

# FDR Limited Pension Scheme

31 March 2023 DB Implementation  
Statement

August 2023

# 1. Introduction

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The Trustee is required to make publicly available online a statement (“the Implementation Statement”) covering both the Defined Contribution (“DC”) and the Defined Benefit (“DB”) sections of the FDR Limited Pension Scheme (the “Scheme”), regarding its policies on the exercise of voting rights and engagement.

This Implementation Statement covers the DB Section of the Scheme for the year from 1 April 2022 to 31 March 2023 (the “Scheme Year”). It sets out:

- how, and the extent to which, in the opinion of the Trustee, the DB Section of the Statement of Investment Principles (the “DB Section’s SIP”) has been followed over the Scheme Year;
- details of any review of and/or changes made to the DB Section’s SIP over the Scheme Year as a result of such a review, explaining the reasons for those changes;
- how the Trustee’s policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- the voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A copy of this Implementation Statement is available on the following website:

<https://www.fdrlimitedpensionscheme.com/home/db/important-documents>

A copy of the current DB Section’s SIP, which came into effect in March 2022, can also be found using the link above.

A new set of guidance (“the Guidance”) from the Department for Work and Pensions (“DWP”) has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme’s SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme’s Fiduciary Manager, has complied with the new statutory guidance set by DWP.

## **DB Section:**

The Trustee is responsible for the investment of the Scheme assets. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first, and it believes that this ensures that it is appropriately familiar with the issues concerned. The Trustee also sets the investment strategy and general investment policy, but has delegated the day-to-day investment of the Scheme’s DB assets, within pre-defined constraints, to a professional Fiduciary Manager. The Trustee, with advice from its advisers, appoints and monitors the Scheme’s Underlying Investment Managers.

## 2. Implementation of the Trustee’s DB SIP policies during the Scheme Year

In this section, we summarise the most significant activities undertaken in relation to the DB Section’s SIP by the Trustee, as amended through the Scheme Year, and in turn describe the actions and decisions taken by the Trustee over the Scheme Year and the extent to which these align with the beliefs and policies stated within the DB Section’s SIP.

### Policies relating to the Scheme which the Trustee considered the most material in the Scheme Year

Policy	Trustee actions over the Scheme Year
<p><b>Scheme governance</b></p>	<p>The Trustee has governed the DB Section of the Scheme in line with the DB Section’s SIP over the Scheme Year.</p> <p>The Trustee has delegated day-to-day investment decisions to the Fiduciary Manager.</p> <p>The Trustee held four formal meetings during the Scheme Year at which investments were discussed. The Trustee considers that these meetings provides it with an appropriate opportunity to engage in the investment process with the Fiduciary Manager and to consult with the Sponsoring Employer. The Trustee is satisfied that these meetings allow it to sufficiently engage in investment decision-making.</p> <p>The Trustee is satisfied with the current governance structure and made no changes to the scheme governance approach laid out in the SIP during the Scheme Year.</p>
<p><b>DB Investment Strategy and strategy implementation</b></p>	<p>This section explains how the DB investment strategy contained in the DB Section’s SIP has been implemented over the Scheme Year. This has also been explained in the other sections of this Implementation Statement referencing other parts of the SIP.</p> <p>The Trustee is satisfied that the DB investment strategy had been implemented in line with the DB Section’s SIP during the Scheme Year for the reasons set out below and elsewhere in the Implementation Statement.</p> <p><b>Overall objective</b></p> <p>The overall objective of the DB Section is to meet the benefit payments promised by the Scheme as they fall due. To do so the Trustee has set the DB investment strategy, having obtained appropriate advice from the Fiduciary Manager and other Advisers, and having regard to the level of investment risk and return deemed appropriate to achieve the Scheme’s overall objective, taking into account wider risks, for example, the Sponsoring Employer’s covenant.</p> <p>The Trustee, with advice from its Advisers, has monitored the DB investment strategy over the Scheme Year against the DB Section’s overall objective in the quarterly monitoring report and the Trustee is satisfied that the investment strategy contributes to the Scheme achieving its overall objective, for the reasons set out below. As a result of that monitoring, the Trustee was able to identify an opportunity to de-risk the investment strategy during the Scheme Year.</p> <p><b>Investment strategy</b></p> <p>The Trustee sets the overall investment strategy for the DB Section of the Scheme with the purpose of achieving its investment objectives.</p> <p>The Fiduciary Manager manages assets of the DB Section directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Investment Managers in line with the investment strategy.</p> <p>The Trustee regularly monitors the performance of assets and the Scheme’s funding position against the overall investment strategy. The Trustee was able to capitalise on improvements to the Scheme’s funding level during the Scheme Year and in March</p>

