# Vodafone Group Pension Scheme

## Responsible Investment Policy

This policy covers key aspects of the Scheme's Responsible Investment approach.

This policy applies across investment activities depending on the degree of financial materiality and covers both Sections of the Scheme.

**Purpose**

As a long-term investor, the Trustee has good reasons to be interested in sustainability issues.

The Trustee believes that certain Environmental, Social and Governance (ESG) factors, including climate change, can have an impact on financial performance and that it is part of its fiduciary duty to incorporate these factors into investment decisions. The Trustee believes that this helps to reduce investment risk and, in some cases, enhances long-term investment returns.

The Trustee's policy on Responsible Investment (RI) is focused around two main areas. The first is on effective stewardship and engagement, utilising the United Nations Sustainable Development Goals (UN SDGs) as a framework to focus its strategy. The second is around climate-related risks and opportunities.

The Trustee recognises that RI is expected to be increasingly important from a regulatory and Member perspective as outlined in the Trustee's Investment Beliefs https://pensions.vodafone.co.uk/documents/vgps/trustees_investment_beliefs.pdf

### 1. Governance

The Policy is approved and owned by the Vodafone Group Pension Scheme (VGPS or Scheme) Trustee Board.

The Trustee has also requested that the Pension Investment and Audit manager has formal responsibility for ensuring that the policy is implemented.

The Trustee recognises that the investment industry is developing rapidly in response to the demand for RI, along with the provision of RI data, performance and risk measures. It is therefore likely that this policy will require an annual review, with other changes as necessary.

### 2. About the Scheme

VGPS is a large defined benefit (DB) pension scheme with invested assets of £5.3bn (as of 31 March 2020) and approximately 23,000 members.

The Scheme consists of two Sections, the Vodafone Section and the Cable & Wireless Section, the assets of which are invested separately.

This policy covers both sections of the Scheme.

## 3. Defining Responsible Investment

The Trustee has defined RI as ‘An approach that aims to incorporate Environmental, Social and Governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns’.

## 4. Primary Responsibility

The Trustee’s primary responsibility is to act in the best financial interest of the Members of the Scheme.

The Trustee believes that incorporating financially material ESG factors into investment decision making is therefore complementary to their primary responsibility as doing so helps to reduce investment risk and, in some cases, enhances long-term investment returns.

## 5. Stakeholder Views

The Trustee believes that its policy should reflect the extent to which ESG issues might represent a risk to the Scheme.

The Trustee believes it should be aware of and informed on the RI values of the Sponsor when setting the Scheme’s own approach to RI.

Whilst not being actively canvassed, Members’ views may be considered and accessibility to the Trustee’s RI policy is important.

## 6. Framework

The Trustee utilises the UN SDGs as a high-level framework for its approach to investing responsibly from an effective stewardship and engagement point of view.
In September 2015 world leaders adopted 17 SDGs ‘to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind’. Each goal has specific targets to be achieved by 2030.

In broad terms the SDGs are an articulation of the world’s most pressing sustainability issues. Large institutional investors such as VGPS (which have highly diversified, long-term portfolios) are significant representatives of global capital markets and their investment returns are dependent on the continuing good health of the overall economy. Long-term financial performance of the Scheme can therefore be improved by acting in such a way as to encourage sustainable economies and markets.

Failure to achieve the SDGs will impact all countries and sectors to some degree and as such create macro financial risks and impact financial returns.

The Trustee has considered which of the SDGs, if not achieved, would have the biggest financial impact on risks and returns as a way of focusing their RI strategy. These are expressed in the following key themes:

- Climate Change
- Human Rights
- Corporate Governance

The Trustee has opted to focus on these particular risks, which it also sees as an area of opportunity for the Scheme that the Trustee can actively work towards influencing. The Trustee focusses on these risks through its decision making and monitoring around its investment strategy and discussions with its selected investment managers, ensuring the risks are monitored regularly which allow improvements to be tracked from implementation of this Policy. Where relevant, the monitoring and related discussions are based around target-based outputs, such as climate change factors that consider both physical and transition risks.

