DHL Group Retirement Plan (DHL GRP)
DB Sections

UK STEWARDSHIP CODE REPORT

YEAR ENDING 31 MARCH 2024

CONTENTS

INTRODUCTION

DHL Trustees Limited ('DTL Board' or 'Trustee') 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 has fulfilled its stewardship responsibilities over the year ending 31 March 2024 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 six 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 DHL GRP's Investment Implementation Committee ('IIC') are the Directors of the DHL PIF Ltd 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 currently comprises the Chair of the IIC and one other member of the IIC.

The IIC works closely with the DHL GRP's 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 2024, the fourth annual Stewardship and Engagement Report was produced to cover the calendar year 2023. This provides details of the engagement activity across the DHL PIF for each investment manager for all asset classes. In this report, we have provided excerpts 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 second annual Climate Report in line with the requirements of 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**.
- In June 2023, the IIC held a training day where a member of the Taskforce on Social Factors shared insights on the current thoughts of the Taskforce and Legal & General Investment Management ran a session to help the IIC understand what it 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 advisers through quarterly 'Hot Topics' and industry and legal updates.
- The fourth annual Stewardship and Engagement Report was completed shortly after the end of the Plan Year. This included detailed reporting on all of the investment managers within the DHL PIF on their Stewardship & Engagement and voting activities over 2023. As part of the review, the investment managers were rated on a red-amber-green traffic light system with respect to several aspects of engagement.
- The IIC agreed to retain the three Stewardship Priorities initially set in 2022. The priorities are climate change, modern slavery and diversity and inclusion. As part of the fourth annual Stewardship and Engagement Report, progress against the 2022 baseline for the proportion of engagements made by the DHL PIF's managers that were in relation to these Stewardship Priorities was reviewed (detailed under Principle 7).
- During the year, the IIC considered and implemented the use of repurchase transactions and reverse repurchase transactions in one of the Plan's global credit mandates. Having the flexibility to make use of such facilities is expected to help improve the Plan's liquidity where Liability Driven Investment (LDI) collateral headroom comes under pressure and therefore help prevent the hedging from being reduced.
- A third-party provider (ClearGlass) produced its third set of reports on the transaction costs incurred by the DHL PIF's investment managers over the calendar year 2022.
- The terms of reference for the IIC were reviewed and updated to reflect the ability of the IIC to delegate certain responsibilities to the IIC sub-committee.
- The investment beliefs were reviewed over the Plan Year and it was agreed that the beliefs remained appropriate, with some minor changes such as more detail on the diversification of risky assets.
- A Communications adviser (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.

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.

- 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 completed its first Own Risk Assessment ('ORA') as prescribed by the Pensions Regulator's new General 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. A number of these examples relate to reporting processes, which the DTL Board views as valuable in identifying areas for improvement.

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 Appendix 1), 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 on the next page. 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.

Approach

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 Principles of Responsible Investment ('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 were 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 DTL Board formalised its Diversity and Inclusion Policy in March 2023. The DTL Board believes that having a diverse DTL 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 DTL Board's strong belief that all Directors of the DTL Board should have a voice and that they are listened to. The DTL Board is committed to having a culture of openness and mutual respect at all levels of its governance structure, where Directors of the DTL 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. This means the aim is not to look for exact representation of the membership 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. More details of the Agreement can be found at the following **link**.
    - 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 1 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 on pages 4-5 have all been helpful in promoting this and in supporting the decisions made. For example, having stewardship priorities in place helps the Trustee to monitor and engage with managers to ensure that the Trustee's objectives are met.

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 includes three representatives from professional trustee firms, bringing with them extensive experience of the UK pensions industry which they use to support the Trustee's stewardship.

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 bottom right figure. The Pensions Secretariat team, which consists of five experienced team members, supports 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, in 2022 the IIC had 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 and initial progress against this target was set out in the DHL GRP 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 fourth annual Stewardship and Engagement Report, the proportion of engagements made by the DHL PIF's managers that were in relation to these Stewardship Priorities was assessed (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. investment-grade credit portfolios which are managed in line with the Trustee's objective to generate sustainable long-term returns. 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 or the current investment consultant, Lane Clark and Peacock LLP ('LCP') and the approach to integrate stewardship into investment-decision making. For the previous investment consultant, Momentum Investment Solutions & Consulting ('Momentum'), there was a performance-related fee structure in place which is described in Principle 8. The quality of advice and reporting that was provided to the IIC on ESG considerations (e.g. advice on Beliefs, Stewardship and Engagement Report, TCFD reporting) formed 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, in June 2023 the IIC held a training day where a member of the Taskforce on Social Factors shared insights on the current thoughts of the Taskforce and Legal & General Investment Management ran a session to help the IIC understand what it 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 advisers 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 guidance. For the year to 31 December 2023, 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

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

Towards the end of the Plan Year, the DTL Board appointed a new investment consultant, LCP, to replace Momentum. The investment consultant aids 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 LCP consulting team is well-experienced in advising large DB clients on all aspects of investment strategy, including the integration of ESG considerations in all aspects of investment policy.

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 and escalating any concerns to the IIC as necessary.

Other Advisers

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 35 years pensions experience. Stuart is supported by Daniel Baker, who has 27 years pensions experience and is Secretary to the IIC. Both Stuart and Dan have extensive experience supporting DTL 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 15 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

ClearGlass periodically provides data on the costs incurred by the investment managers to the IIC, as a means of providing further transparency of these costs.

Review of Governance

The Trustee believes that its governance structure is appropriate and helps to ensure that the Trustee can develop and implement its strategy, respond to developing circumstances and hold managers to account through the monitoring and review process. Well ahead of its regulatory obligation to do so, the first Own Risk Assessment (ORA) was completed over the Plan Year and areas for improvement in terms of governance structures and processes are being considered in light of this. During the Plan Year, the Trustee undertook additional training on investments in response to an identified need. The Trustee also reviewed its policy on reviewing investment managers to identify any potential areas for improvement.

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 advisers 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 adviser conflicts.
- Review.

The Conflicts of Interest Policy can be found in full in Appendix 2 to this report.

The Trustee monitors any potential conflicts of interest to ensure that they are appropriately managed. It is inevitable that conflicts or potential conflicts of interest do arise from time to time and they may be managed (for example) by having a committee with authority to deal with the relevant matter that does not include the individual with the potential conflict. Over the period under review, a number of potential conflicts have been identified and managed in accordance with the DTL Board's policy. Some examples relating to stewardship matters are given on the next page. The Trustee, through the IIC (and IIC sub-committee), has a focus on the fiduciary responsibility performed by the investment managers, which is also considered on the next page.

PRINCIPLE 3

CONFLICTS OF INTEREST

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

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 potential areas 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; and
- The process that is followed when a conflict of interest is seen to exist.

At present, there are concerns regarding potential conflicts with two of the DHL PIF's investment managers. These are described in the following boxes.

Example – Conflict Identified at an Investment Manager (Fund wind-down)

In the previous year, the IIC identified a potential conflict of interest with one of the DHL PIF's investment managers in relation to the winding-down of a fund. The investment manager received approval by an investor vote to wind down the fund over five years from 1 July 2023 (with two potential additional one-year extensions) and remove investors' redemption rights during that period.