	<p>2023, made the decision to sell the remainder of the Scheme’s Growth Assets, to significantly de-risk the investment strategy.</p> <p><b>Investment guidelines</b></p> <p>The Trustee also sets investment guidelines for the Fiduciary Manager which covers a range of investment factors such as diversification, performance, liquidity.</p> <p>The Trustee monitors the Fiduciary Manager against these investment guidelines on a quarterly basis through the quarterly monitoring reports and the Trustee is satisfied that such guidelines have been adhered to on the basis of such reports.</p>
<p><b>Corporate Governance and Stewardship</b></p>	<p>The DB Section’s SIP sets out how the Trustee delegates responsibility around corporate governance and stewardship to the Fiduciary Manager. The Trustee believes that the specific policies set out in the DB Section’s SIP have been complied with during the Scheme Year based on the below (and see also section 4 on Engagement).</p> <p>The Fiduciary Manager manages assets of the DB Section directly on behalf of the Trustee, as well as having delegated authority to appoint, monitor and change the Underlying Investment Managers. The DB Section’s investments are generally made via pooled investment funds. As such, direct control of the process of engaging with the companies that issue these securities (whether equities, bonds etc.) is delegated to the Underlying Investment Managers.</p> <p>The Trustee continues to believe it is appropriate to delegate voting and engagements decisions to its Underlying Investment Managers in order to achieve an integrated and joined up approach to Environmental, Social and Governance (“ESG”) factors, voting and engagement together. In this way, as the Underlying Investment Managers consider ESG factors as part of the investment decisions being taken on behalf of the Trustee, the Trustee is satisfied that they can also take account of direct engagement or other factors relating to any voting or engagement and respond to these (as appropriate).</p> <p>In addition, the Trustee also reviewed the voting and engagement records of its Fiduciary Manager. The review provided the Trustee an opportunity to consider if the Fiduciary Manager and Underlying Investment Managers have approached ESG and stewardship on behalf of the Trustee in line with expectation; and if not, what action the Trustee might wish to take. As part of the review, the Trustee concluded that it continues to be satisfied with its Fiduciary Manager and Underlying Investment Managers’ voting and engagement behaviour and has therefore not sought to influence voting behaviours at this time. Although the Trustee does not intend to change its position at this time, it will continue to monitor the voting and engagement records on an ongoing basis.</p> <p>The Fiduciary Manager has been provided with a copy of the DB Section’s SIP and is required to exercise its functions on behalf of the Trustee with a view to giving effect to the principles and policies contained in the SIP. The Fiduciary Manager undertakes regular reviews of all Underlying Investment Managers.</p> <p>The DB Section’s SIP sets out that the Trustee will periodically review the Fiduciary Manager for elements such as performance. The Trustee reviews the performance of the Fiduciary Manager against its investment consultant objectives on an annual basis, including details of voting, engagement and voting on the underlying fund resolutions, to determine whether it is satisfied with the performance of the Fiduciary Manager. The Trustee also regularly reviews the appropriateness of the investment consultant objectives.</p>

