Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (‘SIP’) produced by the Trustees has been followed during the year to 31 March 2022. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. As set out in the SIP, the Trustees’ primary objectives are as follows:

- To ensure that sufficient assets are available to pay members’ benefits as and when they arise;
- To achieve full funding position on a self-sufficiency funding basis (defined as being gilts plus 0.60% p.a.) on or before the end of 2033 (the end of the recovery period).

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustees’ policy on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. This policy sets out the Trustees’ beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This policy was last reviewed in February 2021, when the Trustees decided to produce a standalone Responsible Investment Beliefs Statement, appended to the SIP, further to strengthening the wording of Section 9 the SIP and it has been followed through during the year to 31 March 2022.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their investment consultant, Mercer Limited, on responsible investment (‘RI’) which covered ESG factors, stewardship, climate change and ethical investing.

In order to ensure both the policy and beliefs remain appropriate and up-to-date, the Trustees are continuously provided with training. Over the year, this included sessions covering:

- Training in the context of the Taskforce on Climate-related Financial Disclosures (‘TCFD’). Whilst the Scheme was not required to report in line with TCFD at the time of writing (due to its size), the Trustees agreed to target full compliance in 2023. Over the year, the Trustees were provided with two sessions:
  - The 1st session covered a draft version of the TCFD Statement with provisional data and metrics – September 2021
  - The 2nd session covered potential climate metrics and targets that the Trustees are required to assess and establish, respectively, as well as governance
requirements that the Trustees are required to follow in the long-term – February 2022.

Further details can be found in the Engagement section of this Statement.

- Training on the Scheme’s Responsible Investment Total Evaluation (‘RITE’) score, which covered a broad assessment of the Scheme’s ESG integration throughout the investment process and progression amongst Mercer clients. This presentation also included a summary of possible areas for improvement, such as acceleration on TCFD compliance, consideration of industry collaborations or other RI investing initiatives and setting of ‘net zero’ target – November 2021.

As set out in the SIP, the Trustees believe that ESG factors, including climate change, may have a financially material impact on investment risk and return outcomes over the time horizon of the Scheme, including how those factors are taken into account in the selection, retention and realisation of investments. The Trustees believe that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The following section sets out how the Trustees’ engagement and voting policies were followed and implemented during the year.

**Engagement**

- As part of its quarterly review of investment performance, the Trustees receive reporting from their investment consultant including ratings (both general and specific ESG) for its investment managers. This reporting includes a comparison of manager ESG ratings against their peer group. In the vast majority of cases, the Scheme’s investment managers had better ESG ratings (as determined by the investment consultant) than the average of their respective peer groups.

- The Trustees meet regularly with their investment managers via the Investment Sub-Committee. At these meetings, managers are asked to provide a number of strategy and firm updates, including integration of ESG and climate change into the investment process and voting and engagement activities. As part of this, the Trustees will challenge decisions that appear out of line with the Scheme stated objectives and/or policies. Over the year to 31 March 2022, the Trustees met with Schroders, LGIM, Nordea, Newton, Wellington and Barings.

- In Q2 2021, the Trustees assessed the Scheme’s underlying positions to potential controversial exposures such as cluster munitions or other controversial weapons, child labour, defence firms and tobacco.

- In Q3 2021, the Trustees produced a carbon footprint and intensity analysis based on the Scheme’s asset allocation.

- In Q3 2021, the Trustees produced a draft version of the TCFD Statement which outlines how the Trustees have established and maintained oversight and processes to satisfy
that the climate-related risks and opportunities, which are relevant to the Scheme, are appropriately considered by all stakeholders involved in the day-to-day management of the Scheme. Furthermore, the TCFD statement established which targets the Trustees could consider adopting in the context of the Scheme’s portfolio and TCFD, including consideration of the more appropriate time horizon and selection of key metrics and specific investment managers to monitor the target against.

- Furthermore, in Q3 2021, the Trustees approached each of the Scheme’s investments managers and asked whether they viewed their mandates as being aligned with the Trustees’ Responsible Investment Beliefs as well as to confirm which holdings provided most cause for concern in respect of ESG.

- In Q3 2021, the Scheme initiated the implementation process of moving the investment in the LGIM Buy & Maintain Credit fund to a Climate Aligned version. In Q1 2022, the transition was completed and the LGIM Buy & Maintain Climate Aligned fund allows the Trustees to include further investment restrictions that will help targeting enhanced climate change goals. Besides the financial and credit risk objectives, at the time of writing, the fund aimed for the successful realisation of the Paris Agreement, by limiting global warming, targeting a weighted average portfolio temperature score of 2.6°C or below, and 2°C or lower by 31 December 2029 and seeking to lower Green House Gas (GHG) emissions intensity score year-on-year.

