Schroders solutions

Nuffield Health Pension & Life Assurance Scheme ('the Scheme')

31 March 2022 Implementation Statement

September 2022

Schroders' Solutions Disclaimer:

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Schemes (Investment) Regulations 2005. It is important that the Trustee of the Scheme understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts Trustee at risk of breaching your legal duties.

This is a Trustee document and the Trustee must review the Implementation Statement draft, provided by its investment adviser, and confirm that they have considered the content prepared and reviewed any associated documentation such as voting policies.

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering both the Defined Contribution ("DC") and Defined Benefit ("DB") sections of Nuffield Health Pension & Life Assurance Scheme ("the Scheme").

This Implementation Statement covers the Scheme year from 1 April 2021 to 31 March 2022. It sets out:

- Details of any review of and/or changes made to the SIP;
- How, including the extent to which, the Scheme's Statement of Investment Principles ("SIP") has been followed over the year;
- How, including the extent to which, the Trustee's policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustee, including the most significant votes cast and any use of a proxy.

A copy of this Implementation Statement is available on the following website:
https://www.nuffieldhealth.com/downloads/db-statement-of-investment-principles

The Trustee believes that it has acted in accordance with and followed the policies set out in the Statement of Investment Principles over the Scheme year.

2. Summary of changes to the SIPs during the Scheme year

The DB Section SIP and DC Section SIP were not changed during the year to 31 March 2022. They were last updated in 2020 to account for ESG considerations. As such, the Trustee has fulfilled its obligation to review the Scheme's SIPs at least every three years.

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

The Trustee has appointed Schroders IS Limited, formerly known as River and Mercantile Investments Limited ("R&M") as its Investment Manager and Adviser using its Fiduciary Management service (and is referred to as the "Fiduciary Manager" in the Implementation Statement). Schroders IS can appoint other investment managers in respect of underlying investments (referred to as "Underlying Investment Managers").

The Scheme's Fiduciary Manager was acquired by Schroders Group to form Schroders Solutions from 1 February 2022. Therefore, there are two set of engagement priorities/themes which are applicable to the Scheme during the Scheme Year. However, going forward, the Fiduciary Manager's engagement priorities will be aligned with the broader Schroders Group's priorities. Schroders Group has a long history of engagement and active ownership, dating back to 1998 where the global asset manager appointed its first governance resource and since then have recorded & monitored ESG engagements spanning more than 20 years.

The tables below set out the actions taken by the Trustee over the year to 31 March 2022 in order to follow various policies within the SIPs.

SIP policies relating to the Scheme which the Trustee considered the most material in the Scheme Year.

Policy	Trustee actions over the Scheme year
DB and DC Section	
Investment governance	The Trustee has governed the Scheme in line with the SIPs. The SIPs set out that the Trustee will hold regular investment meetings each year – these meetings provide an opportunity for the Trustee to maintain sufficient involvement in the investment process to discharge its responsibilities appropriately and to demonstrate consultation with the Sponsoring Employer. The Trustee has met multiple times over the year to discuss investment matters. As well as the quarterly Trustee meetings, ad-hoc meetings were setup to onboard the new professional Trustee and to discuss investment matters during the actuarial valuation. This has allowed the Trustee to make important decisions on investment policy, while delegating day-to-day management of the strategy to the appointed Fiduciary Manager as appropriate. There have been no changes to the Scheme's investment governance policy over the Scheme year as a result of these meetings. Over the Scheme year from 1 April 2021 to 31 March 2022, the following training sessions have been delivered to the Trustee: • May 2021 – ESG in Fiduciary management training; • September 2021 – High-level introduction to climate change and its risks to pension scheme investment strategies; • March 2022 – Introductory training for the new Trustee Director on the investment and funding objectives and the implementation of the Scheme's investment strategy. Over the Scheme year the Trustee also received quarterly information on the performance of the investment strategy from its Fiduciary Manager. This information was formally reviewed by the Trustee and discussed with the investment advisers. During these discussions the Trustee ensured it was clear what the key portfolio activity was over the reporting period and the rationale for any portfolio changes, as well as the key contributors and detractors to investment performance over the period. The quarterly investment governance reports the Trustee receives from its Fiduciary Manager includes information on the DB strategy and DC default strategy's exposure to ESG and carbon risk factors. Based on this ongoing assessment the Trustee is comfortable with the level of exposure to these risk factors. The Trustee is comfortable with the performance of the investment strategy during the Scheme year. The DB section performed in line with its liability related objective over the year to 31 March 2022. The DC default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the Fiduciary Manager. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees. The Trustee is required to review the SIPs at least every three years and this was undertaken in September 2020.
Corporate Governance and Stewardship	The SIPs set 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 SIPs have been complied with this year based on the below.