	<p>Details of the voting and engagement for the majority of the Scheme’s DB investment mandates where voting and engagement is relevant, are included in the sections 4 and 5 of this Implementation Statement.</p> <p>No changes were made to the Trustee’s corporate governance and stewardship approach set out in the SIP during the Scheme Year.</p>
<p><b>Financially material investment considerations</b></p>	<p>The SIP was changed in 2019 and 2020 to reflect new regulatory requirements relating to financially material factors (including ESG and climate change). This section explains the actions taken and decisions made in connection with those changes.</p> <p>The Trustee considers ESG factors (and stewardship) when considering changes to the investment strategy and in appointing and reviewing investment managers. The Trustee’s expectations for any current or future investment manager depends on the asset class involved, the degree of discretion given to the Fiduciary Manager, and the time horizon over which the Trustee expects to hold the investment.</p> <p>The Fiduciary Manager who takes investment decisions on behalf of the Trustee is expected to follow the Trustee's SIP in respect of financially material factors specifically ESG and climate change. The Trustee receives and reviews quarterly monitoring reports which include a matrix of ESG scores of the Scheme’s portfolio including TCFD (“Taskforce for climate-related financial disclosures”) carbon metrics of the portfolio.</p> <p>The Fiduciary Manager considers the impact on the ESG characteristics and climate change at a total portfolio level and implications for risk and return on investments.</p> <p>As at 31 March 2023, the Scheme no longer held any investments with voting rights attached (i.e. equities), however these types of investments were held for the majority of the Scheme Year. When the Fiduciary Manager invested the DB Section’s assets in equities on the Trustee’s behalf, it typically used a mandate where it could directly invest to take account of relevant factors such as ESG.</p> <p>Where the Fiduciary Manager selects Underlying Investment Managers where it cannot directly allow for, or control, ESG factors, then how an Underlying Investment Manager evaluates ESG factors and mitigates ESG risks forms an important part of its evaluation at both investment and operational due-diligence stages.</p> <p>The Trustee was satisfied with the approach taken by the Fiduciary Manager and Underlying Investment Managers over the Scheme Year.</p> <p>The Trustee is satisfied with the Fiduciary Manager’s approach to financially material investment considerations within the DB Section’s SIP.</p> <p>The Trustee is satisfied it has complied with this policy through the Scheme Year.</p> <p>No changes were made to the policy on financially material investment considerations in the Scheme Year.</p>
<p><b>Monitoring</b></p>	<p>The SIP requires the Trustee to monitor the performance of the Fiduciary Manager. The Trustee must also monitor the advice given by the Advisers on a regular basis.</p> <p>The Trustee reviews the performance of the Fiduciary Manager against its performance objectives on a quarterly basis, and against the investment consultant objectives on an annual basis. The Trustee is satisfied that the Fiduciary Manager has performed in line with the objectives set by the Trustee over the Scheme Year.</p> <p>The Trustee has also monitored the Underlying Investment Managers against their performances on a quarterly basis with the assistance of the Fiduciary Manager. The Trustee has not made any active decisions on the Scheme’s Underlying Investment Managers over the Scheme Year.</p> <p>The Trustee is required to review the DB Section’s SIP at least every three years, and the last review was undertaken in March 2022 with changes made as described elsewhere in this document. The Trustee made no changes to the monitoring approach during the Scheme Year.</p>

	<p>The Trustee is satisfied it has complied with its approach to monitoring, as set out in the SIP, through the Scheme Year.</p>
<p><b>Risk management</b></p>	<p>This part of the Implementation Statement sets out how risks identified in the DB Section’s SIP have been monitored and managed within the DB Section in the Scheme Year. Many of these aspects are also covered in various other parts of the DB Section’s SIP and the Implementation Statement and so there may be some repetition with other parts of the Implementation Statement. As a result, the Trustee covers only the most material risks here. The Trustee is, however, satisfied that risks are monitored in line with the policy contained in the DB Section’s SIP on the basis set out below.</p> <p>The Trustee did not make any changes to its approach to risk management set out in the SIP during the Scheme Year.</p> <p><b>Funding and asset/liability mismatch risk</b></p> <p>The Trustee considers that the key risk for the DB Section is funding and asset/liability mismatch risk – i.e. the risk that the DB Section’s funding position will not improve over time as expected due to a mismatch between the Scheme’s assets and liabilities. During the Scheme Year, this was mitigated primarily through setting an investment objective relative to a Liability Benchmark, which the Trustee monitored on a quarterly basis, and adopting an investment strategy which hedged interest rate and inflation risks linked to the valuation of the liabilities.</p> <p>The Trustee is satisfied that during the Scheme Year, the mitigations it adopted protected the DB Section against interest rate and inflation movements ensuring the Scheme’s assets kept pace with the liabilities. This has been measured quarterly against the Liability Benchmark and reported to the Trustee in quarterly reports prepared by the Fiduciary Manager.</p> <p><b>Sponsor risk</b></p> <p>The Trustee takes account of the risk of the Sponsoring Employer ceasing to exist when setting the asset allocation strategy (the “Sponsoring Employer’s covenant”). The Trustee took no explicit action during the Scheme Year to adjust the investment strategy due to the Sponsoring Employer’s covenant, as the Trustee considered the Sponsoring Employer’s covenant satisfactory.</p> <p><b>Other risks</b></p> <p>The Trustee sets investment guidelines for the Fiduciary Manager which are intended to manage a range of risks identified by the Trustee (including Underperformance risk, Country risk and Concentration risk), which the Trustee intends are mitigated by minimum or maximum amounts of diversification, liquidity and counterparties.</p> <p>As outlined above, the Trustee is satisfied that the Fiduciary Manager has operated within these restrictions throughout the Scheme Year.</p>
<p><b>Non-financial factors</b></p>	<p>In line with the DB Section’s SIP, the Trustee continued not to take into account non-financial matters (such as members’ ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.</p> <p>The Trustee did not change its policy on non-financial matters, as set out in the SIP, during the Scheme Year.</p>

