

Engagement Policy Implementation Statement

National Grid Electricity Group of the Electricity Supply Pension Scheme (the “Group”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the National Grid Electricity Trustee Company Limited (the “Group Trustee”) and covers the Group year 1 April 2021 to 31 March 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the “Regulations”). The Regulations require that the Group Trustee produces an annual statement which outlines the following:

- Explain how and the extent to which the Group Trustee has followed its engagement policy which is set out in the Statement of Investment Principles (“SIP”).
- Describe the voting behaviour by or on behalf of the Group Trustee (including the most significant votes cast) during the Group year and state any use of third party provider of proxy voting services.

Executive summary

Based on the activity over the year by the Group Trustee and its investment managers, the Group Trustee believes that the stewardship policy has been implemented effectively. The Group Trustee notes that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Group Trustee expects improvements in disclosures 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 Group Trustee’s investment advisor, Aon will engage with managers that have not provided information for the EPIS.

Group stewardship policy

The below bullet points summarise the Group’s stewardship policy in force over the year to 31 March 2022, as set out in the SIP.

The full SIP can be found here: [LIBRARY - National Grid Pension Portal \(nationalgridpensions.com\)](https://nationalgridpensions.com)

- 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 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. 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 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. 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.

Group stewardship activity over the year

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. In particular, the Group Trustee have received training on the requirements of the Pensions Regulator as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD). Further detail is given later in this document.

The Group Trustee reviews both its responsible investment beliefs and Responsible Investment Policy on an annual basis.

Stewardship Policy

The Group Trustee has ensured the Group appropriately followed the Stewardship policy in the SIP. 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 on a website 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 ESG ratings and highlight any areas of concern, or where action is required.

The ESG rating system is for buy rated investment strategies and 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 fund'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 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. The Group Trustee has been working through the TCFD requirements in readiness for the first report which is expected to be made available in 2023.

Manager Appointments

The Group Trustee has finalised an ESG focussed action plan that includes a review of the ESG characteristics of the Group's investment strategy. 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.

The Group's new appointments to the Global Diversified Credit SDG Fund managed by LGIM, the European Direct Lending Fund managed by CVC and the Diversified Infrastructure Fund managed by KKR were, in part, driven by their ESG credentials.

DB Section Voting and Engagement activity – Equity

Over the period, the Group's DB Section was invested in the AIL Active Global Equity Strategy and the Walter Scott Global Equity Fund. The AIL Active Global Equity Strategy employs a 'fund of funds' approach and the material underlying funds during the year were:

ALL Active Global Equity Strategy: Underlying Managers	Fund name
Ardevora Asset Management LLP	Long Only Global Equity Fund
Arrowstreet Capital LP	Global Developed Equity Fund
GQG Partners Inc	Global Equity Fund

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

In this section there is a summary of the voting approach and examples of significant voting activity for each of the Group's material equity managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Group considers inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Group

The Group Trustee considers a significant vote as one which the voting manager deems to be significant.

AIL Global Equity Strategy

AIL selected the underlying investment managers on behalf of the Group Trustee. The Group Trustee delegated the monitoring of ESG integration and stewardship quality to AIL.

AIL carried out a considerable amount of engagement activity over the year. AIL held a number Environmental, Social and Governance ("ESG") focussed meetings with the underlying managers across all its strategies. At these meetings, AIL discussed ESG integration, voting and engagement activities undertaken by the investment managers. This allowed AIL to form an opinion on each manager's strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

Aon Solutions UK Limited ("Aon") also actively engages with investment managers and this is used to support AIL in its fiduciary services. Aon's Engagement Programme is a cross asset class initiative which brings together Aon's manager research team and Responsible Investment specialists to promote manager engagement with the needs of Aon's clients in mind.

In Q3 2021, Aon and AIL were confirmed as signatories to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken by Aon and AIL on behalf of its clients. For further details, please see

the submission report <https://www.frc.org.uk/getattachment/b9002ca0-3beb-40e6-8b09-375661ccd193/Aon-UK-Stewardship-Code-2020-Report.pdf>.

Engagement example

In May 2021, Aon engaged with an underlying equity manager as part of its Engagement Programme. At the time of the meeting, the manager offered only limited transparency of its stewardship activities. However, Aon expected this to improve with the launch of the manager's sustainable website which promised to showcase its engagement activities.

