NGEG Engagement Policy Implementation Statement

This document sets out the actions undertaken by the Group Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles ("SIP"). We have included voting and engagement information that has been gathered from the asset managers along with an overview of how the stewardship policies within the SIP have been implemented over the reporting period.

This is the first engagement policy implementation statement the Group Trustee has prepared and covers the year ending 31 March 2021.

Group Stewardship Policy

The following bullet points set out the Group Stewardship Policy in force over the majority of the reporting year to 31 March 2021, as set out in the SIP. The full SIP can be found online here LIBRARY - www.ngeg.nationalgridpensions.com/group-sip/ .

- The Group Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Group invests, as this ultimately this creates long-term financial value for the Group and its beneficiaries.
- The Group's assets are managed by third party fund managers, and the Group Trustee expects these fund managers to engage with the companies in which the Group's assets are invested on ESG matters. The Group's equity fund managers are required to report to the Group Trustee on their ESG integration processes and also on their proxy voting and engagement activities on a quarterly basis. The Group Trustee also takes input from its advisers on the managers' approaches to ESG, where relevant and available, and monitors this quarterly.
- The Group Trustee will review the alignment of the Group's stewardship and other policies to those of the Group's fund managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Group Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change. If an incumbent manager is found to be falling short of the standards the Group Trustee has set out in their policy or is making decisions not in line with the Group Trustee’s policies or expectations, the Group Trustee undertakes to engage with the manager and seek a more sustainable position in the first instance but may look to replace the manager if this is deemed necessary.
- From time to time, the Group Trustee may consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, a fund manager or another holder of debt or equity, and other stakeholders. The Group Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Group Stewardship Activity to 31 March 2021

The Group Trustee carried out significant work at a strategic level to ensure its stewardship policy was followed, this is demonstrated in the following sections with respect to training activity and other related processes carried out over the year.

Training

Over the year, the Group Trustee and its Investment Committee held several responsible investment training sessions which provided updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

The Group Trustee had previously completed a survey ("Viewpoints") and reviewed the responses on their responsible investment beliefs. In June 2019, the Group Trustee agreed its Responsible Investment Policy. This followed on to updating the SIP and an action plan to review the Group's investments in respect to ESG risks and opportunities.

Updating the Stewardship Policy

The Group Trustee has ensured the Group appropriately updated the Stewardship policy in the SIP. In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Group Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Group Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Group Trustee would review the suitability of the Group's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

The SIP has been made available online where it can be accessed by the public.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Group's Investment Committee by Aon. The reports include high-level engagement and voting data from the Group's equity managers as well as ESG ratings and highlight any areas of concern, or where action is required.

The ESG rating system is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a manager's level of ESG integration or broader responsible investment developments.

Climate risk management / TCFD / carbon reporting

The Group is currently progressing towards meeting the requirements as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Group to the TCFD can be a long process and requires careful planning. Aon are currently working with TEL and the Group Trustee to agree an action plan to meet the required deadline, 1 October 2022.

Manager Appointments

The Group Trustee is currently finalising an ESG focussed action plan that includes a review of its existing and newly appointed fund managers. ESG considerations and alignment with the Group's Responsible Investment

Policy have played a key part in the decision making process to appoint new managers to the Group's investment portfolio.

Implementation

The Group Trustee delegates investment decisions, including voting and engagement decisions to its investment managers and this approach has been maintained over the year. The following sections set out how the Group's managers have carried out voting and engagement in line with the Group Trustee's policy and expectations.

Voting and Engagement Activity carried out on behalf of the Group Trustee

Overall, the Group Trustee believes the stewardship carried out on its behalf over the year to 31 March 2021 has been adequate, noting examples of the willingness and ability of the DB and AVC managers (including the delegated manager) employed by the Group to take proactive votes against management where appropriate. However, not all managers were able to provide the necessary voting statistics on all funds at the time of writing this statement – the Group Trustee's investment consultants are continuing to request this information on the Group Trustee's behalf and expect this will be made available in time for next year's statement. Additionally, some managers were unable to provide examples of significant votes, and Utmost Life and Pensions failed to provide any information at all on the voting and engagement policies in place across the Group's AVC arrangements held with them.

The Group Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Group invests in. Accordingly, the Group Trustee expects improvements in the provision of this data over time, in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement.

The section below lays out the voting and engagement policies of the Group's investment managers in place over the year to 31 March 2021. A summary of voting statistics over the year to 31 March 2021 carried out by the Group's investment managers can be found in the Appendix.

DB Section Voting and Engagement activity

- ## Equity Funds

Over the year, the Group's DB Section was invested in the AIL Global Equity fund and the Walter Scott Global Equity fund. The AIL Global Equity Strategy employs a 'fund of funds' approach, with the current underlying managers as follows:

AIL Global Equity Strategy: Underlying Managers	Fund Name
Sands Capital	Global Growth Fund
Harris Associates	Global Equity Fund
GQG Partners	Global Equity Fund
Longview	Global Equity Fund
Arrowstreet	Global Developed Equity Fund

A summary of voting statistics for the underlying AIL Global Equity Fund managers and the Walter Scott Global Equity Fund is provided in the Appendix.