### 3. Details of any review and/or changes made to the SIP over the Scheme Year

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The DB Section's SIP was not amended during the Scheme Year. The most recent version coming into effect was during March 2022 following a consultation with the Company. The changes made were predominantly for changes to the investment strategy, following a material de-risk of the strategy in July 2021.

The next review of the SIP must be undertaken by March 2025.

## 4. How the Trustee's policies on exercising voting rights and engagements have been followed over the Scheme Year

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The Trustee uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement) for the DB Section of the Scheme. Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then.

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

The Fiduciary Manager can appoint other investment managers to manage part of the Scheme's assets (these are referred to as "**Underlying Investment Managers**"). During the Scheme Year, the Scheme invested in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustee has delegated responsibility to the Fiduciary Manager and Underlying Investment Managers for voting and engaging on its behalf, the Trustee regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustee's beliefs and objectives.

A copy of the Scheme's SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's investment policies when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled funds (where the Scheme's investments are pooled with those of other investors), the Fiduciary Manager does not have direct control over voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustee. Therefore, the Trustee requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance ("ESG") factors including climate change, into the selection or monitoring of Underlying Investment Managers. The Trustee believes it is appropriate to delegate the decision of appointing and monitoring Underlying Investment Managers to the Fiduciary Manager, who will be able to influence the Underlying Investment Manager's voting and engagement policies. Consequently, the Trustee can largely exercise their stewardship policy as set out in the Scheme's SIP.

The Trustee has aligned its stewardship priorities with the Fiduciary Managers' Engagement Blueprint (which sets out the six engagement themes the Scheme's Fiduciary Manager believes to be most financially material), given the Trustee believes that these themes are issues material to the long-term value of the investments. These issues also reflect expectations and trends across a range of stakeholders, and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately should enhance the value added to the Scheme's investment, and hence benefit the Scheme's members and beneficiaries. Therefore the Trustee believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme. On behalf of the Trustee, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Scheme's investments.

**Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.**



## 5. Voting and Engagement Summary – DB Section

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On behalf of the Trustee, the Fiduciary Manager exercises voting rights in relation to the pooled funds managed by the Underlying Investment Managers, in line with its voting policy.

Most voting rights and engagement regarding the Scheme's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustee, and we cover these here.

Over the year to 31 March 2023, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investments on 95 resolutions across 23 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 4.2% of total resolutions, and abstained on 4 resolutions (4.2% of the total resolutions). The engagement topics covered a range of areas, including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

During the Scheme Year until March 2023, within the Scheme's portfolio the **BNYM Global Equity Fund** made up the majority of the Scheme's investments in equity assets, with equity being the only asset class to hold voting rights. The Trustee reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

In relation to the liability hedging mandate, the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by several factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio, cashflow matching credit portfolio and the liability hedging portfolio, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activity over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement, the Trustee considered relevant examples in relation to its own stewardship priorities. Examples are provided in the appendix.
- As the Trustee has refined its stewardship priorities this year, it considers the most significant votes to be those that both relate to these priorities and are defined as significant by the Underlying Investment Managers (of the most material holdings) based on their specific knowledge of the circumstances around each vote. The Trustee has communicated this with the Fiduciary Manager, and as per DWP guidance, all votes which meet this criteria have been reported below.