Since Aon's engagement with the manager, the manager has launched its sustainable website pages which show its stewardship and ESG policies, and the manager's proxy voting records. The manager also established an ESG working group to strengthen its stewardship policies and activities. Aon welcomes these improvements and hopes to see the results of this work in the manager's first sustainability report.

Arrowstreet Capital ("Arrowstreet") – Global Developed Equity Fund

Voting Policy

Arrowstreet engages proxy voting adviser Institutional Shareholder Services ("ISS") for vote analysis, execution, reporting and certain record-keeping services. ESG principles are taken into account in ISS's standard proxy voting policies. In addition, Arrowstreet makes enhanced ESG-specific proxy voting services available to clients on request.

Arrowstreet generally follows the recommendations of ISS but it may override ISS's recommendation if ISS discloses a conflict of interest and Arrowstreet decides it is in the best interests of its clients. ISS's voting service is reviewed regularly to ensure the recommendations are based on up to date information and to address any areas of concern from ISS.

Arrowstreet do not currently track significant votes. So it was not able to provide an example of a significant vote it has participated in for the EPIS. AIL has opened a dialogue with Arrowstreet to help it to improve its reporting on significant votes.

Engagement

Arrowstreet recognises that engagement is increasingly important to some of its investors. It outsources its engagement activities to Sustainalytics, an independent ESG and corporate governance research, ratings and analytics firm. Sustainalytics's engagement framework is incident and compliance based. It aims to remediate and mitigate violations of labour rights, environment, business ethics and human rights.

At the time of writing Arrowstreet had not provided engagement examples for the EPIS. AIL, has engaged with Arrowstreet to encourage it to report on its engagement activities in line with its peers.

GQG Partners ("GQG") – Global Equity Fund

Voting

GQG aims to cast all votes at shareholder meetings held by its portfolio companies when it believes it is in the best interest of its shareholders. GQG uses ISS for proxy voting, engagement and stewardship reporting. GQG generally votes in line with ISS's recommendations, but it will vote against its recommendations on occasion. GQG votes in accordance with the United Nations' Principles for Responsible Investment ("PRI").

Upon request, clients can take responsibility for voting their own proxies or they can give GQG instructions on how to vote their respective shares. GQG can also provide clients with quarterly proxy voting reports upon request.

Voting example

In April 2021, GQG voted against the management proposal to approve the climate transition plan for the commodity trading and mining company, Glencore Plc. GQG voted against the proposal because the transition plan did not contain any near-term targets for reducing the company's greenhouse gas emissions. Also, there were no clear commitments for how the company plans to transition away from relying on thermal coal, which represents 10-15% of the company's earnings in the medium term. And the company had not set science-based targets as approved by the Science Based Targets Initiative. However, the proposal was approved by the majority of shareholders.

Engagement

GQG engages with companies on ESG issues where it thinks the engagement would be useful and productive. GQG engages with individual companies on specific ESG risks such as enhanced disclosure, board structure and diversity, labour management, or remuneration issues.

GQG also carries out thematic engagements where it engages with several companies held in the same portfolio on a specific ESG issue. Examples of its thematic engagement activities are diversity and inclusion in executive management and enhanced ESG disclosures. GQG also takes part in collaborative engagement initiatives. GQG believes that a collaborative approach, with combined assets under management, can be more influential in effecting change.

Further information can be found here: <https://gqgpartners.com/sites/default/files/ESGpolicy.pdf>

Engagement example

In September 2021, GQG conducted a detailed engagement with Occidental Petroleum Corporation ("Occidental") to gain insight into its carbon transition plan. GQG also sought information about the decommissioning of an offshore oil rig, which was previously owned by the company and for which the company was potentially financially liable.

During the engagement, GQG heard the details of Occidental's carbon transition plan and its aim to capitalise on its expertise in handling carbon dioxide for enhanced oil recovery ("EOR") to become a leader in carbon capture and storage. EOR is a method for getting crude oil from the ground that is hard to extract. The process uses a lot of carbon dioxide and leaves it permanently buried in the ground. This engagement helped GQG understand Occidental's decarbonisation pathway and its environmental management of inactive drilling infrastructure.