The Trustee continues to have an interest in the wind-down process proceeding in an appropriately balanced way that is not unduly influenced by the investment manager's potential interests (which could potentially include holding assets for longer to benefit from ongoing fees). The investment manager has set up a series of regular investor meetings to discuss the fund's progress including the wind-down process. The IIC is generally represented at those meetings and is monitoring the process so that it can, with other investors, provide challenge about the pace of wind-down where relevant and to help ensure that conflicts are appropriately managed.

Example – Conflict Identified at an Investment Manager (equity and debt holdings)

During the Plan Year, the IIC identified a potential conflict of interest with another of the DHL PIF's investment managers, due to holdings in both equity and debt positions in a company that is currently in run-off. The potential conflict exists because not all investors invest in both equity and debt positions. A conflict may arise if the manager, when acting on behalf of the equity (or debt) investors, is required to make a decision which may or may not be in the interests of the debt (or equity) investors.

Following a meeting with the IIC's investment consultant, the IIC decided to follow up with the investment manager to ensure that, should this conflict arise, appropriate steps would be taken to manage it. The investment manager confirmed that, at the point such a decision is required to be made, this would be discussed with the manager's investment committee, but ultimately it may require consultation with underlying investors in the funds.

It was noted that, although it is possible that decisions may need to be taken by debt holders that could negatively impact equity holders, as debt holders rights are generally limited, the manager sees less likelihood of a conflict arising in that circumstance than in the reverse situation.

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 regular 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, regulators and policymakers to help identify and improve outcomes related to 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 a Value at Risk metric) and includes detailed reporting on the collateral and counterparty risks within the liability hedging mandate. The IIC meets at least 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 so that these can be easily and quickly relayed back to the IIC and any action required can be implemented swiftly.

Climate Risks

The IIC monitors emerging risks, with a current area of focus being climate-related risks. The DTL Board is a supporter of the TCFD and has implemented 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 climate scenario analysis;
- Collecting climate-related metrics from the investment managers on an annual basis;
- Setting a target to improve one of those metrics over time;
- Ensuring metrics and targets are aligned with the DTL Board's ESG Beliefs and investment philosophy; and
- Agreeing a Climate Risk Policy.

Following the Plan Year end, the Trustee has set an ambition to achieve Net Zero greenhouse gas emissions (Scopes 1, 2 and 3) by 2050 or sooner across its asset portfolio. This ambition is part of the Trustee's efforts to manage the impact of climate change on the DHL PIF's investments and the consequent impact on the financial interests of its members.

The Trustee previously set a target for climate-related engagement, aiming for 100% of the top 10 contributors to carbon emissions to have been engaged with on climate-related issues within the last two calendar years for each mandate. The third annual climate report, published in October 2024, includes the outcome of this target. The Trustee found it difficult to obtain robust data on its climate-related engagement and to draw meaningful conclusions from the data it was provided, for example, whether the engagements were meaningful. It has therefore decided to replace the engagement metric with a new target, which is for 60% of the DHL PIF's corporate bond assets to be covered by a Science-Based Target by 31 March 2030. This target will support the Trustee's ambition for the Plan's assets to reach Net Zero emissions by 2050. Oversight and challenge regarding the engagement of its fund managers on its behalf will remain an area of focus, albeit it will be considered more subjectively.

Case Study: Improving Reporting on Collateral (Legal & General Investment Management)

In response to the market-wide problems caused by insufficient liquidity during the 2022 gilts crisis, in 2023 the IIC implemented an updated collateral resilience framework, which defined clear targets and minimum limits on the collateral for the Plan's LDI mandate which will be monitored by the LDI investment manager. If the target levels are breached, the manager will notify the Trustee and increase the frequency of reporting until the level of collateral headroom is restored. In establishing this framework, the Trustee worked with the investment manager to improve reporting in relation to collateral.

PRINCIPLE 4

PROMOTING WELL-FUNCTIONING MARKETS

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

Case Study: Multi-asset Credit and Net Zero (CQS Investment Management)

Context: The investment manager of the Plan's multi-asset credit is a signatory to the Net Zero Asset Managers' Initiative and has set an objective to achieve Net Zero by 2050 or sooner for its assets under management, with interim targets set for 2025 and 2030.

Objective: The manager's ultimate objective is to encourage portfolio companies to commit to Net Zero alignment, thereby helping to address systemic risks from climate change.

Action: The manager has a proprietary database of climate data for portfolio companies, covering Net Zero alignment, decarbonisation targets, Science-Based Targets initiative ('SBTi') validation or targets and whether executive remuneration is linked to climate KPIs. The manager conducted an audit of proprietary climate data in 2022 to ensure it was up-to-date. Following this, it assessed which portfolio companies did not have decarbonisation targets in place and developed a "Climate Targeted Engagement Programme" which aims to engage with all portfolio companies within the Article 8 pooled funds that do not currently disclose carbon emissions and/or do not have decarbonisation targets in place.

This Targeted Engagement Programme is expected to last for two to three years and will escalate over time to encourage better disclosure and Net Zero alignment across the covered portfolios.

In 2023, the manager sought to engage with 73 companies across its portfolios on carbon emission disclosures, decarbonisation targets and Net Zero commitments. The manager received a 72% response rate via meetings, calls and e-mails.

The manager continues to follow up with the 25% of the companies which hadn't responded and were still held at 31 December 2023. A further 3% of companies contacted that hadn't responded were no longer held.

In December 2023, the manager launched tools to be able to report explicitly on Net Zero alignment and engagement on Net Zero using its proprietary data. The manager's reporting on this is now split into the following categories:

- Already Net Zero;
- Net Zero Aligned;
- Decarbonising – engaging on Net Zero;
- Decarbonising;
- No targets – engaging on Net Zero; and
- No targets.

Outcome: Some of the 72% of companies that have responded have made progress on decarbonisation, including one or more of the following:

- A formal commitment to the SBTi;
- Carbon emission disclosures which have been included in the manager's carbon emission reporting system and client reporting; and
- A commitment to publish decarbonisation targets in 2024.

The manager continues to engage through the Climate Targeted Engagement Programme in order to meet the minimum engagement threshold interim target by 2025 for the relevant funds.

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 advisers and investment managers to participate in industry-wide initiatives where this is aligned with the DTL Board's fiduciary duty to its members. The IIC also expects its investment consultant to be a member of the Investment Consultants Sustainability Working Group ('ICSWG').

The following two case studies focus on improving reporting and disclosures, which play a crucial role in promoting well-functioning markets by ensuring transparency, accountability and trust.

Case Study: Investment Consultants Sustainability Working Group (Momentum and LCP)

The new and former investment consultants are members of the ICSWG. The ICSWG is a collaboration between 19 firms, formed in 2020, which is 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 Plan Year, both investment consultants contributed to the ICSWG project to update the standardised list of ESG metrics that the group expects investment managers to be able to report on. The list was produced with the objective of improving the standard and consistency of reporting on ESG metrics across the industry.

The ICSWG has also produced an engagement reporting guide, which was used as part of the data collection process for the annual Stewardship and Engagement Report. Since the ICSWG introduced the guide, the engagement reporting provided by managers has improved in terms of the extent of reporting and comparability across managers, although there is room for further improvement.