- In Q1 2022, the PATRIZIA Property fund, which was not ESG rated by Mercer, was terminated and the disinvestment of £11.6m was held in the Trustee bank account at quarter-end and transferred to Schroders Property fund, whose ESG rating was ESG2 at the time of writing, on 1st of April 2022.

- The Trustees requested that the Scheme’s investment managers confirm compliance with the principles of the UK Stewardship Code:
  - LGIM, Newton, Schroders, Barings and Wellington have confirmed that they are currently signatories to the UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council by 31 March 2021, in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.
  - PATRIZIA (terminated in March 2022) noted that it is not relevant to the assets they manage and therefore are not signatories of the UK Stewardship Code.
  - Nordea has made a submission to become a signatory of the UK Stewardship Code in 2022.

- The Trustees also requested details of relevant engagement activity for the year from the Scheme’s investment managers. The most significant are detailed below:
<table>
<thead>
<tr>
<th>Investment Managers</th>
<th>Engagement Activities</th>
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<tbody>
<tr>
<td><strong>LGIM (Equity)</strong></td>
<td>LGIM can only provide information on a firm wide basis, through their annual Active Ownership Report, as such the below might not be specific to the Scheme’s holdings but denotes the type and level of engagement performed by the manager.</td>
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<td><strong>JPMorgan Chase:</strong> Following a multi-year engagement with JP Morgan, LGIM have seen positive change at the bank gather pace, with a commitment to Paris alignment across the financing of a number of high-emission sectors, and the 2021 publication of their interim targets towards decarbonisation. As one of the largest global financiers across geographies – including important emerging markets – they will continue to monitor the bank’s progress in this area.</td>
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<td><strong>Industrial &amp; Commercial Bank of China (ICBC):</strong> LGIM have added ICBC to their divestment list as part of ‘engagement with consequences’ under the 2021 Climate Impact Pledge, given the lack of thermal coal policy and scope 3 emission disclosures associated with its investments. LGIM have seen a marked uptick in their engagement with the Chinese bank since, as well as improved disclosures.</td>
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<td><strong>LGIM (Buy &amp; Maintain Credit)</strong></td>
<td>LGIM was able to provide an example of engagement specific to the QUIAF Buy &amp; Maintain Fund within the past year:</td>
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<td><strong>McDonalds:</strong> LGIM has engaged with McDonalds over the year due to concerns with the overuse of antimicrobials (including antibiotics) in human and veterinary medicine, animal agriculture. LGIM believes that, without coordinated action today, Antimicrobial Resistance (‘AMR’) could prompt the next global health crisis. LGIM requested a meeting with McDonald’s in 2021 to understand what the company has done and is doing regarding AMR and to understand their views on the role played by them and other stakeholders in the broader public health context. LGIM have supported the shareholder proposal seeking a report on antibiotics and public health costs at the company and applaud the company’s efforts over the past few years on reducing the use of antibiotics in its supply chain for chicken and beef as well as pork. They believe AMR is a financially material issue for the company and other stakeholders and they wanted to signal the importance of this topic to the company’s board of directors.</td>
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<td><strong>Newton (Diversified Growth Fund)</strong></td>
<td><strong>Amazon.com (Disclosure on human capital management):</strong> Newton met management as part of the company’s investor outreach. They sought to better understand how the company manages key ESG risks, in particular human capital management and also took the opportunity to understand potential evolution to the company’s governance practices following its leadership transition. While it was clear that the company has given thought to these topics, Newton felt there was limited appetite for significant evolution in its practices. Overall, they consider that the company will continue to be guided by minimum expectations set by regulators, rather than seeking to lead in the specific areas they discussed.</td>
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<td><strong>Greencoat UK Wind (Board oversight and decision making):</strong> Newton met the board of a UK renewable energy investment company to share their concerns with decisions relating to a recent round of fund raising. Their concern stemmed from what they considered to be a mismatch between management's incentivisation and shareholders’ interests and urged the board to provide more transparency into decision making in order to provide comfort that there is alignment of interests. They also discussed succession planning for management and expressed their expectation that the board identify alternative options as a matter of good governance.</td>
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<td><strong>Nordea (Diversified Growth Fund):</strong></td>
<td><strong>Infineon Technologies AG (Environment - Climate change):</strong> From an environmental standpoint, Infineon's business is attractive because its products are used in end markets that contribute to solutions for sustainability challenges. However, as the company does not report to the TCFD, a full assessment remains challenging. Nordea had a virtual meeting with the head of ESG for a granular view of Infineon's current and future plans with regards to reporting (TCFD, Carbon Disclosure Project), target setting and sustainability priorities. Infineon has many strong points but seems reluctant to ramp up its reporting and target setting which could, in their view, unlock significant additional value.</td>