Ardevora Asset Management LLP ("Ardevora") – Global Long-Only Equity Fund

Voting

Ardevora uses proxy voting adviser, Glass Lewis, to administrate vote proxies on its behalf. Ardevora votes in line with Glass Lewis's proxy voting guidelines. Glass Lewis has partnered with Sustainalytics which provides detailed ESG profiles for each of the companies it votes on.

Ardevora's responsible investment team oversees Glass Lewis's voting recommendations using an internal proxy voting dashboard. Ardevora applies additional scrutiny to ballots concerning election of directors, climate and shareholder resolutions. The responsible investment team reviews Glass Lewis's recommendations then either approves the recommendation or changes the vote if the recommendation does not align with its views on fairness in society or the environment.

Voting example

In December 2021, Ardevora voted in favour of a shareholder proposal for the automotive parts retailer, AutoZone, to report on its greenhouse gas emission targets and its alignment with the international treaty on climate change, the Paris Agreement. Ardevora was in favour of this proposal as it believes that this will better ensure the company's resilience to climate-related risks. The proposal was approved.

Engagement

Ardevora believes effective engagement with the companies in which it invests on ESG issues is beneficial for its investments, its clients and for wider society. Through its engagement process, Ardevora seeks to ensure that investee companies are well-managed and take appropriate account of ESG risks and opportunities.

Ardevora has a systematic engagement approach with investee companies. Engagement is initiated and conducted by its responsible investment analysts. Engagement support and guidance is provided through regular meetings with the portfolio managers.

Ardevora aims to regularly engage with investee companies on issues core to its responsible investment framework. It uses a mix of direct and collaborative engagement strategies, depending on the issue, sector and/or company. Ardevora also engages with companies on conduct-related issues and material themes.

Engagement example

In Q4 2020 Ardevora carried out an engagement with airline, Wizz Air. There were conflicts between the airline and trade unions, which led Ardevora to be concerned. Initially, Ardevora wrote a letter to Wizz Air but it found Wizz Air's responsible to be unsatisfactory. So, Ardevora escalated its concerns to non-executive directors of the company but this did not progress the discussion either. So in July 2021, Ardevora decided to launch a collective engagement on the PRI's Collaboration Platform and through the Investor Alliance for Human Rights.

The collaborative engagement effort enabled dialogue amongst investors and promoted greater awareness of the issue. Although Ardevora is no longer invested in the company, it supported its industry peers in preparing a public statement and securing a meeting with the company in 2022.

Walter Scott & Partners Limited ("Walter Scott") – Global Equity Fund

Voting

Walter Scott receives research from proxy voting adviser ISS for information purposes. Walter Scott exercises its discretionary proxy voting authority with a view to safeguarding its clients' best interests. Generally, Walter Scott doesn't consult with clients before voting. Where a vote is material, Walter Scott asks clients who lend stock to recall any stock on loan.

The decision on how to vote is generally made by Stock Champions. Voting is overseen by the Investment Stewardship Committee and all votes are signed off either by the Chair or Vice Chair of the Investment Stewardship Committee.

The Investment Stewardship Committee decide how to vote when a voting item is not clear within Walter Scott's voting policy or the investment analyst has requested further guidance. Contentious issues are also referred to the Investment Stewardship Committee for a final voting decision.

Voting Example

In April 2021, Walter Scott voted against the re-election of the director, Nicolas Bazire, of the luxury goods company, Louis Vuitton Moët Hennessy ("LVMH"). Walter Scott was concerned about the director's integrity and his role in the high-profile arms scandal, known as the Karachi Affair. In June 2020, Nicolas Bazire was sentenced to five years in jail (two of them suspended) and fined €300,000 for his involvement. Walter Scott informed the company of its voting intentions via email ahead of the vote taking place. The vote passed and Bazire was re-elected, Walter Scott states it will continue to monitor the situation.

Engagement

Walter Scott believes its tailored approach to engagement activity enables it to focus on the issues material to each company. Through constructive dialogue, it encourages company management to address areas of concern. Walter Scott distinguishes between two types of engagements; engagement for information and engagement for change. Walter Scott's engagements for information typically involves a meeting or correspondence to gather information and to influence investee companies towards a defined objective. Its engagements for change will often relate to sustainability issues. Walter Scott's engagements for change are long-term in nature, involving meetings with management to closely monitor progress.

