

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year to 31 March 2023
Implementation Statement**

Drax 2019 Defined Benefit Pension Scheme

Implementation Statement for the year to 31 March 2023

Introduction

The purpose of this Implementation Statement is to set out how the Trustee has followed its investment policies, stewardship policies, and to outline voting behaviour by, or on behalf of, the Trustee during the year. This Implementation Statement has been prepared in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

For the year to 31 March 2023, the Trustee delegated overall stewardship of the Scheme's underlying investments to the investment managers, including the exercise of rights (including voting rights) attaching to the Scheme's investments and undertaking engagement activities in respect of the investments.

The Appendix sets out information provided by the investment managers on significant votes which were cast over the period.

In preparing this Implementation Statement, we have relied on the information provided by the investment managers.

Investment governance

The Trustee of the Drax 2019 Defined Benefit Pension Scheme ("the Scheme") is responsible for the governance and investment of the Scheme's assets.

The Trustee will meet at least quarterly with their appointed investment advisor (PricewaterhouseCoopers, "PwC") to review and discuss the operation of the portfolios and policy decisions. The Trustee will, from time to time, receive and consider written advice from the appointed investment advisor between meetings.

The Trustee considered the Statement of Investment Principles ("SIP") dated November 2022, and governance structure held within, to be appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, whilst delegating the day-to-day aspects of investment management to the investment managers as and where appropriate. However, it should be noted that following on from the Scheme's merger in Q1 2023 and subsequent appointment of a new Outsourced Chief Investment Officer ("OCIO") manager, this SIP is under review.

The Trustee of the Scheme is responsible for making investment decisions and has an Investment Advisor, PwC, who considers investment issues and makes recommendations to the Trustee. The Investment Advisor attended regular meetings with the Trustee throughout the year. These meetings included regular monitoring of the Scheme's assets against the investment strategy and ad hoc educational sessions to ensure that the Trustee had sufficient knowledge and understanding to make decisions regarding the Scheme's investment strategy. The SIP sets out the Trustee's policies for managing the Scheme's assets, and outlines the investment strategy and stewardship policy which was in place over the majority of the reporting period. As stated above, following on from the Scheme's merger, the SIP is under review.

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year ended 31 March 2023
Implementation Statement**

Review of and changes to the SIP over the year to 31 March 2023

The SIP was amended once during the reporting period in November 2022. The amendments reflected the Scheme's change in investment strategy following the LDI crisis in September and October 2022. The table below shows the interim position and the final allocation once the transition had been fully implemented.

SAA as at 31 March 2022	SAA post LDI Crisis
40% - Gilts and Cash	70% - Gilts, Cash and EDOS (40% notional of assets)
35% - Synthetic Credit	15% - Synthetic Credit
15% - Short Duration Gilts	15% - Credit Opportunities
10% - Credit Opportunities	

The investment strategy in effect at the start of the reporting period has the potential to generate long-term returns of c. gilts + 5% (subject to overall interest rate movements). Following the change in strategic asset allocation the potential return from the new strategy reduced to c. gilts + 3%. The Trustees recognise that the new investment strategy has the potential to generate a higher excess return relative to what is required in the long-term to meet the liabilities of the Scheme. Based on the latest LBP analysis conducted on a Technical Provisions basis the discount rates used were, gilts + 2% for pre-retirement liabilities and gilts + 0.5% for post-retirement liabilities. Moreover, a full disinvestment took place from the LGIM 0-5 year Gilt Index Fund on 3 October 2022. The proceeds from the disinvestment were used to service the collateral requirements required by Schroders for the LDI and EDOS portfolios. Proceeds landed in the Trustee bank account on 7 October 2022 and were invested with Schroders on 10 October 2022 to form part of the LDI mandate to support both the liability hedging and equity option.

Investment objectives

The Trustee's policy is to set the overall investment strategy based on the return and risk requirements to meet the long term objectives.