The Trustee has formally set a climate-related "net zero" target for both Sections of the Scheme. This targets a 50% reduction in total carbon emissions by 2030 alongside an overall target of achieving net zero carbon emissions (scopes 1, 2 and 3) from its investments by 2050. The ultimate target is in line with the United Nations Framework Convention on Climate Change (UNFCCC). In setting this target the Trustee has considered whether to aspire to a target that is nearer to the Sponsors' target to achieve net zero carbon emissions from its operations by 2040. The Trustee intends to bring this 2050 date closer if possible but does not yet believe the investment landscape has an investible toolkit to do so.

The Trustee will work with its advisors and investment managers to consider how these themes can be reflected within the Trustee's investment policy. Future updates of this policy will reflect the output of those considerations.

## 7. Implementation

**Financially material considerations**

The Trustee expects its investment managers to consider a range of sustainable investment factors in its responsibility for the Scheme's assets, such as, but not limited to, those arising from the ESG themes set by the Trustee, in the context of a broader risk management framework. The managers' RI policies are required to outline the extent to which ESG factors, including climate change, are integrated into the investment processes.

The Trustee has reviewed the investment managers' policies in these areas and is satisfied they broadly meet with the Trustee's views and take account of financially material factors when selecting, retaining and realising investments.

The Trustee will continue to review its key managers policies at least annually.
Other non-financial matters are considered by the Trustee as the need arises.

**Selecting Managers**

The Trustee sets general investment policy but delegates the responsibility for selection of specific investments to appointed investment managers. The Trustee aims to select managers that provide the skill and expertise necessary to manage the investments of the Scheme competently. The selection process includes consideration of the Manager's RI practices and consideration of ESG factors, including climate change.

The investment advisor has a dedicated sustainable investment resource and a network of subject matter experts. The consideration of sustainable investment is fully embedded in the manager recommendation process and is monitored on an ongoing basis. Whilst considering the limitations for each manager, the investment advisor expects managers to have sustainability processes which align with the investment risk and return characteristics of the strategy. Where a manager does not comply or improve on its current stance on sustainable investment, the manager's position in the portfolio may be reviewed.

Over 95% of the Scheme's assets are invested with investment managers who are signatories to the UN-backed Principles for RI which is a demonstration of their commitment. The Trustee will engage those managers who are not signatories to understand whether they have similar principles in place.

**Monitoring Managers**

The Investment and Funding Committee which has delegated responsibility from the Trustee Board to monitor, terminate and make new manager appointments, meets with the Schemes key investment managers and raises questions on RI where appropriate. The Committee receives RI reporting on a quarterly basis.

The Vodafone Pensions Team, the Trustees executive meets with the managers outside of the quarterly meeting cycle and regularly discusses RI issues with the managers.

**Directing Managers**

Where investments are managed on a segregated basis (i.e. not in pooled funds), the Trustee has an investment management agreement (IMA) in place which will look to include wording to reflect the Trustee's view outlined in this policy.

**Voting**

As an investor in both UK and non-UK listed companies, the Trustee accepts its responsibilities as a shareholder even though ownership is indirectly held through pooled funds.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to ensure the managers exercise those rights unless agreed otherwise.

The Trustee expects the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

The Trustee will ask managers to report on voting activity on at least an annual basis. The Trustee will monitor Managers' voting activity and voting patterns including asking for information on significant votes cast.

**Engagement**

The Trustee believes that engagement is an effective way of implementing positive change. Engagement with companies in which the Scheme invests is an important part of protecting value for VGPS's Members – The Trustee believes that when companies are governed properly, they are more likely to be sustainable in the long-term.

Engagement activity is primarily delegated to its investment managers. The Trustee believes that investment managers are best placed to engage with invested companies on ESG matters, given their knowledge of the company and the level of access they have to its management. This is a pragmatic approach considering the breadth of investments and the amount of time corporate entities have for single investors.

The Trustee expects its managers to engage on ESG matters when they are considered material and relevant to the investment.

Managers are encouraged to engage with regulators and governance bodies with the aim of improving the regulatory and operational environment for all investors.

The Trustee has opted to focus its primary engagement activities towards its three key themes and will review engagement activities undertaken by its Managers as part of its broader monitoring activity periodically.

## 8. Conflict of Interest

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each Manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest in writing to the Trustee on a timely basis.

## 9. External Reporting

Scheme Members will be provided information on the Trustee's voting and engagement activity through the annual implementation statement.

**October 2023**