

Trustees' Engagement Policy Implementation Statement

Introduction

The Trustees believe that good stewardship and the incorporation of environmental, social, and corporate governance (ESG) factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and longer term.

The Trustees also believe that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustees' explicit consideration when setting their investment strategy for the Scheme.

In order to implement their beliefs the Trustees, with the assistance of their fiduciary investment manager, Mercer, have agreed a number of policies (the Trustees' "Engagement Policy") that they seek to apply when managing the Scheme's assets.

The Trustees' Engagement Policy is set out in their Statement of Investment Principles ("SIP").

In accordance with **The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018**, and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**, this Section sets out:

- How, and the extent to which, in the opinion of the Trustees, the Trustees' Engagement Policy has been followed during the reporting year.
- Detail on the voting behaviour undertaken by, or on behalf of, the Trustees during the year.

Implementation of Trustees' Engagement Policy

Under the Trustees' fiduciary manager arrangement with Mercer, Mercer are appointed as the discretionary investment manager of the Scheme's assets (excluding additional voluntary contributions and insurance policies) and the assets are invested in a range of Mercer Funds managed by Mercer Global Investments Europe (MGIE), a subsidiary of Mercer.

The Trustees delegate to MGIE, and the third party investments managers MGIE appoint on the Trustees' behalf to manage the Mercer Funds' assets, responsibility for implementing the Trustees' Engagement Policy.

In doing so, the Trustees expect the third party investment managers to take full account of ESG considerations, including climate change and stewardship matters, when deciding to invest in the securities of investee companies. Further, the Trustees expect MGIE to monitor, and help develop, the investment managers' activities in this regard, ensuring the actions they take are consistent with their own sustainable investment and corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Reviews of the Trustees' Engagement Policy and its implementation form part of the Trustees' annual business plans and the Trustees receive regular reports from Mercer on MGIE's and the investment managers' ESG activities. In considering this reporting the Trustees expect to see an improving trend in the embedding of ESG and climate change considerations into MGIE's and the investment managers' investment processes.

In the Trustees' opinion, the implementation of the Trustees' Engagement Policy by MGIE and the underlying managers has been acceptable over the reporting year.

As justification for this view, and in order to provide detail on the voting activity undertaken on behalf of the Trustee, the Trustees note the following:

- **Vote execution by the third party managers over the reporting year was good** with Mercer reporting that the underlying managers (appointed for equity mandates) voted on more than 90% of the shareholder resolutions put forward by their investee companies. Further, where votes were not cast, Mercer reported that the typical rationale for not voting put forward by managers related to market-specific barriers or voting restrictions.
- Whilst vote execution was good, **the quality of voting disclosure varied considerably across managers over the year**. Whilst Mercer reported that some managers have improved in disclosing voting rationale and including summary reporting across categories (e.g. board-related, compensation-related, environmental), there are managers who have not disclosed rationale across all resolutions the managers voted on. To address, Mercer reported that MGIE are engaging with managers in order to improve their disclosure reporting. The Trustees expect to be able to report progress in this regard in next year's Implementation Statement.
- Mercer has reported **an improving trend in the quality of disclosures by the managers regarding their engagement with investee companies**. Further, some managers continue to provide market-leading engagement reporting (typically those with an already established approach to engagement and internal resources dedicated to stewardship).
- Perhaps not unsurprisingly given their computer-driven "quantitative" approach to building portfolios, Mercer have reported that **there continues to be room for improvement by quantitative managers when reporting on engagement activities** with their investee companies. Again, the Trustees expect to be able to report improvement in this regard in next year's Implementation Statement.