The Fiduciary Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the underlying investment managers. The Scheme'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. The Fiduciary Manager has been provided with a copy of the relevant SIPs 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 SIPs.

The Fiduciary Manager undertakes regular reviews of all underlying investment managers, including reviewing their stewardship and ESG policies.

The Trustee requires that the Fiduciary Manager considers stewardship activity including voting and engagement, and ESG factors including climate change when choosing new or monitoring existing Underlying Investment Managers. The Trustee believes it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement.

The Trustee has therefore not sought to set its own stewardship policy and does not intend to change its position at this time. The Trustee believes the current approach to stewardship is in members and beneficiaries' best interest, as the voting and engagement carried out by both Fiduciary Manager and Underlying Investment Managers is expected to improve ESG related risk management as well as climate risk which ultimately is expected improve the financial outcome for the Scheme's members.

Financially material factors specifically ESG and climate change

Over the Scheme Year, the Fiduciary Manager provided the Trustee with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

In addition, the Trustee received training on topics such as Climate Risk and ESG in the Fiduciary Management solution. The Trustee also reviewed the Fiduciary Manager's annual ESG report and ensured it was satisfied with the actions taken on its behalf in relation to ESG integration within the investments and stewardship activity.

The SIPs were updated in 2019 and 2020 to reflect new regulatory requirements relating to financially material factors (including ESG and climate change). This section considers the actions taken and decisions made in connection with those changes.

The Fiduciary Manager, who takes investment decisions on behalf of the Trustee, is expected to follow the Trustee's SIPs in respect of financially material factors specifically ESG and climate change. The Fiduciary Manager considers the impact of the ESG characteristics and climate change at a total portfolio level and implications for risk and return on investments. This is further described in Section 4 of this statement.

Monitoring

The SIPs require the Trustee to monitor the performance of the Fiduciary Manager and advisers and to review the SIPs at least every three years. The Trustee is satisfied it has complied with the SIPs as set out below.

Over the year the Trustee has monitored the Fiduciary Manager on a quarterly basis against the objectives set by the Trustee.

For DB investments the Trustee monitored the overall strategy and funding level at least quarterly over the year. Over the year, the Scheme's funding level on the Technical Provisions basis has marginally improved, which is positive considering the volatile market conditions which were further

