank.pacepensions.co.uk/useful-information/pace-investments/.

In preparing the SIP for each Section, the Pace Trustee consults with the sponsoring employer for each section. The employers are consulted regarding any proposed changes to the SIP and investment strategy, however the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the respective SIPs have been followed throughout the year for both the Co-op Section and Co-operative Bank Sections, as set out below.

The Trustee's policies for choosing and realising investments, and the kinds of investments to be held (Sections 2.1, 2.4, 3.1 and 3.4 of the SIPs).

The SIPs set out the Trustee's policies for choosing investments - specifically by identifying appropriate objectives which reflect each Section's risk and return requirements, and then constructing a portfolio of investments to meet these objectives for DB investments, or identifying a suitable range of options for members of the DC Section.

In considering these objectives and selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser. No material changes were made during the year, although after the year end in April 2022 a change was made to the DC investment strategy for each Section, with the Trustee making the Pace Growth (Shariah) Fund available to members as a new self-select option. The Fund is a Shariah-compliant fund which follows a process that has been approved by an independent Shariah Supervisory Committee which aims to meet the requirements of Shariah law and the principles of Islamic finance. This Fund does not invest in financial services companies, companies that manufacture weapons, or companies in industries that are prohibited by the Quran such as alcohol, tobacco, gambling and entertainment, or pork-related products.

In March 2022, the two Sections of Pace DB implemented a change to switch the cash fund held within each Section's Liability Driven Investment mandates to use BlackRock's Liquid Environmentally Aware Fund ("LEAF"), following advice by the Scheme's advisor which believed the LEAF would be aligned with the two Sections' Environmental, Social and Corporate Governance ("ESG") beliefs as documented in the SIPs. The BlackRock LEAF fund applies a screening process whereby issuers that fall within BlackRock's exclusionary screens defined for LEAF are excluded (further details below).

The investment managers have discretion in the timing of realisation of investments, and this has continued over the year.

In addition, the Trustee reviews the asset allocation for the DB Sections on a quarterly basis and is comfortable that over the year the investments held were in line with the respective SIPs.

The Trustee's policies on managing and measuring risk, and expected returns

DB Sections (Sections 2.2, 2.5 and 2.6 of the SIPs)

For the DB Sections, the Trustee's investment objective is to target an expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Co-op Section's liabilities, and around 0.5% p.a. (net of fees) above gilts for the Co-operative Bank Section; this approach was determined following professional advice and considering the Trustee (and the sponsors') risk tolerance. Over the year, the Trustee monitored the expected return on assets on a quarterly basis and considered rebalancing where appropriate.

DC Sections (Sections 3.2 and 3.5 of the SIPs)

For the DC Sections of both Sections of Pace, the Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Scheme's employers will provide a fund at retirement with which to provide an income in retirement. In particular, the default arrangement aims to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement.

In addition, the Trustee is happy that the risks set out under sections 2.3 and 3.3 of the SIPs have been considered when setting the investment strategy for the DB and DC Sections, and that the policies listed under section 2.4 have been followed when constructing the portfolios for Pace DB.

The Trustee's policies on Investment Manager appointment, engagement and monitoring (Section 5 of the SIPs)

As noted above, the Trustee reviewed the SIP for both sections in December 2021. The table below summarises how these policies were implemented over the year.

Policy	**Assessment (applicable for both Co-op and Co-operative Bank Sections of Pace)**
5.1 Aligning Manager Appointments with Investment Strategy *Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.* *If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.*	No new investment manager appointments were made over the year. As noted above, after the year end a new passive Shariah-compliant global equity fund was introduced for the DC sections, managed by HSBC; the fund was selected based on the investment consultant's assessment of the manager's capabilities and the structure of the underlying index, and compliance with the principles of Islamic finance.
5.2 Manager Appointments and Performance *The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods.* *The Trustee may review a manager's appointment if:* • *There are sustained periods of underperformance.* • *There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager.* • *There is a significant change to the Investment Adviser's rating of the manager; or* • *There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.* *The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager, or in some circumstances, ask the manager to review the Annual Management Charge.*	The Trustee reviewed investment performance for the DB and DC Sections at each quarterly Trustee / DC Committee meeting over the year. No periods of underperformance, downgrades to investment adviser ratings or changes to objectives were identified that led the Trustee to review manager appointments or to take further action.