Case Study: Collateralised Loan Obligations ('CLOs') (M&G Investments)

One of DHL PIF's secure income managers invests in CLOs. These are securities that, due to their complex nature, are generally considered quite difficult to collect climate-related information for. The manager is a member of the European Leveraged Finance Association (ELFA). As part of the ELFA, the manager worked to launch an insights report ('CLO Carbon and Climate Disclosures') to enhance transparency from the underlying borrowers of CLOs. The report also proposed a consistent methodology for reporting GHG emissions at the portfolio level for CLOs in Europe.

Following the report being published in October 2023, seven of the 61 CLO managers in Europe are now reporting on carbon emissions. Going forward, the manager is expecting to run training sessions with the CLO managers to encourage them to improve carbon and climate disclosures in future.

PRINCIPLE 4

PROMOTING WELL-FUNCTIONING MARKETS

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

Other Industry-wide Initiatives

Pensions for Purpose

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

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**.

PLSA

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

Legal Adviser

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 chaired the Pensions Climate Risk Industry Group and sits on a number of high-profile committees including a Financial Markets Law Committee's working group which provided clarification on "Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change" in February 2024.

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 acted 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 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 its core, long-term views. These are reviewed annually and are included in Appendix 1.

Risk Register

The DTL Board maintains a risk register, summarising the key risks to which the DHL GRP is exposed and which Committees are responsible for managing these risks.

During the year, the DTL Board agreed a new Risk Management Policy which captures, among other things, the DTL Board's Risk Management Framework and how risks are identified, assessed and monitored.

The DTL Board also took the decision to implement an online risk management system, which is currently being implemented. This online system enables the recording of evidence to provide assurance on the controls for each risk, and the sources of assurance.

The risk register is reviewed annually and has been amended over the year to reassign some governance and investment risks, previously owned by the IIC, to the Secretariat Team. The scoring metrics and individual scores for each risk were also assessed and updated to accurately reflect the DTL Board's current position and risk appetite.

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 are expected to invest in a manner that aligns with the Climate Policy.

PRINCIPLE 5

REVIEW AND ASSURANCE

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

The DTL Board continually seeks to improve all policies in relation to stewardship. The governing documents mentioned on page 16 were all reviewed over the reporting period. In particular, the SIP was amended as follows:

- The responsibilities of the IIC were updated to:
  - include more detail on the process for managing the Plan's liability hedging, which includes the liability proxies used as a liability benchmark for hedging purposes, as well as monitoring and having oversight of the collateral manager;
  - reflect that the IIC may delegate receiving investment manager presentations to the IIC Sub-Committee;
  - include monitoring the stewardship and engagement activities for each of the Plan's investment managers on an annual basis and engaging with investment managers on their activity;
  - include reviewing compliance with the UK Stewardship Code 2020 and agreeing the annual report to the Financial Reporting Council; and
  - include consideration whether to become a signatory to the UN Principles of Responsible Investment (and identify if there are other appropriate initiatives to sign up to) and make recommendations to the Trustee.
- The Investment Objectives were updated to reflect that the return target will be formally reviewed every three years.
- The Stewardship section was updated to:
  - reflect the IIC's delegation to its investment consultant of the communication to the DHL PIF's investment managers of the Trustee's policy on stewardship, including its stewardship priorities and its policy on escalation; and
  - outline the Trustee's agreed Stewardship Priorities, which are climate change, modern slavery and diversity and inclusion.
- The Monitoring & Reporting section was updated to reflect that regular meetings with the investment managers may be delegated to the IIC Sub-Committee.

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.

Quality of Reporting

The DTL Board continues to improve the manner in which its stewardship activities are reported. The DTL Board has a communications adviser which 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. Their main objective is to ensure that communications which are available to members are presented in a manner which is easy to understand.

The DTL Board has a clear process which seeks to ensure its reporting in this Stewardship Code Report, the Implementation Statement and the Climate Report is fair, balanced and understandable. Draft reports are prepared by the investment consultant, based on their knowledge of the Plan and information supplied by the in-house team about activities and outcomes during the report period. The draft reports are reviewed by the IIC, the in-house team, the DTL Board's external legal advisers and other parties as appropriate before being presented to the DTL Board for approval.

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 implementation of 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.46,000 members in the DB Sections. Around 66% of the DB membership is pensioners and dependants, with the remaining c.34% representing deferred members. The DB Sections of the DHL GRP are relatively mature – as at the 31 March 2024 Actuarial Valuation, the average age of the pensioner population was 74 years and the average age for a deferred member was 57.

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 13 years on the gilts + 0.5% pa basis as at 31 March 2024. 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 covenant of Deutsche Post AG ('DPAG'), i.e. its ability to provide financial support to the DHL GRP as needed.

The Trustee considers investment risks over various time horizons deemed appropriate to meet the needs of the beneficiaries, which includes a short, medium and long-term horizon. This is one year, to 2030 and to 2050 respectively. For the DB assets, the Trustee's emphasis is on the short and medium-term in line with the journey plan and the duration of the DB Sections' liabilities.

The FISC takes into account the duration of the liabilities when recommending to the DTL Board the overall level of risk/return 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 an 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 is also prepared on a quarterly basis. The level of risk and return of the investment strategy are reviewed on a quarterly basis as part of a quarterly rebalancing assessment, which takes into account progress towards meeting the investment objective to be fully funded on a gilts + 0.5% pa basis by 2030.

PRINCIPLE 6

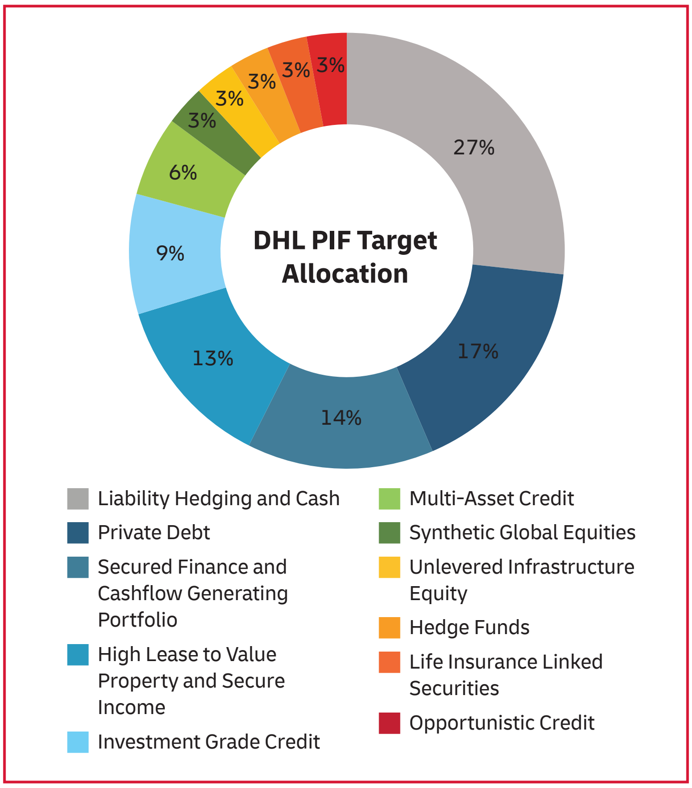
CLIENT AND BENEFICIARY NEEDS

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

Asset Allocation

In the previous 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 are considered and rebalancing decisions made accordingly. As such, the six sections of the DHL PIF no longer follow a specific strategic asset allocation. The current asset allocation is shown below for the DHL PIF as a whole, as at 31 March 2024.