AIL Global Equity Strategy

The Group Trustee's review of the engagement levels for the AIL strategy take place at two levels due to the fund structure. Both the activity of AIL to engage with the underlying managers and the activity of the underlying managers to engage with the companies in which they invest has been taken into consideration.

Under the Group Trustee's delegated mandate managed by AIL, managers are appointed to achieve an overall target return. The Group Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity managers have been rated 2 or above on AIL's four-tier ESG ratings system.[1] This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Group Trustee has reviewed the AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2020, highlighting areas of improvement and discussing manager strategy for responsible investment moving forward.

Over 2020, AIL maintained a dialogue with one of its leading global asset managers on behalf of many of their schemes which invest with the manager. This culminated towards the end of the year in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular, the manager's ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- AIL's analysis of the manager's voting actions over 2020 showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that they had markedly changed their voting policies in the second half of 2020, and reassured AIL that moving forward, vote decisions would better align with their stated positions on such ESG matters. AIL expect to see this reflected in voting actions by mid-2021.
- AIL expressed concern that given the level of potential influence the manager had; the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged AIL's concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

AIL welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. AIL will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. AIL is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

The following sections provide information on the voting and engagement activity of the underlying managers of the AIL fund over the year to 31 March 2021.

[1] More information on the Aon ESG Ratings Process can be found here:
https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment -GuideESGRatings.aspx

Sands Global Growth ("Sands")

Voting Policy

Sands holds a policy that votes made in proxy should consider the short and long-term implementations of each proposal. Sands states they are neither an activist in corporate governance nor an automatic supporter of management but hold a policy which usually means they will vote with recommendations from management. This is because they believe the management teams of most companies they invest in generally seek to serve shareholder interests. Sands will vote in accordance with the recommendation of management, unless, in Sand's opinion, such a recommendation is not conducive to long term value creation or otherwise in the best interest of its clients. Sands employs the services of Institutional Shareholder Service (ISS), Glass Lewis and Stakeholders Empowerment Services (SES) for research, analysis and voting recommendations.

An example of a significant vote against management took place in September 2020 regarding executive officer compensation at NIKE, Inc and was assessed as significant as Sands were in the minority on this issue and felt that the company's disclosures around a multi-year compensation plan made it difficult to support. Sands believe that paying a combined $20M transition bonus to ex-CEO Mark Parker & incoming CEO John Donahoe without clear disclosed targets is inappropriate and that utilizing the 'top 45% TSR for the S&P 500" was not an appropriate hurdle for compensating top-tier executives at a company like Nike. Sands engaged the company and some clarity was provided (Exec. Chairman Mark Parker's pay will be coming down to $8M p.a. or so in the future), but they still felt as though the quality of the pay program did not match the levels of pay provided to the CEOs. There is also a notable gap between other senior executives and John Donahoe's pay package. Sands plan to continue engaging the company on this over time to help improve the plan.

Engagement Policy

Sand's engage on business-specific matters that may have a material impact on their investments. They will engage with companies for the following three objectives;

1. To inform their business cases and build conviction in businesses
2. To exchange perspective on matters relevant for long-term shareholders' interest
3. To discuss ballot proposals and inform their proxy voting decision

In September 2020, Sands engaged with Illumina regarding their acquisition of Grail, a company it had spun out in 2016. Sands had several concerns around the deal (valuation, process, possibly insider ownership), and decided to engage the company on the matter in order to better understand the acquisition. Sands first engaged the CEOs of Illumina and Grail, who laid out their strategic thinking behind the proposed acquisition, and then followed up with two Illumina board members. The engagement allowed Sands to gain some comfort around the transaction given the long-term opportunity for Illumina. Following the closure of the deal, Sands have advised the board that they would like to see the CEO's compensation be directly tied to the performance of GRAIL given that it was his decision. Sands believe that accountability is important for large transactions like this if pushed by the management team.

Harris Global Equity Fund ("Harris")

Voting Policy

Harris have a proxy voting committee, who are responsible for recommending proxy voting guidelines, establishing and maintaining policies and procedures for proxy voting, and ensuring compliance with these policies and procedures.

Harris state that they will normally vote in line with management's recommendations, as they believe "voting with management is generally the same as voting to maximize the expected value of investments" following the extensive assessment of the company's management when choosing to invest. One example where Harris voted against management was in relation to executive officers' compensation at Liberty Global plc. Harris, along with c. 35% of shareholders voted against management regarding its remuneration policy, as it believed the CEO's compensation was excessive, and that half of it was time based, rather than performance.