## Voting by the Underlying Investment Managers on securities held on behalf of the Trustee

### Most Significant Votes

Over the scheme year, only one vote defined as ‘Significant’ by the Underlying Investment Managers aligned with the Trustee’s stewardship priority themes, based on the data provided to Trustee. The Trustee will engage with the Fiduciary Manager to request that they engage with the Underlying Investment Managers to provide more examples of votes in line with the Trustee’s stewardship priorities.

*At the annual Microsoft Corporation meeting on 13 Dec 2022, Morgan Stanley voted for a shareholder proposal regarding a report on government use of Microsoft technology. This vote was considered “most significant” by the Underlying Manager as it was against management and by the Trustee - given the exposure to reputational and human rights-related risks – as it relates to the Human Rights stewardship priority. The vote failed, and Morgan Stanley intend to continue engaging with Microsoft on the topic.*

Over the scheme year, 33 votes defined as ‘Significant’ by the Underlying Investment Managers aligned with the Trustee’s stewardship priority theme of Corporate Governance, and were therefore considered the most significant votes. Of those votes, 48% were in relation to the board and management; 33% on executive remuneration; 15% regarding relationship with shareholders and 3% of the votes were on the topic of capital allocation.

### Summary Voting Statistics

During the majority of the Scheme Year, the Fiduciary Manager used c. 20 Underlying Investment Managers; however, the equity holdings were the only asset class with voting rights. Below are the voting statistics for the most material equity funds held on behalf of the Trustee that had voting rights during the majority of the Scheme Year:

	<b>BNYM Global Equity Fund</b>	<b>Vanguard FTSE Developed Markets ETF</b>	<b>Vanguard FTSE Emerging Markets ETF</b>	<b>Morgan Stanley Global Brands</b>	<b>Ninety One Global Strategy Fund</b>	<b>Morant Wright Fuji Yield Japanese Fund</b>	<b>Fundsmith Equity Fund</b>
Total meetings eligible to vote	926	2,354	4,534	32	26	60	26
Total resolutions eligible to vote	11,723	30,205	38,708	490	331	808	429
% of resolutions did you vote on for which you were eligible?	93%	98%	97%	100%	100%	100%	100%
% did vote with management?	93%	96%	90%	89%	94%	89%	91%
% vote against management?	7%	3%	9%	11%	4%	11%	9%
% abstained	0%	0%	2%	0%	2%	0%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%	0%	0%	8%	<i>Data not provided</i>	N/A	N/A

## Note:

- BNYM, NinetyOne and Morgan Stanley use Institutional Shareholder Services, “ISS”, for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM have included votes withheld in votes abstained (in order to be in line with the PLSA template which other managers have used), although there are differences between votes withheld and votes abstained.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of “Abstain” is also considered a vote against management.

**The Trustee is satisfied that the voting and engagement activities undertaken by both Fiduciary Manager and the Underlying Investment Managers align with the stewardship priorities the Trustee has determined during the Scheme Year.**

# Appendix 1 – Engagement Examples

## 1. Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustee

In addition to the voting and engagement outlined in section 3 above, over the Scheme Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.
- engaged with the two managers the Scheme held during the Scheme Year who were rated 'red-engagement' on Schroders' ESG scoring matrix.