The overall objective of the Trustee is to meet the benefit payments promised to members as they fall due. The Trustee and principal sponsor have agreed a number of key long-term objectives which include:

- Ensuring that all benefits due to members under the rules of the Scheme can be paid and that there is clear communication on the level of security provided by the Company;
- Achieving the necessary expected return and risk targets;
- Reaching a fully funded status on a prudent self-sufficiency basis over the next decade;
- Ensuring the investment strategy remains appropriate to achieve the agreed funding objectives within the agreed timescales, with a level of risk that is acceptable to both the Trustee and Company;
- Ensuring the suitability of the investments and ESG policies following the result of each actuarial valuation, investment review, or as required by legislation, in consultation with the advisers;
- Maintaining accurate Scheme records and good governance.

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year to 31 March 2023
Implementation Statement**

The Trustee's aim to meet the long-term objectives via the following measures:

- Ensuring the strategic asset allocation for the Scheme considers the liability profile and the Statutory Funding Objective;
- Monitoring the investment managers to ensure that they comply with the investment guidelines set for them and that there is a reasonable expectation that they can meet their performance objectives going forward; and
- Considering opportunities to either reduce risk or enhance the return through the implementation of medium-term tactical asset allocation decisions.

These objectives have been met over the period, specifically:

- All cashflow requirements to fulfil member benefit payments have been met through the disinvestment of Scheme assets.
- Following the Scheme merger between the Drax 2019 Defined Benefit Pension Scheme and the Drax Power Group of the Electric Supply Pension Scheme ("Drax ESPS") the return target was considered alongside the funding position of the merged Scheme and the resulting discount rate. Following discussions between the Trustee and their advisors it was agreed that the Scheme's merged investment strategy should target a return of gilts + 1.7%. Note that this was finalised following the end of this reporting period.

Trustee's policy on managing the investment strategy

The Trustee's policy is to set the overall investment strategy and select investment managers to manage the underlying investments within that strategy. In doing this, the Trustee considers the advice of its professional advisers, who it considers to be suitably qualified and experienced for this role.

The Trustee's policies relating to the investment strategy are as follows:

- To ensure sufficient cashflow to meet expenses and any payments due to members including rectifications arising from data cleanse and GMP exercises.
- To invest the Scheme's assets in a secure manner, such that the assets grow in line with the target overtime, and support any future end-game objective.
- To invest in a strategy whose return on investments is expected, over the long term, to be consistent with the Trustees' goal of meeting the Statutory Funding Objective.
- Monitor the performance of the Investment Managers against the agreed benchmarks, objectives, ESG policies and the financial requirements of the Scheme as a whole.
- To regularly review the activities of the Investment managers to ensure they continue to perform in a competent manner and have the appropriate knowledge and experience to manage the assets of the Scheme.

The Trustee's have delegated overall stewardship of the Scheme's underlying investments to the investment managers, including the exercise of the rights (including voting rights) attaching to the Scheme's investments and engagement with investee companies on their performance, strategy, capital structure, management of actual or potential conflicts of interest, and social, environmental and corporate governance risks. The Trustee will:

- Review the managers' stewardship policies and voting behaviours periodically to check that they are consistent with delivering an appropriate level of long term return for the Scheme.
- With help from their investment advisor, will seek to engage with the managers relating to their ESG policies and approach.

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year ended 31 March 2023
Implementation Statement**

How the Trustee has met its policies

The Trustee reviews the appropriateness of the Scheme's investment strategy on an ongoing basis. In Q1 2023 the Scheme completed a merger with the Drax ESPS Scheme and the return target was updated to account for the new merged Scheme.

The Trustee has met its other policies relating to investment strategy as follows:

- Cash availability is monitored regularly and should cash on hand be lower than expected benefit payments in the coming months then the Trustee will consult with its advisers to disinvest from the most appropriate assets to raise additional cash.
- The allocation of the Scheme's assets was monitored on a monthly basis to ensure that the asset allocation remained in line with the Scheme's stated investment strategy. No rebalancing of assets took place during the period.
- The Scheme's total risk exposure was monitored on a monthly basis to ensure that this was consistent, reasonable and did not fluctuate significantly.
- The performance of each investment manager was monitored on a quarterly basis against each manager's stated benchmark.
- The remuneration of the investment managers remained in line with the policy and objectives set out by the Trustee at the start of the year to 31 March 2023.