Engagement Policy

Harris regularly monitor invested companies and take appropriate action if investment returns are at risk. To ensure that the companies are acting in their shareholders' best interests, Harris regularly communicate with management about new initiatives and matters affecting the business. Annually, Harris have more than a thousand management meetings with C-level executives and board members.

By the time Harris decides to invest in a company, it already concludes that management and the board of directors are likely to act in shareholders' best interests. When management does not meet Harris' expectations, a private and direct conversation is initiated. Engagement is carried out under the premise that unsatisfactory or insufficient change by the company will generally be met with divestment.

In November 2020, Harris engaged with the Oracle Corporation regarding gender and racial pay gap reporting. After considering the case, Harris decided to vote with management against a shareholder resolution on the matter, but engaged with the company directly to communicate the importance that they attach to this issue. Harris have stated they will continue to monitor that the issue is being adequately managed. Harris did not support the shareholders resolution as they believed it was not in the financial interest of shareholders, and because Oracle stated that it is already reporting in line with other tech companies and undertaking sufficient initiatives to ensure gender equality in the workplace.

GQG Partners Global Equity Fund ("GQG")

Voting Policy

GQG's voting policy is to determine their vote based on what is most likely to further the economic value of each investment for the expected holding period. Ultimately each vote is cast on a case-by-case basis, considering the relevant circumstances at the time of each vote. Guidelines were established with their proxy voting agent (ISS) and are intended as a reflection of proxy voting decisions most likely to maximize the ultimate value of assets under management.

GQG did not provide an example of a significant vote cast over the year.

Engagement Policy

GQG states they will engage with company management if they believe such an engagement will maximize shareholder value in the long term. GQG leverage their third-party ESG service provider, Sustainalytics, to monitor and provide ESG risk rankings across its portfolios. If a company's ESG Risk Rating is significantly downgraded, their investment team will review the cause of such downgrade and where appropriate, will engage with company management to discuss the issue further. GQG may also use individual engagements with companies to supplement research and monitoring for current and potential holdings.

GQG also periodically partakes in thematic engagement, whereby they send questionnaires to selected companies regarding a certain topic, and share the responses across investment teams. This may lead to additional engagement if necessary. Collaborative engagement is also something GQG participate in through working with ISS to identify companies who have failed to respect established ESG norms or joining conference calls with companies in collaboration with other investors.

In August of 2020, GQG disinvested from the company Barrick Gold following engagements regarding tailings dam safety issues (a tailings dam is an earth-fill embankment dam used to store by-products of mining operations). The discussions with management intensified concerns about the effectiveness of Barrick's ESG procedures and the safety of its tailings dams. The company's response to GQG's questions lacked transparency and were undermined by further research by GQG non-traditional analysts.

In May 2020, GQG engaged with Norilsk Nickel regarding ongoing environmental issues surrounding diesel spills and the progress made to identify the root causes and remediation. The company outlined its conclusions about the causes of the failure, released the summary of a third-party investigation into the incident and detailed organization changes made as a result. The response reassured GQG that management would be prioritizing ESG issues going forward and was restructuring the business to lower the probability of future environmental disasters.

Longview Global Equity Fund ("Longview")

Voting Policy

Longview approve the voting policy used by proxy-voting provider Glass Lewis on an annual basis. However, voting decisions are made on a case by case basis, and Longview will vote contrary to Glass Lewis' policy when they deem necessary. Such a decision will be made collectively by the Longview research team and CIO and will often follow engagement between the research team and the company.

Longview states that it believes companies should be managed in the interest of the shareholders and therefore they ensure clients' voting rights are used responsibly. Longview have provided a number of examples of where they have voted against management, including with regards to Oracle in October 2020. Longview voted against management in relation to its executive compensation and supported a shareholder proposal against management of the company regarding race and gender pay gap reporting.

Engagement Policy

Longview engage with the senior management of the companies they are invested in, and concentrate on strategy, corporate responsibility, and any factors that would affect a company's ability to deliver long-term sustainable value for shareholders. Longview also evaluates engagement with companies through ongoing dialogue with its management and incorporate these results into its own investment criteria. While Longview will put its views forward strongly in meetings, it does not consider itself an activist. If they do not believe, after lengthy discussions, that management was acting in the shareholder's best interest, Longview would sell the holding in order to minimise loss of shareholder value.

For example, in May 2020, Longview engaged with Compass following press speculation that the company was to issue equity through a share sale. Longview expressed its opinion that it would prefer the company raised additional capital through a credit facility or debt in order to ensure clients' investments were not unnecessarily diluted. The engagement was completed through written correspondence. While the company did then announce it was raising £2bn of equity, Longview stated that, though they believe Compass could have avoided the equity issuance, Longview sees the rationale of raising additional capital and appreciates Compass's argument against raising more debt. Longview still believes that there remains upside given the company's fair value.