5.3 Portfolio Turnover Costs *Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.* *For the DB Sections, the Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative), to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.* *The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.*	At its 5 July 2021 Trustee meeting, the Trustee reviewed reporting on costs incurred by both Sections over the twelve-month period to 30 December 2019, as collated and analysed by ClearGlass. These were in line with expectations and no concerns were highlighted.
5.4 Manager Turnover *The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:* • *There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.* • *The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.*	No changes were made over the year that resulted in the termination of any investment manager appointments, other than the sale of the final holdings in a residual UK property mandate as a result of a strategic decision to remove exposure to that asset class (with the exit process implemented over a number of years).

In addition to the policies set out in the SIPs for monitoring investment managers, the Trustee also monitors its investment consultants.

The Trustee introduced objectives for each of its investment consultant appointments in December 2019 to comply with regulations governing the role of investment advisors. The Trustee reviews performance against the agreed objectives and the suitability of the consultant's objectives on an annual basis.

Over the year to 5 April 2022, the Trustee reviewed its investment advisers against those objectives. It also revisited the objectives, and updated them to reflect Pace's climate risk governance policy (adopted in December 2021) and aligned with its net zero carbon emissions objective.

The Trustee's policies on ESG considerations (section 8 of the SIPs)

The Trustee is committed to achieving its investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. The Trustee believes that as both DB and DC pensions are long-term investments this is important, and it would also like the Scheme's approach to responsible investment to reflect the views of Pace members as far as reasonably possible, and to be consistent with the values of Pace's sponsors, their members and their colleagues. As a result, Pace has developed a Responsible Investment policy covering both DB and DC investments (for both the Co-op and Co-operative Bank Sections of Pace). The policy was developed with input from the Co-op and the Co-operative Bank, and having considered feedback collected via a survey of current employees of the Co-op.

The Responsible Investment Policy is available on the Scheme's website (along with an annual report detailing how Pace has implemented the policy over the year), via https://coop.pacepensions.co.uk/useful-information/pace-investments/ and https://bank.pacepensions.co.uk/useful-information/pace-investments/.

The Responsible Investment policy should be read in conjunction with, and as if it formed part of, this implementation statement.

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact where the Trustee has good reason to expect that Scheme members would share these concerns (or, for example, members' personal ethical and religious beliefs), and where the decision is not expected to have material financial detriment; aligned with this, the Trustee has made the Pace Growth (Ethical Shares) Fund available as a self-select option in the DC Section.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 8 of the SIPs)

The Trustee's specific policies on engagement are common to the Co-op and Co-operative Bank Section SIPs and are summarised below, together with the Trustee's assessment of how, and the extent to which, these policies have been implemented over the scheme year to 5 April 2022:

Policy	**Assessment (applicable for both Co-op and Co-operative Bank Sections of Pace)**
The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	The Trustee considers the most effective way to align the two Sections' investments with its values is to appoint fund managers that take a responsible and sustainable approach to investment, as well as to engage with asset managers in relation to the three broad issues the Trustee identifies as priorities in the Fund's responsible investment policy, namely: • **Climate change and the protection of the environment**; • **Labour conditions and equal pay**; and

	• **Corporate governance**. The DB Sections apply explicit exclusion lists where possible to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. The 'ESG aware' LEAF cash fund that the two Sections implemented within their LDI mandates in March 2022 prohibits investment in issuers that fall within the exclusionary screens defined for the LEAF strategy. For example, the exclusionary list screens out issuers that: • have exposure to the production of controversial weapons; • derive 5% or more of their revenues from fossil fuel mining exploration and/or refinement; • derive 5% or more of their revenues from the production or distribution of tar sands or oil sands Members' pension pots in Pace DC are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies, although further detail on the approach taken by Legal & General Investment Management ("LGIM") to exercise voting rights is set out in the section below this table. The default option currently invests in the Pace Growth (Shares) 2021 Fund and the Pace Growth (Mixed) Fund, switching out of the Shares Fund as members approach retirement, and then into a cash fund over the 10 years prior to a member's expected retirement date. The Pace Growth (Mixed) Fund is invested 100% in the LGIM Future World Multi-Asset Fund, which the Trustee and the sponsors believe is aligned with their shared values. This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less