Engagement Example

In 2021, Walter Scott engaged with the Chief Executive Officer ("CEO") of manufacturer, Cognex, about its sustainability disclosures. Walter Scott considered Cognex's disclosures on sustainability to be outdated.

From the discussion, Cognex seemed aware of the need to improve its disclosures on sustainability and were actively investigating how to do this. The company asked Walter Scott to share some examples of good sustainability disclosures from similar companies. But while the company acknowledged the disclosure request it received from CDP (formerly, Climate Disclosure Project) on Walter Scott's behalf, it said that it was not in a position to respond to this year.

DB Section Engagement Activity – Fixed Income

Whilst voting rights do not apply to non-equity mandates, the Group Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation, and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Group's material fixed-income managers over the year. Note that the Group had fully disinvested from the Goldman Sachs Asset Management ("GSAM") – Strategic Income (Unconstrained) Fund by the end of the scheme year. Also, engagement activity in respect of the LGIM Global Diversified Credit SDG Fund has not been included in this year's Statement given the Group only invested from 1 March 2022.

Insight Investment Management ("Insight") – Insight Bond Plus Fund

Engagement

Insight engages on industry and regulatory issues that have implications for its clients and the wider market. Insight's credit analysts regularly meet with issuers to discuss ESG-related topics. Insight's engagements inform the credit analysts' views of companies and provide a platform to increase transparency on ESG issues and influence company behaviour.

The credit analysts identify the engagement issues relevant for each issuer. Insight discusses these at meetings with a company's management. Insight may also consider raising issues with the company's broker. If Insight does not receive a response from the issuer, then it will lead a collaborative initiative to achieve greater influence over the issuer. Insight is involved in long-term initiatives such as Climate Action 100+.

Engagement Example

In Q3 2021, Insight engaged with the company British American Tobacco ("BAT") about human and labour rights. Insight decided to engage with BAT because it rated BAT 3 out of 5 for its overall ESG rating and it scored below average in social and governance areas.

Insight engaged with the company twice during 2021 and overall was satisfied by BAT's response. As a result of the engagement, the company set two targets. The first was for all BAT's suppliers to have human right due diligence in place. The second target was for BAT to have at least 45% of leadership positions held by women. Insight will monitor BAT's progress against the targets at future engagements.

Pacific Investment Management Company ("PIMCO") – Dynamic Bond Full Authority Strategy

Engagement

PIMCO believes engagement is an essential tool for delivering impact for investors. It believes that engagement can be partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment.

PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board qualifications and composition.

PIMCO states that for non-ESG dedicated portfolios, like the PIMCO fund the Group is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, it may benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

At the time of writing, PIMCO did not provide an engagement example relevant to the fund the Group is invested in. The Group Trustees' investment advisor, Aon will engage with PIMCO to encourage it to report on its engagement activities. The example provided below is at a firm level, i.e. it is not specific to the fund the Group is invested in.

Engagement Example (firm level)

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund green and social projects. These include the construction of a solar power plant and a smart hydro-agricultural development. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan.

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

Engagement

GSAM focuses on proactive, outcomes-based engagement with the aim of promoting best practices. GSAM seeks to review and monitor its engagement initiatives to incorporate current issues and evolving views about key environmental, social and governance topics. To guide its engagements, GSAM's Global Stewardship team has an annual focus list of thematic priorities. Over 2021, the themes on the focus list were accelerating climate transition, driving inclusive growth and promoting strong corporate governance.

DB Section Engagement activity – Real Estate and Private Credit Funds

The Group's DB Section was invested in two real estate portfolios and two private credit funds. The Group Trustee acknowledges that the ability of property and private credit fund managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see that the managers are exhibiting active stewardship on behalf of the Group Trustee from the information they provided for this EPIS.

The following section demonstrates some of the engagement activity being carried out by the Group's managers over the year.

CBRE Global Investors (“CBRE”) – UK Property PAIF

Engagement

CBRE engages with a range of key stakeholders including investors, clients, employees, suppliers, and representatives from the industry. These engagement activities include written communications, meetings, surveys, and participation in various industry organisations and initiatives.