Arrowstreet Global Developed Equity Fund ("Arrowstreet")

Voting Policy

Arrowstreet employs ISS to provide proxy-voting services and generally follows their proxy recommendations but may override an ISS decision in circumstances where ISS discloses a material conflict of interest or if Arrowstreet determine that doing so would be in the best interests of their clients. The third-party voting service is reviewed regularly to ensure proxy voting recommendations are based on current and accurate information and to address any conflicts of interest or other areas of concern from the service provider.

Engagement Policy

Arrowstreet stated that they do not engage with companies due to the quantitative nature of their strategy, which includes a high turnover of investments. AIL engaged with Arrowstreet regarding their investment strategy not suiting traditional engagement and discussed the possibilities of using a third-party engagement provider, which the manager is now considering.

Arrowstreet recognize that engagement is increasingly important to some of their investors, and as a result, they have partnered with a leader in responsible investing to provide that service. All engagement activities are fully outsourced through Sustainalytics, offering an established, standardized and systematic engagement framework with a global investor base. The engagement framework is incident and compliance based driven to remediate and mitigate violations of international norms and standards involving labour, environment, business ethics and human rights. Historically, Arrowstreet did not engage with companies, and due to the timing of this new partnership with Sustainalytics, they do not have engagement data for the requested time period requested but hope to be able to accommodate future requests.

Walter Scott

Voting Policy

Walter Scott does not use a service provider to vote on their behalf. They use Institutional Shareholder Services (ISS) for information purposes only and over the year to 31 March 2021, voted themselves on all proxies where they were eligible to do so. Walter Scott exercise discretionary proxy-voting authority with a view to safeguarding their clients' best interest. They state that they consider it their duty to vote client proxies in a manner consistent with the client's best interest without regard for the fund manager's business needs. Clients may choose to vote their own proxies in segregated accounts only.

The following are examples of significant votes made by Walter Scott with regards to Alphabet's pay practices, based on Walter Scott's own views on what constitutes a significant vote. Walter Scott state that Alphabet's compensation remains egregious and whilst there have been some improvements they are insufficient in quantum and demand. The cost of the stock plan is still excessive and permits the transfer of awards without stockholder approval. Consequently, as per previous years, Walter Scott voted against both the advisory vote on compensation and the stock plan at the June 2020 AGM. Walter Scott also withheld on the re-election of the Compensation Committee members, again having done so in previous years. Walter Scott's preferred stance was to vote against these directors, however, this option was not permissible. Furthermore, Walter Scott have also repeatedly voted for a shareholder proposal (against management) to approve recapitalization plan for all stock to have one-vote per share. In addition, they supported another shareholder proposal (also against management) to require a majority vote structure for the election of Directors as they believe this would improve corporate governance by increasing shareholder influence on the election of Directors. An email was sent to Alphabet outlining their voting decision and rationale.

Engagement Policy

Walter Scott is signatory to a range of responsible investment initiatives, namely: UNPRI, UK Stewardship code, Japanese Stewardship Code, CDP (Formerly Carbon Disclosure Project), Climate Action 100+, International Corporate Governance.

Walter Scott take a tailored approach to company engagement. They do not have a standardised starting point for engagement across sectors, geographies and capitalisations but typically, material issues or those that are a cause of concern to the team or client, are prioritised. As decision-making is team-based, all members of the team are familiar with all stocks in the portfolio. Because of this familiarity, issues and questions are raised at research team meetings (occurring three times weekly) and are part of their regular discussions with management.

Over 2020 Walter Scott engaged with 339 companies (579 meetings and calls) where ESG engagements accounted for 321 of these meetings. Some aspect of environmental, social or governance issues will have been discussed at these meetings however, those focused around governance and related matters tend to be more common during proxy voting season.

An example of engagement at the strategy level was with Disney regarding remuneration. Walter Scott first engaged on this with Disney in 2018 with the aim of better aligning management remuneration with long-term sustainable wealth creation. This engagement was led by members of the research team at Walter Scott and the percentage of portfolio allocated to Disney was 2.6%. The rationale behind this engagement was the Walter Scott's strong belief that, effective remuneration structures that align management incentives with appropriate long-term goals is an exceedingly important component of successful corporate governance, and directly aligned with their engagement policy.

Engagement on this topic has been conducted with both senior members of management team, and indirectly with the board through Disney's investor relations function. The format of the engagements has been a mixture of in-person meetings where they have verbally communicated their points, and written correspondence.

Disney has come under internal scrutiny given the magnitude of the Chairman's pay in his previous role as CEO. Ongoing engagement over the last two years has led to marked improvement in executive pay structure. Walter Scott have formally written to the company expressing their disappointment in the pay package of the chairman given reduced responsibilities. They have also formally raised concerns around the proxy's portrayal of the 'performance-based' proportion of the CEO's remuneration package. The company has responded positively to their engagement and intimated that the board has taken on board their points of view.