Asset Class	Geography*	Allocation
Liability hedging and cash	UK	27%
Private debt (corporate and infrastructure)	Global	17%
Secured Finance and Cashflow Generating Portfolio	Global	14%
High lease to value property and Secure income	UK	13%
Investment grade credit	Global	9%
Multi-asset credit	US & Europe	6%
Synthetic global equities including emerging markets**	Global	3%
Unlevered Infrastructure Equity	Global	3%
Hedge Funds	Global	3%
Life Insurance Linked Securities	Global	3%
Opportunistic credit	Global	3%



Geography*	Allocation
Global	55%
UK	39%
US & Europe	6%

Figures may not sum due to rounding.

* These represent the broad geographies in which the assets for each mandate are invested. As such, there is no overlap in the allocation of assets between the four categories shown.

**The synthetic equity mandate's exposure is around 7% of total DHL PIF assets.

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 has appointed a communications adviser, WTW, to aid with communications to members, including the documents mentioned below.

The DTL Board produces an annual newsletter for members, which provides members with key updates over the year. This is issued by post to all members. The newsletter in the period included a section called 'Refining the Trustee's Stewardship Focus', which set out a summary of the DTL Board's approach to Stewardship.

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; and
- Saving and Planning for Retirement.

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

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, voting and engagement over the year.

The statement is designed to be easy to read and visually appealing (see extracts below) to allow for better engagement with members. The in-house team 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.


DHL Group Retirement Plan

Defined Benefit Sections

IMPLEMENTATION STATEMENT

PLAN YEAR ENDING 31 MARCH 2024

This Implementation Statement is a legally required document, prepared by the Trustee in relation to the DB Sections of the DHL Group Retirement Plan ('the Plan') and forms part of the Trustee's annual report. It covers the Plan year ending 31 March 2024. It sets out the policies and principles for how investments are governed and any changes over the year (including the rationale for these changes), as well as details of voting activity from the investment managers.

What's inside


SECTION 3: ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

The Trustee believes that ESG issues, including climate change risks, can be financially material to security prices and should therefore be considered when reviewing how the DB Sections' assets are invested, the agreements it has in place with asset managers and the principles and policies which help govern both.

During the Plan year, the Trustee agreed to retain the following stewardship priorities within E, S and G:

- **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.

Case studies provided by the investment managers (anonymised) for each of these stewardship priorities are included in Section 7.

On the following pages, you can see extracts from the DB Sections' Statement of Investment Principles ('SIP').

Here are some highlights:

12 out of 12 managers are signatories to the United Nations Principles of Responsible Investment

9 out of 12 managers are signatories of the UK Stewardship Code

270 entities were engaged with over the 2023 calendar year (an interaction between an investment manager and a company they invest in, regarding an ESG issue)[1]

[1]By the investment managers which were able to provide data.

DHL Group Retirement Plan 3


SECTION 6: VOTING INFORMATION AND SIGNIFICANT VOTES

The voting information from the investment managers in the DB Sections over the period is summarised in the table below. Voting information for the individual managers, including significant votes has been reviewed by the Trustee. The Trustee views any vote where the investment manager voted against company management as potentially significant.

The investment consultant asked the Fund's investment managers to provide details of any direct equity holdings and any voting opportunities over the year to 31 December 2023. All of the Fund's investment managers responded with the information requested. As expected, given the nature of the assets held, the managers had limited voting activity over the year, with the majority of managers stating that voting was not relevant for the mandate. Most of the voting opportunities related to an absolute return manager with an allocation to equities. That manager, who asked not to be named, uses Glass Lewis to vote proxies on behalf of its clients and generally subscribes to Glass Lewis' proxy voting policy but reserves the right to direct Glass Lewis to vote differently where appropriate. Two other managers had a limited number of voting opportunities. The voting activities identified are summarised below.

Summary of voting activity over the Plan year	
Absolute return mandate	
How many meetings were you eligible to vote at?	2,598
How many resolutions were you eligible to vote on?	25,024
What % of resolutions did you vote on for which you were eligible?	99.68%
Of the resolutions on which you voted, what % did you vote with management?*	85.75%
Of the resolutions on which you voted, what % did you vote against management?*	14.25%
Of the resolutions on which you voted, what % did you abstain from voting?*	0.71%
In what % of meetings, for which you did vote, did you vote at least once against management?	47.98%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser?	1.97%

*The manager noted that these items may not sum to 100%, as it does not count these votes as mutually exclusive e.g. management does not always make a recommendation, or a vote to abstain may also be considered a vote against management's recommendation.

CQS Investment Management – multi-asset credit mandate

The manager advised that there were 26 votes over the year. It voted 'for' and in line with management for all votes except one. The number of votes was higher than in previous years which the manager confirmed was predominantly due to one company. The manager held two instruments for this company and there were 11 votes per instrument held. CQS submits proxy votes via ProxyEdge (Broadridge) and advised that it does not delegate voting authority to proxy advisers.

Schroders – insurance-linked securities mandates

The manager advised that the Plan's mandates only held one equity position with one voting opportunity over the year. In this vote, the manager voted for the re-election of the Board members at the company's 2023 AGM. The manager stated the rationale for voting in favour was that the continuity of existing Board members was deemed appropriate. The Trustee considers this vote to be significant because it's the largest equity position in the portfolio. Schroders stated that proxy voting services were not applicable for the Fund's holdings.

Given the irregular and specialist nature of most of the Fund's voting opportunities, the Trustee did not inform the managers what it considered to be the most significant votes in advance of those votes being taken.

10 DHL Group Retirement Plan

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.

Taking Account of Members' Views

The Trustee's fiduciary duty is to act in the best interests of its members, with the primary objective of meeting members' benefits, rather than to reflect the diverse views of its members in its investment decisions. Therefore, although the Trustee is keen to hear members' views on the PIF's investment approach, it does not require its investment managers to take non-financial matters – for example, members' views in relation to ethical matters, social and environmental impact and members' present and future quality of life – into account in their selection, retention and realisation of investments.

The annual newsletter invites members to ask questions or provide feedback. During the reporting year, the Trustee has not received substantive member feedback on investment or stewardship for 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.

Monitoring How Managers have Followed the Trustee's Stewardship and Investment Policies

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 investment activities are carried out.

The IIC's investment consultant conducts an annual review of the DHL PIF's managers' engagement and voting activities which forms the basis of the annual Stewardship and Engagement Report it produces for the IIC.

The Stewardship and Engagement Report covering activity over 2023 was produced shortly after the Plan Year end. All of the managers provided some information on their engagement activities and, where relevant, their voting activities. 10 of the 12 provided the majority of the information requested and all supplied at least one case study. The investment consultant awarded a mixture of red, amber and green assessments for the managers' quantity, variety, quality and reporting of engagement. On the basis of the report, the IIC is satisfied that the managers are following the Trustee's stewardship policies. However, there is room for improvement in all cases. This will be discussed at the IIC's meetings with managers over the next Plan Year as appropriate.

The IIC's monitoring did not identify any instances where the managers did not follow the investment policies in place during the Plan Year.

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.

DHL Board Investment Beliefs

A summary of the Investment Beliefs is included on page 6 (with full details shown in Appendix 1). 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 organization.
- 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. The Policy can be found at the following **link**.