	exacerbated due to the widespread shock of the Russian invasion. This reflects the resilience of the Scheme's growth assets, alongside the liability hedging strategy reducing funding position volatility. For DC investments the Fiduciary Manager provides quarterly investment reports which show investment performance over a number of periods and comparisons against a benchmark, together with a market review. A summary of these results is reviewed by the Trustee at their quarterly meetings. In addition, the Sponsoring Employer's covenant was also monitored throughout the year by specialist covenant advisers.
Risk management	These sections of the SIPs set out how risks are monitored and managed within the Scheme. Many of these aspects are also covered in various other parts of the SIPs and hence in this section there may be some repetition from other parts of the Implementation Statement. As a result, the Trustee covers only the most material risks here. The Trustee is satisfied that risks are monitored in line with the SIPs on the basis set out below. In the DB section, the key risk considered is funding and asset/liability mismatch risk – i.e. the risk that the Scheme's funding position will not improve over time as expected. This is mitigated primarily through setting an investment objective relative to a Liability Benchmark, which the Trustee monitors on a quarterly basis, and adopting an investment strategy which hedges interest rate and inflation risks linked to the valuation of the liabilities. Over the year to 31 March 2022, the Scheme's liability hedging strategy has protected against interest rate and inflation movements. The Scheme has performed in line with its Liability Benchmark over the year despite volatile market conditions. The risk of underperformance is also mitigated by targeting an investment return which is slightly higher than the discount rate assumed in the calculation of the Scheme's liabilities on the Technical Provisions basis, so that the Scheme's funding position will improve over time even if actual investment experience is slightly worse than objective. In addition, the Sponsoring Employer's covenant (i.e. the ability to meet its funding obligations to the Scheme) was also monitored throughout the Scheme Year via a specialist covenant reviewer. The Trustee also sets investment guidelines for the Fiduciary Manager which cover a range of risks to manage which are mitigated by minimum or maximum asset class allocation ranges, concentration limits, counterparty restrictions and risk parameters. The Fiduciary Manager has operated within these restrictions throughout the Scheme Year. The Trustee has monitored the Fiduciary Manager against the investment guidelines on a quarterly basis through quarterly monitoring reports and is satisfied that the guidelines have been adhered to on the basis of those reports.
Non-financially material factors	In line with the SIPs, the Trustee does not at present take into account non-financial matters (such as members' ethical considerations) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.

DB section

Investment strategy	The overall objective of the Scheme is to meet the benefit payments promised as they fall due and to do so the investment strategy is set with regard to the level of investment risk and return deemed appropriate, taking into account wider risks, for example, the Sponsoring Employer's covenant. The Trustee, with advice from various advisers, has monitored these considerations over the Scheme Year. The Trustee sets the overall investment strategy for the Scheme to achieve its investment objective. The Trustee has appointed Schroders Solutions as the Fiduciary Manager to implement the Scheme's investment strategy. Schroders Solutions manages assets 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. Implementation is discussed in the next section. As discussed above, a key element of the investment strategy is to hedge interest rate and inflation risks linked to the valuation of the liabilities. The Trustee remains responsible for high level strategic parameters, including: • Defining a suitable liability related return objective; and • Agreeing the high-level strategic asset allocation. The Trustee also sets investment guidelines for the Fiduciary Manager which covers a range of investment factors such as diversification, performance, liquidity. These have been adhered to by the Fiduciary Manager throughout the year. 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 and, as a result, no further actions were taken by the Trustee in respect of these investment guidelines. The DB Section has a legacy AVC fund range with Clerical Medical and Standard Life which is closed to future contributions. The changes to the investment strategy over the Scheme Year are described in the section below.
Strategy implementation	There have been a number of discussions between the Trustee, Company and Advisors since the 2018 valuation regarding setting a long-term funding objective for the Scheme. Whilst not formalised yet, the key focus has been on achieving a Low Dependency funding objective. This would put the Scheme in a position to meet all future benefit payments with little-to-no dependency on further support from the Company. The Trustee has monitored the Scheme's progress against both the primary funding objective and this secondary target, on a quarterly basis. This helps to guide Trustee decisions on strategy implementation, and set appropriate parameters for the Fiduciary Manager to manage the investment strategy against.

DC section

Default Investment Strategy and self-select range	The Trustee's investment objectives set out in the SIP are to: • provide a suitable and understandable range of investment options for members, with appropriate investment guidelines, target returns and risk (where risk is measured by fluctuations in returns and the level of any falls in value);

- provide a default option that takes an appropriate level of risk on behalf of the member in pursuit of growth, according to their age and/or planned retirement date; and
- ensure contributions payable by the employers and members are invested in accordance with the options selected by members.