	carbon-intensive or earn green revenue; it also excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons (companies on the "Future World Protection List"). LGIM also applies its "Climate Impact Pledge" to the fund – each year they engage with the largest companies across the world identified as key to meeting global climate change goals to help improve their strategies, and commit to disinvesting from companies that fail to demonstrate sufficient action. Similarly, the Pace Growth (Shares) 2021 Fund tilts to invest more in companies with strong and improving ESG attributes, and doesn't invest in companies that manufacture controversial weapons or that earn a sizeable revenue from mining coal or using coal for power generation.
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Following the Russian invasion of Ukraine in February 2022, the Co-op Pensions Department worked with the Scheme's asset managers to quantify and understand exposure to Russian investments.
Investment Managers are asked to report to the Manager Monitoring and Implementation Committee and the Trustee on the issue of responsible investment.	The Trustee has directly or through the Co-op Pensions Department's Manager Monitoring and Implementation Committee met with each of the Scheme's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments (and any disinvestments or sales), and areas of engagement as well as developments over the year. In particular, LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report. The 2020 report was published in mid-2021 and considered by the DC Committee in September 2021. In addition, since Q2 2020 the DC Committee has reviewed LGIM's quarterly ESG impact report,

	which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions. Over the year, LGIM highlighted their collective engagement in relation to social media responsibility. In response to the Christchurch terror attack in early 2019, LGIM joined 104 global investors in a collaborative effort to engage the world's three largest social media companies to strengthen controls to prevent the livestreaming and dissemination of objectionable content through the Social Media Collaborative Engagement, through the publication of an open letter to Meta, Alphabet and Twitter, and voting in support of shareholder proposals at all three companies. Analysis following the engagement showed that all the company platforms have moved to strengthen controls to prevent the live streaming and distribution of objectionable content, and independent research by an external think tank showed that the platforms have made and continue to make reasonable efforts to reduce the spread of objectionable content.
In addition, the Manager Monitoring and Implementation Committee and the Trustee monitor how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.	As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Trustee and the DC Committee receive reporting from Pace's investment consultants on their researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices. In September 2021, a "Responsible Investment Total Evaluation" exercise was carried out by the DB Sections' advisor to assess how well Trustee is integrating ESG considerations into its decision making processes. The two Sections achieved an A+ rating (with the highest score being A++).
The Trustee considers how ESG and stewardship are integrated within investment processes in appointing new managers, and all existing managers are expected to have policies in these	No new asset managers were appointed over the year.

areas. Within the DC sections, the Trustee offers funds with ESG tilts in the Pace Growth (Mixed) Fund and the Pace Growth (Shares) 2021 Fund (both of which form part of the default strategy). The Trustee also considers ESG factors as part of the Scheme's process for selecting and retaining investment options. In addition, the Trustee recognises that some members may wish to take more explicit account of ethical issues or their personal religious beliefs in their investments, and so it offers an ethical equity fund andthe Pace Growth (Ethical Shares) Fund.	

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

Following changes to reduce risk in its investment strategy in late 2017, the DB Sections of Pace no longer invest in company shares (either directly or through pooled funds) and therefore do not hold investments with attaching voting rights.

The DC Sections offer options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors. Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by LGIM and strategic decisions are made by LGIM's Investment Stewardship Team in accordance with their governance policies for each region. The table below, sets out the further details relating to LGIM's voting record for stocks held within each fund held within Pace DC which has exposure to equities for the year to 31 March 2022.

	LGIM Fund			
	Pace Growth (Shares) 2021 Fund	**Pace Growth (Mixed) Fund**	**Pace Growth (Ethical Shares) Fund**	**Pace Growth (Shares) Fund**
Size of Pace DC's holdings as at 5 April 2022.	c£167m	c£492m	c£5.6m	c£0.6m
Number of equity holdings in the fund (at 31 March 2022)	2,306	6,348	1,020	4,283
Number of meetings at which LGIM were eligible to vote over the year	3,221	8,296	1,123	7,142
Number of resolutions LGIM were eligible to vote on over the year	36,110	85,030	15,785	72,767
% of resolutions LGIM were eligible to vote on where they exercised that vote	99.8%	99.7%	99.9%	99.9%
% of resolutions where LGIM voted for management / voted against management / abstained from voting*	Voted with 79.2% Voted against 19.4% Abstained 1.4%	Voted with 79.1% Voted against 20.4% Abstained 0.5%	Voted with 83.2% Voted against 16.5% Abstained 0.3%	Voted with 82.0% Voted against 16.9% Abstained 1.1%
% of meetings at which LGIM voted at least once against management	69.4%	71.7%	74.1%	58.7%
% of meetings at which LGIM voted against the recommendation of the proxy advisor	12.4%	12.9%	11.4%	9.2%

*May not sum due to rounding.