CBRE's engagements with investee companies are focused on company-specific issues and are prioritised by its investment analysts. The investment analyst determines the objective of the engagement and monitors the company's response. CBRE also has a committee, the Responsible Investment Management Committee, which engages with multiple companies on a broader ESG themes, such as disclosure or transparency. CBRE tends to engage more frequently with companies whose shares it owns or which are significant in size relative to industry benchmarks.

Engagement Example

In 2021, CBRE engaged with the independent specialist renewable energy consultancy, Syzygy Consulting, and the Old Oak and Park Royal Development Corporation ("OPDC"), a development corporation working to transform the Old Oak and Park Royal areas of West London. OPDC was seeking to maximise the use of solar power generation in its developments and there was a project underway to install solar panels in suitable buildings. It involved ten sites in the Park Royal area and required close engagement with the tenants of the units identified as suitable for solar panels to be installed.

The project is ongoing, however, the following outcomes are expected:

- Total output of 3,500,000 kWh/year
- Carbon emissions savings of approximately 800 tonnes/year which is equivalent of powering 1,500 electric cars every year
- between 50-70% carbon offset of energy used

BlackRock – UK Property Fund

Engagement

When BlackRock invests directly in real estate and infrastructure projects, its ESG integration process includes a detailed review of social factors including the health and safety of employees, users and local communities. Where applicable, BlackRock's Real Assets team reviews factors such as land rights, and community impact and rights. Its Real Assets team regularly monitors on-site health and safety, and wider community engagements and impacts. BlackRock aims to comply with all relevant jurisdictional laws and expects its appointed contractors to do the same.

Blackrock also reviews environmental factors, including environmental protection, pollution prevention, and the conservation of biodiversity. BlackRock partners with specialist environmental and ecological consultants to undertake environmental risk assessments.

BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate (“GRESB”), which aims to assess and benchmark the ESG performance of real assets across the market.

At the time of writing, BlackRock did not provide an engagement example relevant to the fund the Group is invested in. The Group Trustees’ investment advisor, Aon will engage with BlackRock to encourage it to report on its engagement activities.

HPS – Credit Value Offshore Fund VI

Engagement

HPS incorporates ESG considerations when monitoring its existing investments as part of its ongoing portfolio evaluation and risk management processes. Where HPS believes it has sufficient influence, it may engage with a company’s management to follow up on any remedial action taken by the company to address the ESG issues identified as a part of its ongoing review process. Where practical, HPS will engage with a company’s management team about new or evolving ESG risks throughout the term of an investment.

To the extent that it can, HPS utilises information obtained directly from the issuers and endeavours to effect desired change where it represents a large portion of an issuer’s capital structure and may have enhanced ability in this regard.

CVC Credit Partners (“CVC”) – EU Direct Lending 2021

Engagement

CVC’s investment objective is to serve its clients’ interests by maximising total investment returns while managing portfolio risk. CVC believes that integrating ESG considerations into the investment process is aligned with its investment objective.

CVC recognises that clients and their underlying investors may have very specific ESG mandates. As such, CVC works with its clients to agree portfolio guidelines reflecting their specific ESG investment needs.

CVC is a signatory to the Principles for Responsible Investment (“PRI”), an investor-led initiative supported by the United Nations.

Voting and Engagement activity – AVC Arrangements

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 investment managers and asset classes. Set out below is a summary of the voting and engagement activity carried out by these managers over the year to 31 March 2022. The engagement policies are relevant to both fixed income and equity strategies. Voting policies and statistics are relevant only to the equity funds.

For the fixed income investments, the Group Trustee acknowledges the ability to engage and influence companies may be less direct than in comparison to 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 relevant AVC managers, recognising that there are a large number of funds available for members to choose from with each manager. A summary of the voting statistics for each of the funds in the AVC section is provided in the Appendix (where relevant and available).

Aviva Investors (“Aviva”)

As part of the Group’s arrangement with Aviva, it was invested in the following funds for which engagement and voting policies are relevant over the year:

- Aviva Pension Global Equity
- Aviva Pension International Index Tracking
- Aviva Pension Long Gilt
- Aviva Pension Mixed Investment
- Aviva Pension My Future Focus Consolidation
- Aviva Pension UK Index Tracking
- Aviva Pension UK Equity
- Aviva Pension with Profit
- Aviva Pension with Profit Guaranteed

Voting

Aviva’s voting policy is reviewed annually and signed off by the Aviva Investors board. Aviva subscribes to research from a number of third-party providers, but its main provider of proxy voting and governance research is ISS. Aviva reviews its voting policy annually based on emerging trends that Aviva or its advisers have observed.