During the 2021/22 Scheme year, the Trustee did not formally review or make changes to the DC section's investment strategy. A strategy review is due to be carried out during the 2022/23 Scheme year. The Trustee remains comfortable the investment strategy reflects the needs of the DC Section membership. In particular:

- a default strategy which gradually de-risks member's investments as they approach retirement, and reflects inflation-related investment return targets which are aligned to member's expected retirement income requirements; and
- a self-select fund range offering outside the default strategy that offers members a wide choice of asset classes and risk-based options, without the range being so large as to be overwhelming and hinder member decision-making.

Strategy implementation

The Trustee has chosen to incorporate active management within the default arrangement, through its fiduciary manager. This is aligned with the Trustee's investment belief that active management can add value by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement's funds.

The Trustee has chosen to incorporate passive management within the self-select fund range (aside from the new self-select lifestyle profiles, which mirror the default arrangement during the growth phase). The Trustee believes passive management offers low cost, effective access to the core range of asset classes offered within the range, for those members actively choosing to access those asset classes.

The policies set out above were unchanged during the Scheme year.

The DC Section's fiduciary manager carried out a full due diligence review of the platform manager, Mobius Life, concluding during the 2021/22 Scheme year. This review covered areas including corporate structure, organisational strength, security of assets, platform technology and reporting functionality. Based on this review, the Trustee remains comfortable with the appointment of Mobius Life as platform manager.

The Trustee receives quarterly reports from the DC Section's administrators that enable it to monitor the administration service and, in particular, that agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.

Further detail regarding the processing of core financial transactions over the year is set out in the DC Governance Statement.

The Trustee is required to assess the extent to which member-borne charges and ongoing transaction costs represent good value for members. The Trustee has reviewed this in respect of the Scheme year and concluded good value for members is demonstrated by the DC Section. T review accounted for investment performance (including risk management characteristics of the strategy) after the impact of costs and charges, a comparison of fund charges against similar funds in the industry and the service levels provided to members through the DC Section. Further information regarding the Trustee's assessment of value for members is set out in the DC Section Governance Statement.

Commented [SK1]: For the Trustee to confirm

4. Voting and Engagement Summary

This statement includes information on the underlying investment managers investing in securities. Where proxy voting agents have been used, this has been included in the voting information.

Schroders Group, the parent company of Schroders Solutions, is a signatory to the UK Stewardship code. Its external recognition includes an A+ rating for UN Principles for Responsible Investment, A- rating for Carbon Disclosure Project, Advanced ESG recognition from Morningstar and Best Investor Engagement recognition from IR Society Best Practice Award for 2021.

On behalf of the Trustee, monitoring of voting and engagement in relation to the DB and DC sections was carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers.

The process for exercising voting rights and engaging with the managers of assets held on behalf of the Scheme is as follows:

1) Engagement and the exercise of voting rights delegated to the Fiduciary Manager

The Fiduciary Manager exercises voting rights and engages with the Underlying Investment Managers on behalf of the Trustee in line with voting and engagement policies that sets out how the Fiduciary Manager will aim to vote at a general meeting of a pooled fund or how the Fiduciary Manager approaches engagement with Underlying Investment Managers and intended outcomes.

2) The Underlying Investment Managers exercise voting rights in the underlying securities and engages with the company issuing the security in line with the policies voted on by the Fiduciary Manager. One of the Underlying Investment Managers, Bank of New York Mellon ("BNYM"), uses a proxy voting company called Institutional Shareholder Services ("ISS") to exercise these rights on its behalf and monitors ISS's activities accordingly. Similarly, Vanguard Investment Stewardship also uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.