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. No new managers were selected during the reporting period.

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 and 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.

Adviser Selection

Towards the end of the Plan Year, the Trustee appointed LCP as the Investment Consultant to the DB Sections of the DHL GRP. Stewardship and ESG considerations were integrated in the selection and appointment process, with questions in the tender document on how ESG is embedded in advice and whether the consultant was a signatory to the Code, UN PRI and other relevant initiatives. At the presentation stage of the selection process, the shortlisted advisers were asked to present an example advice paper on setting and implementing a Net Zero target for the DHL GRP. Clear expectations and objectives were set for LCP on appointment.

Integration of ESG across Asset Classes

As described above, the IIC integrates stewardship and engagement across all asset classes and investment managers. As part of the annual Stewardship and Engagement Report, ratings for each investment manager on a red-amber-green traffic light system with respect to quantity, variety, quality and reporting of engagement activities are provided to the IIC by the investment consultant. The IIC, or IIC sub-committee, 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 quarterly reporting provided by the custodian in relation to ESG metrics and qualitative assessments by the investment consultant in the briefing papers it provides to the IIC or IIC sub-committee in advance of the annual review meetings.

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

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

Stewardship Priorities

During the Plan Year, the Trustee retained the Stewardship Priorities set in the previous Plan Year 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 and Inclusion: For example, investment managers voting against a director appointment where the board is not sufficiently gender diverse.

The topics can pose a material financial and/or reputational risk. During the Plan Year, these priorities were communicated to the DHL PIF's investment managers noting that they will be expected to prioritise engagement in these areas going forward. The Plan's latest Stewardship and Engagement Report considers the managers' activities in respect of these priorities, including assessing the proportion of engagement relating to each priority and reviewing specific examples where managers have engaged in these areas.

Integration of ESG in the IIC's Monitoring of Investment Managers

This case study details an example of when the IIC sub-committee has engaged with one of the DHL PIF's investment managers in relation to safe cladding in real estate assets held in the secure income mandate.

Case Study: Monitoring of Secure Income Mandate (M&G Investments)

As part of its ongoing monitoring of the DHL PIF's managers, the IIC sub-committee invited the secure income manager to attend one of its meetings. At the meeting, the manager discussed the performance of the mandate over the quarter and longer-term period.

The sub-committee noted that ground rents were the largest contributor to negative performance over the 2022 calendar year. One risk associated with ground rents is construction risk – that is, losing out on ground rent income if the assets cannot be rented out due to ongoing construction. A major potential source of such a risk is the removal and replacement of unsafe cladding used on buildings (which has been of particular focus following the Grenfell Tower disaster in 2017). The manager explained that there were tens of thousands of loans in the mandate that were backed by residential ground rents and that there was no exposure to construction risks.

That said, the manager was actively engaging with developers to fix any issues with unsafe cladding. The manager confirmed that developers were aware that cladding issues were a reputational risk and that there was a need to be responsible owners. The sub-committee asked the manager to confirm how many cladding issues remained to be fixed within the portfolio following the meeting.

The manager advised there was a single loan in the mandate currently affected by the cladding issue. On review of the information supplied, the IIC sub-committee concluded it was comfortable that the manager was taking adequate steps to address cladding issues within the portfolio and was comfortable to remain invested in the portfolio.

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

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

Bonds

The DHL PIF's bond managers are able to demonstrate high levels of engagement and stewardship. An example of the approach to engagement taken by one of the DHL PIF's credit managers is covered under Principle 9.

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. An example is provided in the response to Principle 9.

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 its 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. The IIC and/or IIC sub-committee meets with all of the appointed investment managers as part of the thorough annual review of the relevant mandate(s).

As part of the annual monitoring meeting, the IIC expects each manager to report on how ESG factors are considered within the investment process, including relevant ESG examples and metrics. 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. For example, managers are now expected 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 these areas to a satisfactory level, the IIC would follow up with the manager accordingly.

The IIC reviews information on the managers' engagement and voting as part of the annual Stewardship and Engagement Report, as well as whether or not they are a signatory to the Code and UN PRI. The latest annual report showed that all twelve managers are UN PRI signatories and nine are Code signatories.

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 investment agreement with the manager will be terminated and the IIC will look to replace the manager with a suitable alternative.

Over the period under review, the IIC was satisfied that the majority of investment managers have operated as expected. There are two exceptions relating to conflicts of interest which are described on page 13. In both cases, the IIC's investment consultant are continuing to monitor the situation and challenge the manager on areas of concern, consistent with the IIC's approach to engage with managers to encourage improvement where appropriate.

The managers of the DHL PIF's segregated mandates have confirmed that they did not hold any investments during the Plan Year which contravened the Trustee's policy on controversial weapons.

Case Study: Secured Finance

The IIC sub-committee met with one of DHL PIF's secured finance managers, where the nature of the investments in the portfolio meant the manager was closed to borrowers and so favoured effective engagement over disinvestment. The sub-committee noted that there was a general lack of ESG data across the manager's mandates, but, going forward ESG would be a driver of the financial performance of these assets.

The manager responded that, whilst it remained challenging to obtain ESG data from issuers, awareness had risen over the last two years and the manager would analyse trends once sufficient data had been gathered. It had recently issued a survey to a portfolio of companies to gather ESG information and around 50% had responded.

The IIC sub-committee will review progress when it next meets the manager.

The IIC has found that investment managers are receptive to these dialogues and often it is 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 and 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.

Towards the end of the Plan Year, the DTL Board appointed a new investment consultant, following a market tender exercise, as described under Principle 7.

Custodian and Custodian Adviser

BNY Mellon UK and MJ Hudson-Amaces have been appointed as the DHL PIF's custodian and custodian adviser 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. In addition to annual presentation to the IIC, the Trustee Secretary and finance team have regular meetings with BNY Mellon to discuss delivery of services, including visits to BNY Mellon's offices. If the IIC was dissatisfied with the performance of either provider, the appointment would be reviewed immediately.

In the previous reporting period, some concern was raised about staffing levels at BNY Mellon. BNY Mellon were notified that there was a possibility of reviewing their appointment and exploring alternative custodians if the services did not improve over the six months from February 2023. It has been noted by the IIC that the servicing has improved over the Plan Year and resourcing issues have been addressed.

Cost Transparency

During the reporting period, ClearGlass produced its third set of reports on the transaction costs incurred by the DHL PIF's managers over the calendar year 2022. Following this review, the Trustee concluded that there was a reasonable balance of mandates where costs were below or above the median. The next review is due to cover the calendar year 2023.

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 its regular monitoring on behalf of the IIC. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

Data on the engagement undertaken on the PIF's behalf over the last two calendar years is summarized below. While the number of engagements made over 2023 decreased relative to 2022, this is to be expected given a number of the DHL PIF's mandates were terminated during 2022, including the DHL PIF's listed equity mandates.

	2023	2022
Percentage of the portfolio for which data was available:	47%	54%
Of the mandates for which data was available:		
Number of engagements:	810	1,123
Total number of entities engaged with:	267	413
Percentage of portfolio engaged with (by NAV):	25%	38%
Percentage of eligible resolutions voted on:	100%	100%
As a proportion of total NAV:		
Total weight of the entities that were engaged with*:	10%	21%

*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 data has not been received.