The engagement activities and outcomes are outlined in the table below:

	Engagement	Progress over Scheme Year
Manager A – Equity	<ul style="list-style-type: none"> <li>Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Overall rating and corporate pillar upgraded to <b>green</b>. Stewardship pillar upgraded to <b>amber</b></li> <li>Introduction of staff ESG training programmes</li> <li>Evidenced a process to measure the success of their voting activities</li> </ul>
Manager B – Alternatives	<ul style="list-style-type: none"> <li>A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future</li> <li>Focus on D&amp;I and how the manager has improved its processes and increased the effectiveness of its committee structure</li> </ul>	<ul style="list-style-type: none"> <li>Improved scoring across all pillars and overall rating upgraded to <b>amber</b></li> <li>The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023</li> <li>A formal ESG Investment Policy and a formalised approach to ESG across all portfolios</li> </ul>

## 2. Examples of voting and engagement carried out by the Underlying Investment Managers

Engagement Theme	Manager	Examples
Climate change	T. Rowe Price	Health & Happiness
Natural Capital & Biodiversity	BNY Mellon	Archer-Daniels-Midland
Human Rights	Morgan Stanley	Nike, Inc.
Human Capital Management	Vanguard	J Sainsbury Plc
Diversity & Inclusion	BNY Mellon	PNC Financial Services Group, Inc.
Corporate governance	Neuberger Berman	Boeing

### Climate Change – Health & Happiness

T. Rowe Price, one of the credit managers, had three objectives for their engagement of Health and Happiness (H&H). One was to request more details on their decarbonization journey, specifically a strategy for the firm to reduce the footprint of dairy cows in their supply chain. The Manager also wanted a timeline for full emission reporting, and lastly an update on progress towards achieving B-Corp Certification.

The following topics were discussed:

1. Continuous progress in decarbonization – T. Rowe Price believes that H&H has made some good progress but still does not provide full disclosure on its group-wide scope 1-3 emissions and is still looking to set a net zero target.
2. B-Corp Certification – H&H is confident that they are on track to achieve Group-wide B-Corp Certification by the end of 2025 with clear plan and milestone set.
3. Annual investment to support farmers in France since 2013 – H&H has been doing this to ensure ongoing sustainable supply of dairy products and lower carbon impact.

As a result of the engagement, T. Rowe Price imparted their views on best practices and asked that within the next 2 years the company would disclose its group-wide scope 1-3 emissions data and set net zero targets; and continue to work towards achieving B-Corp Certification.

### **Natural Capital & Biodiversity – Archer-Daniels-Midland**

In May 2022, BNY Mellon supported a shareholder proposal requesting a report explaining if and how the company is measuring its use of pesticides that cause harm to human health and the environment in its agricultural supply chains. Archer-Daniels-Midland does not currently provide targets on pesticide use when many of their peers do. In instances where supply chain concerns could pose a material risk to a company, Mellon prefer that companies be as transparent as possible in disclosing their processes and data around managing this risk. The proposal did not pass, and the manager will continue to encourage Archer-Daniels-Midland to disclose more information on how the company is managing supply chain risks around this topic.

### **Human Rights – Nike, Inc.**

This engagement example outlines Morgan Stanley's follow up to a shareholder proposal concerning supply chain issues that was tabled at Nike's 2021 AGM.

Morgan Stanley voted in favour of the shareholder proposal, against management and ISS recommendations. ISS (the Proxy Exchange platform used for the execution of Stanley's votes) suggested voting against the shareholder proposal as they felt the company provided sufficient disclosure related to its human rights policies and sustainable sourcing practices, and that the company was not lagging its peers in terms of human rights disclosure. However the Manager chose to support the proposal as they believed it was important to apply pressure on a subject that posed a large supply chain risk and where information was scarce. Morgan Stanley then engaged further on the subject with the company, pressing them for information on their cotton sourcing policy, and any progress they had made on the traceability of the cotton they used.

Nike stated their commitment to not sourcing from Xinjiang, and outlined the actions they had taken with their suppliers regarding sourcing. They shared that they were actively working on tools to verify suppliers' claims on sourcing, adding two senior positions within the firm. Morgan Stanley consider this evidence that the shareholder resolution on the social risks of cotton sourcing – despite not passing – has led to positive changes. The Manager strongly encouraged the company to look into working with a sustainable cotton NGO that offers traceability and a company providing a new technology helping verify the origin of raw materials. Since this engagement, Morgan Stanley have continued to follow up on the subject of supply chain management with the company.

### **Human Capital Management - J Sainsbury Plc**

At the annual meeting on 7 July 2022, Vanguard funds did not support a shareholder proposal directing the company to become accredited by the Living Wage Foundation, an organisation that sets out a framework for pay linked to a regional cost-of-living assessment. The proposal received 17% support from shareholders.