The engagement is ongoing, and Walter Scott are still looking for positive developments to ensue. They have notified the company of their willingness to vote against management and director re-election in instances where positive change isn't forthcoming.

DB Section Engagement Activity – Fixed Income, Hedge Funds and Real Estate

The Group's DB Section also invests in a number of fixed income strategies, hedge funds and real estate portfolios.

The Group Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income and alternative (hedge fund and property) investments. However, from the information received, it is encouraging that the majority of the managers are aware and active in their role as a steward of capital.

The following engagement policies and examples demonstrate some of the engagement activity being carried out on behalf of the Group over the year.

Goldman Sachs Asset Management – GSAM Strategic Income (Unconstrained) Fund

Goldman Sachs' engagement policy has been drawn up in accordance with the requirements of Directive (EU) 2017/828 and its implementing measures (collectively, the “Shareholder Rights Directive II”) and sets out how Goldman Sachs Asset Management (“GSAM”)* integrates shareholder engagement into its investment strategies with the ESG Criteria including climate related topics (including reducing greenhouse gas (GHG) emissions; promoting disclosure of climate metrics, such as emissions data, targets and goals; and addressing physical and transitional climate risks) and social risks (including increased disclosure of workplace demographics; and gathering information on a Company’s commitment to all stakeholders; including customers, employees, suppliers, communities, and shareholders).

In October 2020, GSAM launched a climate collaboration engagement framework to encourage disclosure of material emissions data. The GSAM Stewardship Team worked across the investment management teams, including the fixed income team, to identify companies held in their portfolios who do not disclose emissions data considered material under the Sustainability Accounting Standards Board (SASB) framework. GSAM are seeking to engage with these companies to promote disclosure of material climate data.

Insight Investment Management – Insight Bond Plus Fund

Insight states within their responsible investment policy that they engage as a bondholder with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. They prioritise engagement dependent on a variety of factors which can include portfolio position, materiality of issue and company access. In 2019, Insight conducted 1,151 engagements, of which 82% incorporated discussions of ESG issues - up from 54% of 1,311 engagements in 2018.

An example of engagement was in Q4 2020 with RMBS La Trobe. The originator has strong governance and social scores, but it is disappointing with regards to providing information on the environmental risks. Insight has engaged with them on providing information on environmental metrics and stress tests and to incorporate climate change factors into its origination process. Insight also believe there are also some areas that can be improved on the origination and servicing side such as the way origination teams are compensated and the setting of fee incentives for the services collection process. Insight would also like to see the complaints independently reviewed away from the service function.

PIMCO – Dynamic Bond Full Authority Strategy

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In ESG dedicated portfolios, PIMCO implement an additional ESG scoring system which considers how an issuer fairs against its peers regarding ESG momentum and chooses to invest in the issuers who score well in this ("ESG issuers").

PIMCO state that for non-ESG dedicated portfolios, like the Dynamic Bond Full Authority Strategy the Group is invested in, there is no explicit objective to actively engage with issuers on sustainability practices. However, it might benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies. For example, PIMCO's engagement specialist and credit team met with the CFO and Treasurer of Aercap to learn more about its ESG performance, given the company did not publish a sustainability report. The company have now agreed to move towards sustainability reporting following the engagement.

JP Morgan Asset Management – JP Morgan Multi-Strategy Fund

JP Morgan Asset Management ("JPM") retains the services of the ISS voting agency to implement the JPMorgan Asset Management voting policy and uses research from ISS and Glass Lewis as an input in evaluating how a proxy should be voted. JPM 'tag' certain votes in the ISS system, to allow them to be subject to extra scrutiny, for example if engagement is ongoing, or if the company has been flagged as an 'ESG outlier', or if an analyst or portfolio manager has requested it be reviewed in more detail.

JPM votes at approximately 8,000 shareholder meetings per year, in over 80 markets worldwide. For key issues or core shareholdings, or where there is ongoing engagement, they endeavour to inform companies when opposing their recommendations.

In their engagement with the companies they invest in, JPM have five main investment stewardship priorities that they believe are most applicable. Governance, Strategy alignment with the long-term, Human capital management, Stakeholder engagement and climate risk. Please see the link here for more information on Investment Stewardship at JPM. https://am.jpmorgan.com/blob-gim/1383664293468/83456/J.P.%20Morgan%20Asset%20Management%20investment%20stewardship%20statement.pdf

Lighthouse Partners – Lighthouse Diversified Fund

Lighthouse generally does not trade in securities itself and their investment management business is based on allocating capital to third-party hedge fund managers, and as a result, do not have a Firm-wide ESG policy. Lighthouse state that they do take ESG issues seriously and strive to address ESG matters by first addressing the matters with investors who are particularly focused on such topics via the creation of products incorporating ESG approaches. Secondly, Lighthouse offers custom exposure reports for managed account investments that provide various position-level exposures to investors seeking information about ESG exposures, such as information on fossil-fuel related exposure. Lastly, Lighthouse has resolved to draft a Corporate Sustainability and Responsibility Statement for public release with purpose of setting out how they ensure ethical conduct across the company, management of human capital and consideration of the impacts on the environment, community and other stakeholders.