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<td><strong>Kerry Group plc (Governance - Executive remuneration):</strong> Kerry has been an enabler and contributor to healthier food solutions and demonstrated progress on various ESG topics in recent years. Many of the Kerry’s clients have made strong commitments to sustainable sourcing. The ongoing pandemic had significant impact on the company in several levels and has accelerated some of the trends the company is exposed to. Nordea’s focus on this engagement was related to the company’s corporate governance and the executive remuneration in particular. The company reached out to Nordea to get feedback from shareholders regarding a proposal from the Board Remuneration Committee. Prior to the publication of the Director's Remuneration Report, they had a meeting with the Chairman of the remuneration committee in order to discuss the feedback and further suggested changes (such as the inclusion of sustainability KPIs). Last year, 99% of the shareholders voted in favour of the Remuneration Report.</td>
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<td><strong>Schroders (Property):</strong></td>
<td><strong>Board Ethnic Diversity:</strong> Schroders believe diversity is important for a company’s long-term strategy and success, allowing for more constructive debate of competing views and opinions and better representation of wider stakeholders. Schroders warned FTSE 100 chairs that from next year it will be using its shareholder votes to pressure firms that have failed to meet board diversity targets.</td>
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<td><strong>Data over the year to 31 Dec 2021:</strong></td>
<td><strong>Net Zero Transition Plans:</strong> Schroders wrote to hundreds of FTSE 350 companies (excluding investment trusts) asking them to publish their net zero transition plans, and some companies have already taken action following the Schroders’s engagement.</td>
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<td><strong>PATRIZIA (Property) Terminated in March 2022</strong></td>
<td>PATRIZIA has recently issued an online tenant satisfaction survey, sent to each tenant within the portfolio, to gain a better understanding of their attitudes towards sustainability, but also to hear their views on the quality of the management of the property that they occupy and whether the tenant would be willing to share ESG data on a regular basis - which is a key element of PATRIZIA's Net Zero Carbon strategy. PATRIZIA noted that, despite the efforts, responses tend to be limited given the nature of the asset class.</td>
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<td><strong>Mole Business Park, Leatherhead, NHS Engagement - Climate Education:</strong></td>
<td>Due to the NHS's strict procurement policy, there were issues around PATRIZIA's desire to reduce carbon emissions both in construction and operation in pursuit of net zero carbon objectives. One example was the decision to install rooftop solar panels. Initially the tenant pushed back on this, but by educating the tenant on the benefits, PATRIZIA will be able to install the panels with the tenant's cooperation.</td>
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<td><strong>Barings (High Yield Credit) Governance - Board effectiveness - Independence or Oversight:</strong></td>
<td>During initial due diligence on a global e-commerce business, Barings identified a potential governance risk due to the company founder serving as the current CEO &amp; Chairman, and remaining a major shareholder. Following a public-market listing, additional disclosures became available and scrutiny of the shareholder control structure and inter-company relationships of the owner presented additional governance concerns. Barings decided to reduce their holdings in the company on a relative-value basis, preferring to wait for corporate governance improvements before increasing exposure once more.</td>
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<td><strong>Social - Human and labour rights (e.g. supply chain rights, community relations):</strong></td>
<td>Barings was approached to look at a new transaction for a health care company providing rehabilitation and mental health services. Their due diligence process had highlighted previous care quality issues at certain health facilities within the group. As such, the company had been rated poorly in the social category under Barings’ internal ESG Ratings criteria. Barings actively engaged with arrangers, senior management and the financial sponsor to push for the addition of KPIs linked to quality-of-patient-care metrics, given this was viewed as a key sustainability risk area and ultimately they have successfully achieved the addition of the requirement for independent third-party quality ratings on medical facilities to meet certain predetermined thresholds.</td>
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<td><strong>Wellington (Multi-Asset Credit) In its firm-wide ESG report, Wellington noted they conducted engagements with several companies at different levels of issues. The following are examples of the main issues that Wellington targeted with their engagement:</strong></td>
<td>Climate - Transition/Mitigation, Environmental Practices, Culture/Talent/Labor/Health &amp; Safety/Ethics, Long Term Corporate Strategy, General Update/Sales/Margin/Business Trends, Capital/Resource Allocation, Fundamental Credit Quality/Factors, Capital</td>
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Voting activity during the Scheme year

The Trustees have delegated their voting rights to the investment managers. As such, the Trustees do not make use of a proxy voting firm but expect the investment managers to report on contentious issues through its quarterly and/or annual reporting as well as provide voting reports on request.