At the time of writing, Aviva was unable to provide voting statistics for the period or a significant voting example.

Engagement

Aviva believes that constructive dialogue with issuers, corporates and sovereign representatives is vital to preserve and enhance the value of assets on behalf of its beneficiaries and clients. Aviva has an integrated approach to investment and ownership, combining the skills of its fund managers, investment analysts and ESG specialists across asset classes. As part of Aviva’s analysis, it tracks areas of performance, including management of key ESG areas. If Aviva feels it does not have enough information or has identified gaps, improvements in an entity’s awareness or management of their ESG risks and opportunities, it will establish a dialogue.

On an annual basis, Aviva draws up engagement plans to identify engagement opportunities. Aviva brings together quantitative and qualitative data, including its proprietary ESG scores and research, to highlight emerging issues. In the planning exercise Aviva also evaluates its exposure across asset classes to prioritise engagements with corporate issuers and sovereigns. It also takes into account considerations such as the size or value of holdings, recent developments, existing relationships, and where it is most likely to benefit its clients.

At the time of writing, Aviva did not provide an engagement example relevant to the funds the Group is invested in.

Legal & General Assurance Limited (“L&G”)

As part of the Group’s arrangement with L&G, it was invested in the following funds for which engagement and voting policies are relevant over the year:

- L&G World (ex-UK) Equity Index
- L&G Global Equity Market Weights 30:70 Index (75% currency hedged)
- L&G Ethical Global Equity Index
- L&G UK Equity Index
- L&G (PMC) Multi-Asset
- L&G Schroder Dynamic Multi Asset
- L&G Pre-Retirement

Voting

Legal & General Investment Management (“LGIM”) is the underlying manager of the L&G funds. It uses proxy voting adviser Institutional Shareholder Services (“ISS”) to execute votes electronically and for research. This augments LGIM’s own research and proprietary ESG assessment tools. This augments LGIM’s own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting Example (relevant to L&G Global Equity Market Weights 30:70 Index (75% currency hedged) Fund

In May 2021, LGIM voted in favour of a resolution for technology company, Intel Corporation, to report on its gender and racial pay gap. This was a vote against the management’s recommendation. LGIM voted in favour of the proposal because LGIM expects companies to disclose meaningful information on their gender pay gaps and report on the actions they take to close any gap. The vote did not pass as only 14.3% of shareholders supported the resolution. LGIM states it will continue to publicly advocate its position on this issue and monitor company and market-level progress. LGIM considered this vote to be significant because it views gender diversity as a financially material issue for clients.

Engagement

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.

LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM’s engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM’s engagement policy <https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>.

At the time of writing, LGIM had not provided fund level engagement examples for the funds that the Group is invested in. The Group Trustee’s investment adviser, Aon, has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this in the first half of 2022. The example provided below is at a firm level, i.e. it is not specific to the fund the Group is invested in.

Engagement Example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

Schroder Investment Management (“Schroders”) – relevant to Schroder Dynamic Multi-Asset Fund

Voting

Schroders uses research from ISS and IVIS, but it states that this is only one component of the analysis which feeds into its voting decisions. Schroders’s own research is integral to its final voting decision. This research is conducted by its financial and ESG analysts. For contentious issues, Schroders’s Corporate Governance specialists will engage with the relevant analysts and portfolio managers to seek their views and better understand the corporate context.

Schroders considers significant votes to be ones against a company management’s recommendation. It opposes management if it believes that doing so is in the best interests of shareholders and its clients. This can be used as an escalation method for an engagement that is not progressing or may start an engagement period with the company concerned. After every vote against management, Schroders will email the company’s Investor Relations team to tell them how it voted and the rationale for this.

Schroders discloses its voting activity publicly. On a monthly basis, Schroders produces voting reports which detail how votes were cast, including votes against management and abstentions.

There were no votes against management within the Group year so hence, Schroders were unable to disclose a significant voting example.