PRINCIPLE 9

ENGAGEMENT

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

Engagement Priorities

The IIC uses the three Stewardship Priorities set out on page 24 to drive its engagement with investment managers.

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. These particular case studies illustrates the manager's engagement priorities over 2023. 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: Modern Slavery – Investment Grade Credit (Loomis, Sayles & Co)

Rationale for the engagement:

The manager engaged with a car manufacturer about a forced labour/human rights abuse allegation at a project in China. In November 2022, the company was red-flagged by MSCI (an ESG data provider) for allegations of forced labour practices at a reconditioning facility in China with a joint venture partner.

The engagement:

The manager closely monitored the situation given the severity of the allegations and the evident impact on the company's funding costs. Management acknowledged the seriousness of the allegations and expressed that there was no forced labour taking place at the facility. They also indicated they would likely have more updates soon, including an update on a potential third-party audit.

The manager engaged with the company on multiple occasions throughout 2023 as its analyst closely monitored the situation. The analyst engaged with the investor relations team with primary objectives to discuss the allegations and learn more about any independent third-party audit. The analyst also discussed the impact on the company's funding costs. The engagement met the manager's objectives. The company conducted an independent audit and the auditor announced in December 2023 that there were no signs or findings of forced labour practices at the facility.

Outcomes and next steps

- MSCI removed the red flag on the company following the completion of the audit and has labelled the matter as "partially resolved" (orange flag) on its website. Given that the audit found no signs of forced labour and MSCI removed the red flag, the manager viewed this positively.
- The manager will continue to engage with the company and believes other investors are also pressing management on the matter considering the seriousness of the matter and the investment implications.
- Moving forward, the manager would like to see the company provide updates on the issue and remain engaged with investors as it has done over the last year and a half. The manager would also like to see if the company has any plans to reconsider its operations in China.

PRINCIPLE 9

ENGAGEMENT

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

Case Study: Diversity & Inclusion – Multi-asset Credit (CQS Investment Management)

Rationale for the engagement:

The company is in the manager's Targeted Engagement Programme. The manager has been engaging with the company since 2020 on a wide range of issues.

The engagement:

The manager's research analysts and portfolio managers have held regular meetings with senior management at the company since 2020. The manager has seen pleasing progress over time. As a result of ongoing engagement, the company confirmed it is implementing a Diversity and Inclusion Plan in each market by 2024, is seeking at least 40% women in senior leadership positions by 2025 and has invested in training, as well as employee engagement.

The manager engaged with the company on multiple occasions throughout 2023 as its analyst closely monitored the situation. The analyst engaged with the investor relations team with primary objectives to discuss the allegations and learn more about any independent third-party audit. The analyst also discussed the impact on the company's funding costs. The engagement met the manager's objectives. The company conducted an independent audit and the auditor announced in December 2023 that there were no signs or findings of forced labour practices at the facility.

Outcomes and next steps

- The company's 2023 report announced an increase in the number of women in senior leadership positions from 23% to 30% between 2021 and 2022 and a new target of 40% by 2025.
- The company was receptive to the manager's feedback. Over the three years the manager has been engaging with the company it believes the company has made significant positive progress and continues to stride in the right direction.

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	49
	Natural resource use/impact (e.g. water, biodiversity)	6
	Pollution, waste	39
Social	Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying)	9
	Human and labour rights (e.g. modern slavery, supply chain rights, community relations)	7
	Human capital management (e.g. inclusion & diversity, employee terms, safety)	20
	Inequality	4
	Public health	5
Governance	DTL Board effectiveness (e.g. diversity, independence, oversight)	29
	Leadership – Chair/CEO	12
	Remuneration	7
	Shareholder rights	0
Strategy, Financial and Reporting	Capital allocation	4
	Corporate reporting (e.g. audit, accounting, sustainability reporting)	41
	Financial performance	0
	Firm strategy/purpose	24
	Risk management (e.g. operational risks, cyber/information security, product risks)	21

PRINCIPLE 9

ENGAGEMENT

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

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 during the next Plan Year. 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 below.

Case Study: Private Debt (Arcmont Asset Management)

Rationale for the engagement:

Arcmont's Responsible Investment Policy states: "ESG factors have the potential to impact financial performance. They are sources of investment risk and drivers of investment value. Therefore, understanding and minimising ESG risks and promoting better ESG performance is essential to delivering absolute risk-adjusted returns to our investors."

A ratchet mechanism is used by Arcmont to incentivise portfolio companies by adjusting the terms of the debt in line with performance against agreed performance indicators. For this investment in particular, the mechanism aims to encourage the transition to a low-carbon economy and improve sustainability disclosure.

The engagement:

Discussions between Arcmont and the portfolio company about a ratchet began in June 2022. Arcmont typically engaged with the Head of Treasury and ESG lead at the company as well as the deal teams of the sponsor (the private equity firm that owns the portfolio company) and co-lender (the other private debt firm lending to the portfolio company). It was a collaborative process involving a number of email exchanges and calls. The ratchet was agreed in September 2022 and signed in June 2023.

The lenders set the following key performance indicators (KPIs) for the company:

- KPI 1: The company was set sustainability related performance targets (SPTs) that address its Scope 1, 2 (market-based) and 3 GHG emissions intensity:
  - SPT 1: Baseline data collection for calendar year 2022;
  - SPT 2: Achieve a reduction target, to be agreed once baseline data is available; and
  - SPT 3: Achieve a reduction target, to be agreed once baseline data is available.
- KPI 2: The company is required to publicly disclose a set of ESG metrics each year (absolute Scope 1, 2 and 3 GHG emissions; GHG emissions intensity; total company gender breakdown; average ratio of female to male board members).

The company must satisfy both KPIs in a year to be rewarded with a margin discount, with the discount being 2.5bps each year. The maximum reduction the company can receive is 7.5bps over the life of the loan.

Criteria will be retested each year to ensure performance doesn't regress. If the relevant SPT or KPI 2 is no longer met, the associated margin discount will be removed. The discount is also dependent on meeting the lenders' other conditions such as providing an annual certificate and supporting evidence of target achievement alongside the audited accounts.

PRINCIPLE 9

ENGAGEMENT

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

Case Study: Private Debt (Arcmont Asset Management) continued

Outcomes and next steps

The ratchet mechanism aims to bring about change as the company has to take specific actions to meet the SPTs and provide sufficient evidence that it has done so. However, the company has not yet set the targets for SPT 2 and SPT 3, so the maximum discount currently available is only 2.5bps.

The company collected and published the ESG metrics for the calendar year 2022, meeting SPT 1 and KPI 2 and so was awarded a 2.5bps discount. It subsequently published the ESG metrics for 2023, but it was late in delivering the certification. Arcmont engaged with the company on this matter and is now discussing the appropriate next steps with the co-lender.

Arcmont continues to follow up with the company about the target-setting process. The company is working with a specialist consultant and expects to have targets ready during 2025, so it can begin working towards SPT 2 and 3.

Outcomes of Engagement

The Trustee reviews the outcomes of the engagement undertaken by the DHL PIF's managers on its behalf as part of the annual Stewardship and Engagement report. The managers are asked to summarise the engagement outcomes for each of the DHL PIF's mandates, based on the categorisation in the ISCWG's Engagement Reporting Guide. This distinguishes between four stages of progress for engagements where a clear objective was set:

1. Concern has been raised with the entity.
2. The entity acknowledged the concern as a serious matter worthy of a response.
3. The entity developed a credible strategy to achieve the engagement objective or stretching targets were set to address the concern.
4. The entity implemented a strategy or measures to address the concern.