Vanguard has engaged over several years with the Sainsbury's board and executive management. Vanguard's recent discussions included the board's oversight of HCM and its role in navigating the cost-of-living crisis with respect to stakeholders, including its workforce and customers. The proposal in question directed the company to be accredited as a Living Wage Employer by July 2023. The resolution further asked the company to conduct an analysis (also by July 2023) of third-party contractors that earn below the real Living Wage and to work with external partners to increase all subcontracted workers to the real Living Wage rate by 2026. In assessing this shareholder proposal, Vanguard sought to understand the company's current practices, including its disclosure of the board's oversight framework for these issues. Vanguard observed that Sainsbury's pay

practices met or were above the real Living Wage. In addition, a majority of its outsourced employees were paid a living wage. Beyond direct pay, Sainsbury's reviewed and improved other employee benefits.

Vanguard reviewed the implications of signing up to an independent external pay benchmark when Sainsbury's has already made commitments involving wages that include factoring in the real Living Wage, the National Living Wage, and benchmarking pay competitively to peers annually. The company operates in a sector where margins are low and workforce pay is a key cost consideration. Vanguard determined that the proposal's requests (which were binding) were too prescriptive and that the setting of wages should fall under the company's operational decisions, which are best left to the board and executive management. Additionally, through ongoing dialogue with the company, Vanguard did not conclude that the proposal addressed a material gap or failure of oversight by the board.

### **Diversity & Inclusion – The PNC Financial Services Group, Inc.**

In August 2022, BNY Mellon met with representatives of The PNC Financial Services Group, including the SVP for Stakeholder Engagement for ESG, the Deputy General Counsel of Corporate Governance, and Investor Relations.

PNC has hired its first Chief Corporate Responsibility Officer with a future goal of eliminating systemic racism. As a result of the 2021 Banco Bilbao Vizcaya Argentaria (BBVA) acquisition, the company's original financial commitment to this goal has turned into a much larger commitment. The PNC Financial Services Group is committed to affordable housing action, enhanced community development and support for minority-owned small businesses. During this engagement, the manager encouraged PNC to continue to maintain annual updates on the ongoing monetary commitment made to these areas.

### **Corporate Governance – Boeing**

Neuberger Berman, one of the credit managers, have spent 4 years engaging with Boeing following MSCI assigned Boeing a Very Severe Controversy Flag which put the company in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analyst within the team and included 13 discussions over a period of 4 years with the senior management including the CFO, Treasurer, and Investor Relations team. The issues raised included Boeing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement was a successful example as Boeing made the following changes:

- Boeing Improved its safety oversight standards through the creation of the independently managed "Aerospace Safety Committee" with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System "SMS" and established a Quality Management System "QMS" to fully embed safety and quality across total production process -Named a new chief aerospace safety officer with accountability to Boeing's Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.
- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA's product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

## Appendix 2 – ESG, Voting and Engagement Policies

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Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers of the Scheme's largest holdings can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	<a href="#">schroders-esg-policy.pdf</a> <a href="https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf">https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf</a>
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: <a href="https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html">https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html</a> <a href="https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html">https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html</a>
Vanguard	<a href="https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf">https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf</a>
Morant Wright	<a href="https://www.morantwright.co.uk/sites/default/files/policies/voting_policy_2023.pdf">https://www.morantwright.co.uk/sites/default/files/policies/voting_policy_2023.pdf</a>
Morgan Stanley	<a href="https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1615985960657">https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1615985960657</a>
Ninety One	<a href="https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf">https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf</a>
Fundsmith	<a href="https://www.fundsmith.co.uk/media/swxplrtrk/responsible-investment-policy.pdf">https://www.fundsmith.co.uk/media/swxplrtrk/responsible-investment-policy.pdf</a>
Leadenhall	<a href="https://www.leadenhallcp.com/esg">https://www.leadenhallcp.com/esg</a>
Neuberger Berman	<a href="https://www.nb.com/en/global/esg/engagement">https://www.nb.com/en/global/esg/engagement</a>
Insight	<a href="https://www.insightinvestment.com/investing-responsibly/">https://www.insightinvestment.com/investing-responsibly/</a>