Engagement

Schroders defines engagement to be the purposeful communication with an entity (e.g., government, corporate, institution, financial counterparties, regulator, industry body or managers of Special Purpose Vehicles or funds) with the goal of encouraging change at the entity or wider system improvement. Schroders considers active ownership to be a key part of its ESG process.

Schroders’s Investment team monitors the engagement and voting activity that takes place in relation to the underlying holdings of its funds. It does this in partnership with the Schroders’ Sustainable Investment team to ensure it is driving ESG improvements at the underlying holding level. Schroder’s engagements can take 2-3 years. Investment decisions are made by the investment team based on engagement activity.

At the time of writing, Schroders did not provide an engagement example relevant to the fund the Group is invested in. The Group Trustees’ investment advisor, Aon will engage with Schroders to encourage it to report on its engagement activities. The example provided below is at a firm level, i.e. it is not specific to the fund the Group is invested in.

Engagement Example (firm level)

Schroders engaged with companies in Singapore that employ large numbers of migrant workers on the topic of debt bondage. Debt bondage is when someone is forced to work to pay off a debt. Whilst there are regulatory policies and commitments to zero forced labour, Schroder’s understanding of the local market is that contractors may not consider debt bondage to be forced labour. Schroders’s conversations with the companies helped it to understand the challenge for employers with a rotating schedule of migrant workers compared to firms with a more consistent workforce.

Following Schroder’s initial communication, it contacted two of the leading companies to discuss the issue in more depth. Schroders’s initial focus was on raising awareness and Schroders asked the companies to educate its main contractors. The two companies seemed responsive and indicated they would consider it. As leading companies in their industries, Schroders believes that the

companies' actions will have a positive effect on the wider market. Schroders will continue to encourage improvements in this area.

As part of the Group's arrangement with Prudential, it was invested in the following funds for which engagement and voting policies are relevant over the year:

- BlackRock Aquila World (ex-UK) Equity Index
- BlackRock Aquila UK Equity Index
- Prudential Discretionary
- Prudential Dynamic Growth IV
- Prudential Global Equity
- Prudential Index-Linked
- Prudential International Equity
- Prudential Long-Term Gilt Passive
- Prudential UK Equity
- Prudential UK Equity Passive

M&G Prudential Investments ("M&G")

The M&G Prudential funds invested in by the Group are 'funds of funds' arrangements and as such, the asset stewardship and engagement has been delegated to the underlying fund managers, including M&G Investment Management.

Voting

M&G uses research provided by proxy voting advisers ISS and the Institutional Voting Information Services ("IVIS"). M&G uses ISS's Proxy Exchange voting platform to manage its proxy voting activity. M&G makes voting decisions in the best interests of clients and takes into account a wide range of factors. Whilst M&G does not solicit clients' views when making a voting decision, it takes them into account if they are known to M&G. By exercising its votes, M&G seeks to add value to its clients and to protect its interests as a shareholder.

At the time of writing, M&G had not provided voting statistics for the year end of 31 March 2022.

Voting Example (relevant to Prudential International Equity Fund)

In November 2021, M&G voted against the proposal to elect a director for a property developer, Sun Hung Kai Properties Limited. M&G voted against the proposal because it had concerns about board independence and the low level of female representation on the board. The vote was passed. M&G considers this vote significant as it was in relation to shareholder rights and governance.

Engagement

M&G engages directly with companies and collaboratively through its membership of industry bodies. M&G engages with companies on company-specific issues and broader thematic engagements. Over 2021, M&G engaged on a number of environmental and social themes. These included its climate engagement programme and its diversity and inclusion programme, as well as thematic engagements on modern slavery in supply chains and thermal coal.

Engagement Example

Over 2021, M&G engaged with insurance company, AIA Group Ltd ("AIA"), regarding greenhouse gas emissions targets. The objective of the engagement was to encourage AIA to set a net zero emissions target and sign up to the Science Based Target Initiative ("SBTi"). M&G had calls with company management and the head of ESG and Investor Relations to discuss the topic.

As a result of the engagement, the company set a target to reduce greenhouse gas emissions by 25% by 2030. It has also engaged with the SBTi to consider setting a net zero emissions target. Subsequently, in December 2021, AIA announced its commitment to net zero emissions by 2050. AIA also completed divestment from coal mining and coal-fired power seven years ahead of target.