Seven of the 12 managers provided outcome data for the 2023 report. This revealed that relatively few engagements had reached stages three or four, although the Trustee acknowledges that good quality engagement may involve a series of interactions over an extended period of time. In some cases, the managers were not able to provide a breakdown between all four categories due to limitations of their recording systems.

In general, the quality of the data provided was not high which limited the usefulness of the analysis. The IIC would like the managers to improve their recording of engagement outcomes as it believes this would likely support better internal monitoring of outcomes and help the managers determine when escalation is appropriate. The IIC has provided this feedback to the managers.

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. 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.

The investment consultant asked the investment managers to provide examples of collaboration to engage with issuers within the DHL PIF's portfolio during the reporting period, however, most managers were only able to provide examples at the firm-level. Shown below is a case study from one of the investment managers who had provided an example directly related to one of the issuers in the DHL PIF portfolio.

Case Study: Collaborative Engagement on Water Management (CQS Investment Management)

In March 2022, the manager joined a collaborative engagement through the PRI platform to encourage better water management and related disclosures from an Italian beverage company. As a positive sign, the company extensively addressed the manager's letter at its 2022 AGM and outlined its progress within its operations. The company also confirmed that it was completing the CDP Climate Change questionnaire that year, it would seriously consider completing the CDP Water questionnaire in future and it welcomed the manager's feedback on water management improvements in the interim.

In March 2023, the manager joined the same collaboration, co-signing a letter alongside eight other investors. The letter acknowledged the progress the company had made regarding water use in its own operations but pushed for a supply chain assessment and completion of the CDP Water questionnaire. The manager also co-signed the CDP Non-Disclosure campaign letter to the company which further encouraged the completion of the CDP Climate and Water questionnaires.

The Board extensively addressed the manager's questions at its AGM. The company confirmed that its operating activities are not located in extremely high-water risk areas (based on an internal assessment through the World Resource Institute Aqueduct Water Risk tool). It also noted that due diligence of its main suppliers was underway.

The company recognised investors' need for disclosures and transparency and, in October 2023, it confirmed that it would complete the CDP Water questionnaire for the first time in 2024 and fully assess the water risks in its supply chain.

The manager was pleased with the company's positive and proactive responses to the engagements and was encouraged by both its answers on water management and the progress it was making on climate- and water-related ESG risks and opportunities.

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 engagement 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 investment consultant asked the DHL PIF's managers for examples where it had been necessary to escalate stewardship activities to influence issuers during the reporting period. Few were able to provide examples that related directly to the DHL PIF's assets during the reporting period.

The following page provides a case study that relates to one of the DHL PIF's holdings.

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

Case Study : Escalation example

Case study: Seeking Environmental Disclosures (CQS Investment Management)

The manager has been engaging with an Asian global consumer internet business since early 2022 to understand plans to improve board diversity, carbon emission disclosures and set decarbonisation targets.

In 2022, the manager sought engagement with the company on multiple occasions but did not receive responses to the requests. Following discussion on next steps during an Engagement Group meeting, the manager escalated the issue to the joint CEO/Chair of the company. This led to the manager receiving a prompt response and the company published some carbon emission and diversity disclosures for the first time in their 2022 sustainability report later that year.

As part of the 2023 CDP Non-Disclosure Campaign, the manager sent a letter to the company on behalf of 288 investors representing $29 trillion in assets to encourage them to complete the CDP Climate questionnaire.

In late June 2023, the manager had a meeting with the Chief Corporate Officer's team. The manager highlighted the importance of disclosure as a first step in the low carbon transition. In particular, the manager referenced that 86% of companies within the same Fund in which the manager held the company's debt do currently make climate disclosures to CDP. The company thanked us for this useful insight and confirmed that they would consider completing the CDP Climate questionnaire. However, they ultimately decided not to complete the questionnaire in 2023.

The manager views engagement with companies as an iterative process and hopes to see further progress in the future.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

Voting Policy

The IIC believes 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 DHL PIF no longer has exposure to physical listed equities, so a policy on voting equity rights is not required.

Monitoring

The IIC 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.

Proxy Voting

The investment managers may make use of proxy voting services to analyse vote issues and make recommendations. They are not obliged to follow these recommendations and, in most cases, 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 2023 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 outlined in Principle 9 highlight how managers are promoting effective stewardship. The IIC is encouraging the investment managers to develop reporting as part of their monitoring.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Voting Activity

As expected, given the nature of the assets held, the Plan's managers had limited voting activity over 2023, with the vast majority of managers stating that voting was not relevant for their mandate(s). Most of the voting opportunities related to an absolute return manager with an allocation to equities. That manager, who asked not to be named, uses Glass Lewis to proxy vote on behalf of its clients and generally subscribes to Glass Lewis' proxy voting policy but reserves the right to direct Glass Lewis to vote differently where appropriate. Two other managers had a limited number of voting opportunities.

Summary of voting activity over the Plan Year	
Absolute return mandate (requested not to be named)	
How many meetings were you eligible to vote at?	2,598
How many resolutions were you eligible to vote on?	25,024
What % of resolutions did you vote on for which you were eligible?	99.68%
Of the resolutions on which you voted, what % did you vote with management?*	85.75%
Of the resolutions on which you voted, what % did you vote against management?*	14.25%
Of the resolutions on which you voted, what % did you abstain from voting?*	0.71%
In what % of meetings, for which you did vote, did you vote at least once against management?	47.98%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser?	1.97%

*The manager noted that these items may not sum to 100%, as it does not count these votes as mutually exclusive e.g., management does not always make a recommendation, or a vote to abstain may also be considered a vote against management's recommendation.

CQS Investment Management – multi-asset credit mandate

The manager advised that there were 26 votes over the year. It voted 'for' and in line with management for all votes except one. The number of votes was higher than in previous years which the manager confirmed was predominantly due to one company. The manager held two instruments for this company and there were 11 votes per instrument held. The manager submits proxy votes via ProxyEdge (Broadridge) and advised that it does not delegate voting authority to proxy advisers.

Schroders – insurance-linked securities mandates

The manager advised that the Plan's mandates only held one equity position with one voting opportunity over the year. In this vote, the manager voted for the re-election of the Board members at the company's 2023 AGM. The manager stated the rationale for voting in favour was that the continuity of existing Board members was deemed appropriate. The Trustee considers this vote to be significant because it is the largest equity position in the portfolio. The manager stated that proxy voting services were not applicable for the DHL PIF's holdings.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Voting Activity

Significant Votes

The Trustee has a policy on significant votes and in addition, 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.

Given the irregular and specialist nature of the DHL PIF's voting opportunities, the Trustee did not inform the managers what it considered to be the most significant votes in advance of those votes being taken.