Lighthouse's proxy voting policy ensure that votes (if any) are voted to further the best interest of their funds. The policy also establishes a mechanism to address any conflicts of interest in situations where Lighthouse may vote proxies.

BlackRock – UK Property Fund

The UK property Fund invests directly in UK real estate so the concept of stewardship and engagement is less applicable to these investments. However, BlackRock have stated that they recognise that the long-term and physical nature of real asset investments make environmental, social and governance (ESG) considerations especially important, and that attention is given to sustainability issues and trends, including the impact of climate change, resource constraints and demographic trends through their real asset investments. BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate (GRESB), which aims to assess and benchmark the ESG and other related performance of real assets across the market.

CBRE Global Investors – UK Property Fund

CBRE do not invest in companies themselves. However, they do engage with stakeholders, primarily the tenants within the portfolios in direct real estate. The exception is for indirect investments where CBRE engage with the underlying fund manager or operating partner. As at end Q4 2020, there were 51 tenants in the portfolio, across the 11 directly held assets. Over the 12 months to 31 December 2020 CBRE engaged with all of the 51 tenants.

CBRE engage with the underlying property managers on ESG issues throughout their investment process, starting at the due diligence stage to ensure the holding will contribute positively to the portfolio's sustainability. The manager's approach to ESG is reviewed with reference to internal; strategy, processes and policies, and submission to independent organisations. CBRE is a signatory of the PRI. They are not a signatory of the UK Stewardship Code, as they state this has been focused on the listed equity sector. However, their new ESG visions, policy and reporting, due to be published in Q4 2020, will be aligned with the Code's scope and purpose after the 2020 version now includes clauses that can be adapted to suit different asset types.

AVC Arrangements Voting and Engagement activity

The Group's AVC arrangements allow members to choose from a range of funds in which to invest their pension savings. This includes a range of asset managers and asset classes. We have laid out below the voting and engagement activity carried out by these managers over the year to 31 March 2021. Engagement policies are relevant to both fixed income and equity strategies. Voting policies and statistics for the period are relevant only to equity investments. The Group Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income investments, particularly for short-term money market instruments and gilt investments.

For the fixed income investments, the Group Trustee acknowledges the ability to engage and influence companies may be less direct than with equity holdings; from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital.

The section below lays out the overarching voting and engagement policies in place for each of the AVC managers, recognising that there are a large number of funds available for members to choose from with each manager. A summary of voting statistics for each of the individual funds in the AVC section is provided in the Appendix (where relevant and available). Utmost Life and Pensions have not as yet been able to provide information regarding the stewardship of the Group's AVC arrangements. The Group Trustee expects improvement in this area and their investment advisers are engaging with both Utmost and JP Morgan (as the underlying fund manager for the Utmost arrangements) on gathering the relevant information in order to report on this in the future.

Aviva Investors

Voting Policy

Aviva's voting policy is reviewed on an annual basis and updated subject to Board approval. Final decisions are made by the ESG analysts in conjunction with portfolio managers who inform the decision-making process by bringing their knowledge and assessment of company strategy and any special circumstances. Aviva use governance and other research from a number of sources to support in their voting decision. These include the Investment Association's IVIS service and ISS. Aviva use research for data analysis only and do not automatically follow any voting recommendations.

Engagement Policy

Aviva seek to prioritise engagement by size of holding and where they are most likely to benefit their clients. This allows Aviva to consider additional context from the company which occasionally results in them changing a vote. In addition, every year Aviva write to the large majority of the companies they hold to notify them of the voting policy (highlighting any changes made), and also direct them to Aviva's voting records, where the companies are able to see how Aviva have voted at their AGMs etc and reasons for not supporting any resolutions. Aviva have a strong record of opposing resolution and holding boards to account. Aviva maintain a database to record voting and engagement with companies which allows them to review the effectiveness of their work. For Aviva's priority engagements their intention is to review these on a quarterly or half yearly basis.

Under circumstances where, despite engagement with companies, Aviva feels their concerns have not been adequately addressed, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy. As part of Aviva's escalation process, they may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise voting rights against the board. As a last resort Aviva may requisition a general meeting of a company or a resolution at an Annual General Meeting, or support others who are doing so. Aviva may also make public statements where they believe this is appropriate. However, Aviva expect this to happen only in the most extreme cases.