BlackRock

Voting

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. BlackRock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

BlackRock subscribes to research from the proxy voting advisers ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

Voting Example for BlackRock Aquila UK Equity Fund

In May 2021, BlackRock voted in favour of a shareholder resolution for oil company, BP, to set and publish climate-related targets consistent with the international treaty on climate, the Paris Agreement. Whilst it recognised BP's progress to date, BlackRock supported the resolution to signal its desire to see the company accelerate its efforts on climate risk management. BlackRock stated that the company needs to continue to demonstrate progress on its goals to shareholders. The vote did not pass.

Engagement

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, company impacts on people.

More information can be found here: <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

Engagement Example (relevant to BlackRock Aquila UK Equity Fund)

BlackRock has engaged extensively with Barclays over several years on a range of issues, including board composition and effectiveness, remuneration, business oversight and risk management, climate risk management and corporate strategy and culture.

As a result of the engagement, Barclays has taken a number of steps to address the climate risks and opportunities in its business, including:

- strengthening its climate governance and risk management by creating a new Executive Committee role responsible for public policy and corporate responsibility, and appointing a Head of Climate Risk;
- launching its own methodology to measure greenhouse gas emissions and track them at a portfolio level against the goals of the Paris Agreement;

- enhancing its disclosure aligned with the Task Force on Climate-related Financial Disclosure;
- making progress against its goal of providing £100 billion of “green financing” (i.e. loans or investments that are used to support environmentally-friendly activity) by 2030.

Utmost Life and Pensions

As part of the Group’s arrangement with Utmost Life and Pensions, it was invested in the following funds over the year for which engagement and voting policies are relevant:

- Utmost Life and Pensions Multi-Asset Moderate
- Utmost Life and Pensions Multi-Asset Cautious

J.P. Morgan Asset Management (“JPMAM”) is the underlying manager to the Utmost funds the Group is invested in.

Voting

JPMAM uses a third party corporate governance data provider, ISS, to receive meetings notifications, provide company research and process its votes. Although JPMAM use the ISS ProxyExchange platform and see its voting recommendations, this forms only the starting point for its proprietary thinking. All JPMAM’s voting decisions are made on a case-by-case basis by in-house specialists in conjunction with the analyst and/or fund manager in reference to the JPMAM Corporate Governance Policy and Voting Guidelines.

JPMAM define “significant” votes as votes where it is a major shareholder in its portfolios, where the vote is likely to be close or contentious or where there may be potential material consequences for its clients.

Engagement

JPMAM has identified five investment stewardship priorities that it believes pose the most significant long-term risks and opportunities to its investments. These five topics are governance, strategy alignment with the long term, human capital management, stakeholder engagement and climate risk. These priorities provide a structured and targeted framework for engagement with the companies in which it invests.

JPMAM considered engagement to be integral to its investment processes across asset classes. Research into companies, macroeconomic drivers, sectoral factors and ESG themes drives its engagement and enables it to intervene proactively before risks are realised and opportunities missed. Through engagement JPMAM’s encourages investee companies to focus on the responsible allocation of capital and long-term value creation. It also aims to understand how factors impacting sustainability are financially significant to companies over time.

Appendix

Voting Statistics for the year ending 31 March 2022

DB Section Voting Statistics over the year to 31 March 2022

AIL Global Equity Strategy	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
Ardevora Long Only Global Equity Fund	2,950	100.0%	8.2%	0.2%
Arrowstreet Global Developed Equity Fund	6,625	96.2%	8.4%	0.8%
GQG Global Equity Fund	682	99.3%	9.5%	2.5%

Walter Scott	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
Global Equity Fund	724	100.0%	3.0%	0.0%

AVC Section Voting Statistics over the year to 31 March 2022

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
Aviva Pension International Index Tracking	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>
Aviva Pension UK Index Tracking	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>
BlackRock Aquila UK Equity	36,325	99.0%	7.0%	1.0%
LGIM Global Equity Market Weights 30:70	72,767	99.9%	16.9%	1.1%
M&G Investments Prudential International Equity	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>	<i>tbc</i>
Schroders Life Dynamic Mult Asset	54	98.2%	0.0%	0.0%