Significant Votes

LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny).
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote.
- A sanction vote as a result of a direct, or collaborative, engagement.
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

The Trustee and the Co-op Pensions Department have reviewed LGIM's reporting and identified the votes on the following page as 'most significant' using these criteria and considering which votes were most aligned with the Trustee's stewardship priorities as set out above. Note that shares in individual companies will likely be held across multiple funds within the DC Sections, and the holdings below aggregate the value of holdings across all funds with the Bank and Co-op Sections of Pace DC.

Relevant Stewardship priority	**Climate change at the protection of the environment**	**Labour conditions and equal pay**	**Labour conditions and equal pay**	**Labour conditions and equal pay**	**Corporate Governance**	**Corporate Governance**
Asset manager	LGIM	LGIM	LGIM	LGIM	LGIM	LGIM
Company	HSBC	Apple Inc	Frasers Group plc	Intel Corporation	Microsoft Corporation	NVIDIA Corporation
Date of the vote	28 May 2021	4 March 2022	29 September 2021	13 May 2021	30 November 2021	3 June 2021
Approximate size of the DC Sections' holding (based are on holding at year end)	c£4.1m	c£3.7m	c£10k	c£450k	c£3.8m	c£800k
Summary of the resolution	To set, disclose and implement short- and medium-term targets, to publish and implement a phase-out policy and to report on progress.	Shareholder resolution to require Apple to undertake a third-party audit analyzing the impact of Apple's policies and practices on the civil rights of company stakeholders, and to provide recommendations for improving the company's civil rights impact	To receive and adopt the report & accounts.	Shareholder resolution to require Intel to report on Global Median Gender/Racial Pay Gaps	To elect Satya Nadella as a Director.	To elect Harvey C. Jones as a Director
How the asset manager voted	In favour	In favour	Against	In favour	Against	Against
Was the voting intention communicated to the company ahead of the vote?	Yes (see below)	Yes - LGIM engaged with Apple prior to the annual meeting and communicated its policies and how its was likely to vote.	No	No	No	No

Rationale	ShareAction initially proposed a resolution to strengthen HSBC's climate change policies and disclosure. LGIM joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM. As a result of further discussions between the company, the proponents and shareholders, ShareAction was sufficiently comfortable with management's counter proposal to withdraw its own resolution, leading to a single resolution supported by management and proxy advisers.	LGIM supports proposals related to diversity and inclusion policies as LGIM considers these issues to be a material risk to companies.	Frasers Group had failed for two consecutive years to meet the requirements of the Modern Slavery Act to publish a statement on out the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain; LGIM's vote was a sanction against this.	LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. This division of responsibilities ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority and responsibility on the board. Its policy is to vote against the election or re-election of any individual holding such a combined role.	LGIM views gender diversity as a financially material issue for its clients, and expects companies in well-governed markets to have at least 30% women on their boards. For the North American market, by 2023 LGIM expects women to make up at least one-third of board directors and Named Executive Officers. To assist companies in reaching this target, LGIM votes against director nominations for companies in the S&P500 and the S&P/TSX that have fewer than 25% women on the board.
Outcome	99.7% of voters supported the resolution.	53.6% of the voters supported the resolution	99.5% of voters supported the resolution.	14.3% of voters supported the resolution.	94.7% of voters supported the resolution.	94.2% of voters supported the resolution.
Does the asset manager intend to escalate the stewardship efforts?	LGIM will continue to monitor the strength of HSBC's climate change policies and progress towards improved disclosure of targets and emissions across the portfolio.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM's engagement with the company suggests it will be compliant with the requirements of section 54 by the end of 2022.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.	LGIM will continue to engage with the companies it invests in, publicly advocate its position and monitor company and market-level progress.