Three examples of significant votes are included below:

Example of significant votes
Glencore (equity holding) – Related Stewardship Priority: Climate change On 26 May 2023, the manager supported a shareholder proposal on developing a climate action transition plan for Glencore plc, on the advice of its proxy adviser and against management recommendation. The manager deemed the vote to be material because the proposal will "allow shareholders to more fully assess risks presented by climate change". This shareholder proposal did not pass. The Trustee considers this vote to be significant because it related to one of its stewardship priorities.
Chipotle (equity holding) – Related Stewardship Priority: Modern slavery On 25 May 2023, the manager supported a shareholder proposal on a policy not to interfere with freedom of association rights for Chipotle Mexican Grill, Inc, on the advice of its proxy adviser and against management recommendation. The manager deemed the vote to be material because the "adoption of the proposed policy could help mitigate potential risks." This shareholder proposal did not pass. The Trustee considers this vote to be significant because it related to one of its stewardship priorities.
Standard Chartered (non-equity holding) On 3 May 2023, CQS Investment Management voted against Standard Chartered Plc's proposal to change the terms and conditions of one of the mandate's holdings, as it did not view the change as favourable. The resolution failed (i.e. bondholders voted against the proposed changes). No further action was therefore required and the company is no longer held within the portfolio. The manager noted that, due to the nature of the portfolio, there are few voting events, as shares are not normally held. In the manager's view, the most relevant measure of active ownership in credit markets is engagement as owning the debt facilitates that engagement with management teams.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

Fixed Income Activity

Fixed Income Activity

For fixed income assets, the Trustee delegates to its investment managers the responsibility for:

- seeking amendments to terms and conditions in indentures or contracts;
- seeking access to information provided in trust deeds;
- impairment rights; and
- reviewing prospectus and transaction documents.

The investment consultant asked the Plan's fixed income managers to describe their approach to the above points. The managers that responded to this request indicated that their approach to the above responsibilities focuses on completing reviews of relevant documentation as part of the fundamental analysis of the holdings.

DHL Group Retirement Plan (DHL GRP)
DB Sections

APPENDIX

- Appendix 1: DHL GROUP RETIREMENT PLAN ('DHL GRP' or 'THE PLAN') INVESTMENT BELIEFS – DB SECTIONS
- Appendix 2: CONFLICTS OF INTEREST POLICY

APPENDIX 1: DHL GROUP RETIREMENT PLAN ('DHL GRP' OR 'THE PLAN') INVESTMENT BELIEFS – DB SECTIONS

DEFINED BENEFIT ('DB') ASSETS – SEPTEMBER 2024

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 arranged into two main sections. Section 2 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 1: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2024

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 believe that a key risk to be managed is the collateral sufficiency risk of the LDI portfolios, but this needs to be balanced against opportunity cost.

The Plan is invested in leveraged LDI arrangements, which allows the Directors to hedge the interest rate and inflation expectations sensitivities of the liabilities, without having all the assets invested in bonds. These assets can therefore be invested elsewhere to generate additional returns.

However, depending on market movements, additional cash may need to be invested in the LDI portfolios in order to support a given level of leverage. A key risk therefore is that the cash required to maintain the hedging protection is not available within the required timeframe. If so, the Plan's liability hedging could be reduced potentially leading to a worsening of the Plan's funding level.

The Directors believe that maintaining the Plan's liability hedge is an important risk to be managed, but it is inefficient to hold excessive amounts of collateral within the LDI portfolios, which will deliver low levels of return. As a result, it has agreed a framework for monitoring the collateral sufficiency of the LDI portfolios, with pre-agreed actions setting out how and when additional cash can be raised (via selling return seeking assets or via corporate bond repo) to support the LDI portfolios.

As with risks more generally, there is no one right way of managing collateral sufficiency risk. However, the Directors will generally look to measure the collateral sufficiency of its LDI portfolios through the yield rises the portfolios can withstand before being exhausted and comparing this against historical markets and regulatory guidance.

[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 1: THE PLAN INVESTMENT BELIEFS

DB ASSETS – SEPTEMBER 2024

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

The Directors regularly seek confirmation from DPAG 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 DPAG's ability to do so. However, the Directors believe that, provided DPAG's 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.

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 or diversified.

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 collateralization 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.
- The Trustee also recognises that an overly diversified approach across managers could lead to the Plan also diversifying away the opportunity for its portfolio to outperform (because the portfolio held is similar to the overall market).

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.

The Directors believe that there is value in paying for active management in complex markets.

There are some markets that are not possible to invest in on a passive basis. For example, private markets. In such cases, the Directors are willing to pay for active management in order to access these alternative return drivers, which can help diversify the Plan's exposure to listed markets and reduce risk.

Similarly, there are some markets that are possible to invest in on a passive basis, but market inefficiencies, complexity or otherwise, make it more attractive to invest on an active basis. Examples include asset-backed securities and multi-asset credit.

The Directors also recognise that costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

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.

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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.

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.

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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, DPAG, 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.

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 climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long term. In particular, the Directors have set a Net Zero ambition and 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.

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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.

To help manage climate risk, the Directors have also set an ambition to achieve Net Zero greenhouse gas emissions (Scopes 1, 2 and 3) by 2050 or sooner across its asset portfolio. Several steps will be taken to help achieve this ambition and recognise that an ongoing dialogue with its investment managers will be needed to achieve this.

The Directors believe active stewardship can improve investment returns.

The Directors believe voting and engagement are important and can create long term value, which is in the best interests of Plan members. Therefore the Directors prefer managers with good stewardship approaches and encourages managers to improve their voting and engagement practices.

Similarly, collaborative investor action can help address systemic risks. For example, the Directors believe Net Zero alignment, if implemented well, could be an effective approach to addressing climate risk.

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.

The Directors believe that self-investment in the Sponsor should be mitigated where possible.

Some of the Plan's investments are made via pooled funds. In such cases, the Directors do not have control over the terms of the investment mandate, which are set by the investment manager of the pooled fund.

However, where the Plan's investments are made via a bespoke or segregated approach, the Directors will include a restriction in the portfolio guidelines where possible to prohibit investments in employer-related investments. This is to manage regulatory risk (the Investment Regulations restrict the proportion of scheme assets that can be invested in employer-related investments) and avoid a significant overlap in risk between the covenant and investment strategy (i.e. the funding position of the Plan worsening at the same time as a weakening in the covenant strength).

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 2: 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.
- 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 they may not share with their 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 their 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.
- negotiating funding, including the choice of actuarial assumptions.
- setting a recovery plan for correction of a deficit.
- dealing with bulk transfers in or out.
- discussing benefit changes proposed by DHL.
- settling a death in service benefit claim.
- 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.

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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 they have 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 2: CONFLICTS OF INTEREST POLICY

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- Where information which is confidential to DHL is the issue, the Trustee Director may:
  - seek DHL's agreement up-front to release them from the obligation to DHL not to disclose the information to their fellow Trustee Directors; or
  - seek DHL's agreement so that the Trustee Director is not involved in situations where confidential information is passed to them 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; and
- 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**

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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:

- if it is appropriate to appoint the adviser in the first place;
- if 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, covenant and actuarial advice).

The DHL Pensions team includes individuals who are employees of DHL and provide a service to the Trustee Board. 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 Plan Secretary 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 DHL Pensions 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 2: CONFLICTS OF INTEREST POLICY

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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 simply because they may also owe duties to parties other than scheme beneficiaries. 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 information about the sponsoring employer which is material to the conduct of scheme business which the trustee knows but their fellow trustees do not, they must ask the sponsoring employer to share the confidential information with their fellow Trustees or permit them 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 they have 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 the sponsoring employer'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.