Aviva's Engagement policy is publicly available here: https://www.aviva.co.uk/services/about-our-business/about-us/our-approach-to-responsible-investing/

An example of engagement relevant to a number of the Group's Aviva funds took place in March 2021 with Toshiba Corporation, regarding the appointment of three individuals to investigate status of operations and property of the company. Support for this shareholder proposal was considered warranted given the doubts over the legitimacy of Toshiba's earlier investigation over the 2020 AGM vote irregularities whose conclusions were drawn based on one-sided conversations. Conducting an investigation in the way requested by the shareholder proposal was considered unlikely to divert managerial resources away from business operations and the cost burden on Toshiba should be minimal. Now that Toshiba is once again listed on the First Section of the Tokyo Stock Exchange, the company should increase transparency and establish a solid corporate governance system through an independent investigation.

Aviva engaged with both the shareholders who had submitted the proposal and Toshiba ahead of the vote and were pleased to see that the resolution obtained approval. According to Toshiba's press release, the investigators have already set up a hotline for any individuals who are willing to provide information. Furthermore, Toshiba's Board and its management team have a legal obligation to cooperate with investigators duly appointed by shareholders. There is clearly room for Toshiba's Board to improve its relationships with its shareholders and regain trust. Aviva state that they will be following up with the company after the AGM and monitoring progress with interest.

BlackRock

<u>Voting Policy</u>

Blackrock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock have increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

In June 2020, BlackRock voted against the re-election of Karl Gruber as Director for Evraz, due to the company's lack of progress on climate-related reporting. Evraz is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate own 57% of the company. BlackRock began their multi-year engagement in November 2017, they wrote a letter to Evraz CEO and chairman of the board, asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Since sending their letter, Evraz have taken positive steps, For example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO_2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO_2e per ton of crude steel cast, which, while meeting the company's target, remains above the average in the steel industry (average of 1.83 tons of CO_2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting that fell short of their expectations of large carbon emitters with a previous history of engagement with BlackRock on this topic.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-evraz-jun-2020.pdf

Engagement

The Blackrock Investment Stewardship (BIS) Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Legal & General Investment Management ("LGIM")

Voting Policy

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example of engagements with the company have provided additional information.

An example of significant votes at a company was in May 2020, when LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders.

The company had received press coverage due to the largely negative sentiment related to its governance profile and its initial management of the COVID-19 pandemic. This was an important topic for LGIM's multiple engagements with the company over the past 12 months, as well as the separation of CEO and board chair roles, a desire for directors to participate in engagement meetings, and details about the data transparency committed to in their Climate Pledge. The Stewardship team at LGIM received more inquires related to Amazon than any other company this season.

Engagement Policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

An example of engagement over 2020 was with Proctor and Gamble (“P&G”). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns. Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced several objectives and targets to ensure their business does not impact deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

M&G Prudential Investments

The M&G Prudential funds held in the portfolio are funds of funds and as such, the fund management has been delegated to a number of fund managers, including M&G Investment Management. Any voting there is delegated and carried out by those fund managers.

Engagement Policy

Throughout 2019 M&G developed its engagement process, adopting the Sustainable Accounting Standards Board ("SASB") framework to structure their research and engagement activity, allowing them to incorporate ESG factors into the investment process for their holdings at all stages. Over the period, M&G has created a question databank of over 600 sector-specific ESG questions, which identifies key material risks and themes as identified by both SASB and its own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative ("TPI") and World Economic Forum ("WEF") Climate Governance guidelines to further build their capability to identify financially material risks on a sector by sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies dependent on their sector and ensures that when there is a potentially material risk, M&G is able to identify and act on it in an efficient way. Engagement cases can then be easily prioritised and through M&G's hashtag system, which allows its analysts across asset classes to monitor material ESG risks across the capital structure.

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G’s Fixed Income teams to understand their engagement activities, participate in ESG-related engagements and help to coordinate engagements across asset classes where appropriate. In 2019, M&G’s Fixed Income teams undertook 91 ESG-specific engagements. The fund itself had 21 ESG engagements over 2020.

An example of an engagement at a firm level was in April 2020 when M&G engaged with GlaxoSmithKline to discuss its climate change strategy and enquire into the transparency in its supply chain. M&G held a dedicated engagement with senior individuals across the environment, anti-microbial and supply chain teams, and shared agendas and questions on issues such as board responsibility for meeting climate targets, managing extreme weather events across supply chains, and technical expertise on climate change. The engagement has concluded, and the outcome was that the board now aims to focus more on environmental issues including what positioning it wants to develop. In addition, the company does not yet have any climate-related targets linked to incentivisation but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made.