The Trustee has met its policies relating to stewardship as follows:

- In preparing the Implementation Statement, the Trustee's investment advisers requested details of significant votes that have been cast by all investment managers over the period. The Appendix sets out information provided by the investment managers on significant votes cast and recorded over the period.
- The Trustee's investment advisers raised no concerns around the ESG policies and approach's of any of the Scheme's Investment Managers.

Overall, the Scheme remained aligned to its strategy and policies outlined in the SIP. However, following the Scheme's merger these policies and strategies are now under formal review.

Key events over the reporting period

In August 2022, the Scheme fully disinvested from the LGIM 0-5 year Gilts Index Fund with the proceeds transferred to the Schroders LDI portfolio to support with liability hedging. Following this, in Q1 2023, the Scheme completed a merger exercise with the Drax ESPS Scheme. This involved a complete transfer for both assets and liabilities to the Drax 2019 Defined Benefit Pension Scheme. Total assets of the Drax 2019 Defined Benefit Pension scheme rose from £37.7m at 31 January 2023 to a now combined asset value of £212.8m at 28 February 2023. The Scheme ended the quarter with total assets of £224.7m.

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year to 31 March 2023
Implementation Statement**

Voting behaviour over the reporting period

The appendix highlights all significant votes cast over the reporting period.

Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed up until the conclusion of the merger over the year to 31 March 2023. Following the merger the SIP remains under review and will be updated to reflect the up to date policies and investment strategy of the scheme.

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year ended 31 March 2023
Implementation Statement**

	Vote 1	Vote 2
Manager	Egerton Capital	Sands
Company name	Norsk Hydro	Britannia
Industry	Industrial	Food packaging
Engagement Theme	Governance	Health and nutrition
Engagement Activity	<p>Egerton own a position in Norsk Hydro, an aluminium producer. Aluminium is used extensively in renewable energy and electric cars and is also infinitely recyclable.</p> <p>Egerton has been in regular and active communication with Norsk Hydro management for several years, recently this has centred on improving governance. Egerton spoke with the company in January and February 2023 to discuss the structure and absolute level of compensation of both the management team and board. The Norwegian government are a significant shareholder. Due to government pressure, compensation of both the management team and board is below the international norm. This is making it difficult for the company to compete for top-level talent internationally against peers. This is a non-trivial problem as the European aluminium industry faces significant economic, geopolitical and environmental headwinds which need to be actively navigated by a highly competent management team.</p> <p>As such, in May, Egerton voted to support a resolution proposed by management to</p>	<p>Britannia is one of India’s leading food companies, responsible for producing popular food brands in India. Britannia is conscious of its products’ impact on the health of its consumers and has made efforts to incorporate measures that Sands have advocated for to produce healthier food. Due to the sugar and fat content in a majority of Britannia’s products, the company is exposed to growing concerns about obesity, ingredient safety, and nutritional value.</p> <p>Sands shared this feedback with management, who agreed with our assessment. Britannia revealed its plan to shift its product line-up to a healthier array of snacks and to improve the current product portfolio by reducing the sugar, flour, and fat content within these items. Furthermore, the company provided investors with specific quantitative targets to reduce ingredients like sugar and sodium in its products. Sands believe this level of transparency is a hallmark of good management and can lead to more productive meetings in the future.</p> <p>Last November, Sands visited Britannia’s</p>

**Drax 2019 Defined Benefit Pension Scheme
Report and Financial Statements for the year to 31 March 2023
Implementation Statement**

	<p>align compensation for the management team and board to what is typically seen internationally.</p>	<p>R&D centre in Bengaluru and had an extensive conversation with its head of R&D. Sands were encouraged to hear that the team is well equipped with seasoned professionals in food technology, chemistry, nutrition, and packaging, who actively integrate ESG initiatives into product development.</p> <p>Sands Capital regularly engages with the management teams and, if appropriate, board members of portfolio businesses to better understand each businesses long-term strategic vision and management of risks and opportunities, including those pertaining to environmental, social, and governance (ESG) matters. More information is available in the Sands Capital Engagement Policy at</p>
<p>Outcome</p>	<p>Engaged with the company on executive compensation to ensure that the company are able to attract and retain top-level talent</p>	<p>Sands engaged with company management, raising concerns regarding the health impact of their products</p> <p>The company have shared quantitative targets with shareholders regarding reduction of sugar, salt and other unhealthy ingredients in their products</p>