The majority of voting activity will arise in public equity funds. However, voting opportunities may arise in other asset classes such as certain bonds, property and multi-asset funds. During the period, voting information relating only to public equity was applicable. Over the Scheme year, the Trustees have not actively challenged the managers on their voting activity. The key voting activity on behalf of the Trustees over this time period was as follows:

**LGIM - Future World Global Equity Index Fund**

LGIM’s Investment Stewardship team uses Institutional Shareholder Services (“ISS”) ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

Key votes undertaken over the prior year are summarised as below:

- There have been 4,465 votable meetings over the year, which LGIM have attended on behalf of the Trustees. In these meetings, there were a total of 47,851 votable proposals, 99.9% of which LGIM participated in.
- LGIM voted with management on 81.7% of the proposals, against management on 17.4% and abstaining on 0.8%.

Significant votes examples:

- **Apple Inc.** A vote “for” was cast on the approval of a Civil Rights Audit Report. LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage on their behalf. The vote in favour was applied as LGIM supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies.
- **Amazon.com, Inc.** A vote “against” was cast regarding the election of Director Jeffrey P. Bezos. LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences.

**Newton - Sustainable Real Return Fund**

Newton utilises ISS for the purpose of administering proxy voting (notification and lodgement of votes), as well as its research reports on individual company meetings;
however, all voting decisions are made by Newton. Their Head of Responsible Investment is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. Newton do not maintain a strict proxy voting policy, and instead, prefer to take into account a company's individual circumstances, their investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Key votes undertaken over the prior year are summarised as below:

- There have been 113 votable meetings over the year, which Newton have attended to on behalf of the Trustees. In these meetings, there were 1,608 votable proposals, 99.3% of which Newton participated in.
- Newton voted with management on 84.6% of the proposals, against management on 15.4% and abstaining on 0.0%.

Significant votes examples:

- **AstraZeneca Plc**: A vote “against” was cast on election of Directors, the approval of a Remuneration Policy and the amendment of a restricted stock plan as Newton did not consider that the company had provided the necessary justification for significant increase in the variable pay awards that were granted to senior executives.
- **Bureau Veritas SA**: A vote “against” was cast on the election of Directors, CEO's compensation, chair's compensation and CEO's compensation policy. Newton has voted against the chief executive officer’s compensation and remuneration policy because the structure of the policy lacked sufficient granularity for them to assess the rigour of the plan. Newton also voted against the remuneration policy for the chair of the board given that a significant increase in pay was awarded without rationale justifying the change. In connection with their negative votes for the remuneration proposals, they voted against the members of the compensation committee.

**Nordea - GBP Diversified Return Fund**

Nordea has a bespoke voting policy, which was developed in-house based on their own principles. As they have decided to massively scale up their voting to cover a majority of all voting activities, for 2021 they decided to contract ISS to vote on some of their minor holdings as per their policy and have maintained the contract in 2022. Nordea’s Corporate Governance unit oversees all voting activity.

Key votes undertaken over the prior year are summarised as below:

- There have been 199 votable meetings over the year, which Nordea have attended to on behalf of the Trustees. In these meetings, there were 2,348 votable proposals, 99.9% of which Nordea participated in.
- Nordea voted with management on 88.0% of the proposals, against management on 11.3% and abstaining on 0.6%.

Significant votes examples:

- **Johnson & Johnson**: A vote “for” was cast on the report on government financial support and access to COVID-19 vaccines and therapeutics (shareholder proposal). Nordea believes that reporting on the impact of public funding on the company's pricing and access plans would allow shareholders to better assess the company's management of related risks.
• **Oracle**: A vote “against” was cast on an advisory vote to ratify named Executive Officers' compensation. Nordea considers that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a majority of executive officers targets are lacking and for some the levels are extremely high. Nordea also voted against re-election of the proposed board members in the Compensation Committee.

• **Nike**: A vote “for” was cast on the report on gender pay gap (shareholder proposal). At the Nike AGM, Nordea supported a number of shareholder proposals, besides the report on gender pay gap, such as report on Political Contributions Disclosure, Report on Human Rights Impact Assessment and Report on Diversity and Inclusion Efforts. Management voting recommendation was against on all these proposals but all got substantial support from shareholders at the AGM. None of these proposals was approved. Nordea believes shareholders would benefit from additional information, allowing them to better assess these issues.