Schroder Investment Management

Voting policy

When voting, Schroders receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into their voting decisions. In addition to relying on their own policies, Schroders will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts. Further information can be found in the Environmental, Social and Governance Policy for Listed Assets found here.
On a quarterly basis, Schroders also produce sustainable investment reports at the firm level, and in each quarter over the year to 31 December 2020, the firm has voted on 99.68% of all possible resolutions. Of these resolutions, 26 were ESG related and the manager voted with management on 20 of these. More information on voting and engagement statistics, including case studies can be found in these reports. The Q4 stewardship report can be found here. While there are a number of case studies within these reports, Schroders are as yet unable to disclose fund level significant vote examples. The Group Trustee recognises that these disclosures are relatively new but do expect improved transparency at a fund level moving forward.

Engagement policy

Schroders define engagement to be purposeful communication with an entity (e.g. government, corporate, institution, financial counterparties, regulator, industry body (or managers of SPVs or funds e.g. CLO manager)) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is a key part of the ESG process at Schroders. The Multi-Asset team monitor the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team, to ensure they are driving ESG improvements at the underlying holding level. Engagement is an ongoing activity and where change is required, it can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying fund manager based on engagement activity.

An example of Schroders firm-wide engagement and voting over the year would be with Amazon, specifically on their labour standards. Schroders requested increased transparency of the company's workforce structure and employment practices. This is part of an ongoing engagement with Amazon, having done so sixteen times since 2015. This year, Schroders decided to escalate engagement by voting against the company at the AGM on social issues, namely voting against the lead independent director in May 2020. Schroders had a call with Amazon in March and again in May before the meeting. Whilst some improvements on sustainability issues had been made overall, such as increased transparency and an ambitious climate pledge, the fund did not think their labour and business ethics concerns had been addressed.

At the AGM in May 2020, Schroders supported six calls for increased disclosure on employment issues. These were resolutions, or recommendations, from other shareholders which we voted in favour of. Schroders have explained to Amazon that the vote marks the start of a 12-month window for improvement, and that further escalation will be considered at the 2021 AGM.

Appendix - Voting Statistics

The table below shows voting statistics for each of the relevant funds used by the Group and its members over the year to 31 March 2021. This data has been provided by the underlying managers.

At the time of writing, data was not available for the Sands Global Growth Fund, the LGIM Global Ethical Fund and all of the M&G Prudential and Utmost Life AVC funds. The information has been requested by the Group Trustee's investment advisers and will be shared in next year's statement once received.

DB Section Voting Statistics over the year to 31 March 2021

	For the period from 1 Apr 2020 – 31 Mar 2021		
AIL Global Equity Strategy Funds	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Sands Global Growth Fund	98.10%	4.50%	0%
Harris Global Equity Fund	100%	5.00%	0%
GQG Partners Global Equity Fund	100%	6.68%	0%
Longview Global Equity Fund	100%	5.30%	0.50%
Arrowstreet Global Developed Equity Fund	96.51%	9.44%	1.10%

	For the period from 1 Apr 2020 – 31 Mar 2021		
Walter Scott Fund	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Walter Scott – WSPL Global Equity	100%	3.00%	0.40%

AVC Section Voting Statistics over the year to 31 March 2021

Aviva Investors Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Aviva Pension Global Equity	98.20%	23.30%	2.20%
Aviva Pensions International Index Tracking	92.20%	29.70%	2.40%
Aviva Pension Mixed Investment (40-85% shares)	97.70%	22.40%	2.10%
Aviva Pension UK Equity	95.60%	18.30%	4.10%
Aviva Pension UK Index Tracking	99.70%	5.50%	1.40%
Aviva Pension My Future Focus Consolidation	99.00%	24.40%	2.10%

BlackRock Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
BlackRock Aquila World ex-UK Equity Index	93.65%	6.34%	0.46%
BlackRock Aquila UK Equity Index	97.17%	5.84%	1.85%

LGIM Equity & Multi-Asset Funds	For the period from 1 Apr 2020 – 31 Mar 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
LGIM World (Ex-UK) Equity Index	99.83%	19.16%	0.60%
LGIM Global Equity Market Weights 30:70 Index	99.69%	14.75%	0.72%
LGIM Ethical Global Equity Index	99.92%	15.95%	0.27%

LGIM UK Equity Index	100.00%	7.05%	0.01%
LGIM Multi-Asset	98.98%	17.71%	0.56%

M&G Prudential Equity & Multi-Asset Funds	**For the period from 1 Apr 2020 – 31 Mar 2021**		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
M&G Prudential International Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Global Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential UK Equity	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential UK Equity Passive	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Discretionary	*Awaiting data*	*Awaiting data*	*Awaiting data*
M&G Prudential Dynamic Growth IV	*Awaiting data*	*Awaiting data*	*Awaiting data*

Schroders Equity & Multi-Asset Funds	**For the period from 1 Apr 2020 – 31 Mar 2021**		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
Schroder Life Dynamic Multi-Asset	99.10%	10.88%	0.32%