The Trustee has considered the voting behaviour (provided in the Appendix) 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 activity, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustee noted that:

- Each relevant 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 activities over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- There are two set of engagement priorities/themes from the Fiduciary Manager which the Trustee considered in this Implementation Statement. Examples were provided in the appendix and they were selected to demonstrate how the Fiduciary Manager & Underlying Investment Managers, on behalf of the Trustee, voted and engaged with the investee companies. Those engagement priorities and themes were set out below:
    - For R&M Solutions engagement priorities up to January 2022 (which will be aligned with Schroder Solutions' going forward given the acquisition of the business):

        - E Climate change: carbon emissions and footprint of our funds
        - S Human capital: employee engagement and satisfaction
        - G Corporate governance: board composition, executive pay / compensation
    - For Schroder Solutions' engagement themes (from February 2022 onwards):
        - Climate: Climate risk and over sight, Climate alignment including decarbonising and minimising emissions, climate adaption and carbon capture and removal
        - Natural Capital and Biodiversity: Nature-related risk and management, circular economy, pollution and waste, sustainable food and water, deforestation
        - Human Rights: Overarching approach to human rights, works and communities, customers and consumers
        - Human Capital Management: Corporate culture and oversight, investment in the workforce, engagement and representation, health, safety and wellbeing
        - Diversity and Inclusion: Board diversity and inclusion, executive & Workforce diversity and inclusion
        - Corporate Governance: Board and management, executive remuneration, relationship with shareholders
- For the Scheme, the general themes of the voting and engagement activity carried out by the Underlying Investment Managers were in relation to environmental issues, climate strategy in particular, corporate governance including board composition. Executive pay, board diversity and improving social outcomes were the other main themes identified. These themes are in line with the Fiduciary Manager's engagement priorities/themes set out above. We have included a table which sets out the engagement priorities and relevant voting and engagement examples in the appendix.
- On behalf of the Trustee, the Scheme's Fiduciary Manager have also identified five Underlying Investment Managers who will be the engagement targets over the next scheme year. The main engagement themes include working with those Underlying Investment Managers to create formalised ESG related investment policies and improving the board independence and diversity.
- As a result of the Russia-Ukraine war, the Fiduciary Manager has implemented a no-Russia investments policy and by the end of March 2022, Schroders Solutions had begun removing any Russian exposure from the portfolio and engaging with underlying managers who continue to hold exposures. This will be a priority engagement theme for the next Scheme year. The Trustee is supportive of this approach and receives updates from the Fiduciary Manager on the success of its engagements in this area.

Summary

The key areas the Trustee notes from voting and engagement activity across their underlying managers over the year to 31 March 2022 is set out below. Voting activity is set out in the Appendix and engagement activity over the year has been collated separately with a summary provided here:

- Most managers were able to provide evidence of high levels of engagement activity.
- Within the Scheme's DB and DC portfolios, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking assets, the Trustee noted that BNYM prioritised engagement with each of their underlying holdings on the following areas: governance practices, executive compensation, sustainability including climate change, human capital management, and diversity and inclusion. An example would be their engagement with an American multinational shipping & receiving supply chain management company. BNYM voted for a shareholder proposal requesting that the company report on its plans to reduce its total contribution to climate change and align its operations consistent with the Paris Agreement Goals. BNYM consider some of the company's peers to have set ambitious targets and they believe by supporting this proposal, it will provide shareholders with more transparency into the company's policy and goal-setting process, especially at a time when this company is looking to expand its airline and vehicle fleets. The BNYM annual proxy voting report (2021, link included in Appendix) was reviewed by the Trustee. The proxy voting report includes details of the

significant votes and engagement examples covering a board range of underlying investment companies.

- For the largest mandate within the return-seeking credit assets, engagement on improving public disclosure and operational risk management was noted as a significant example. The manager engaged with a leading financial services company that has approximately $1.9 trillion in assets who is subject to several consent orders and other regulatory actions, requiring the company to undertake certain changes to its business, operations, products, services and risk management practices. The manager's engagement objectives was to improve compliance and operational risk management and enhance public disclosures regarding risk control improvements. The engagement process focused on prioritising the governance with new leadership from outside the organisation, enhanced audits, procedures and controls to mitigate the chance of improper lending practices. The outcomes of the engagement was largely positive such that a new CEO was hired externally, its operating committee who was the most senior group responsible for running the company, has seen nine of its 18 members hired externally.

DB section

- For the DB section's Buy & Maintain Credit mandate, an example of Insight's engagement with a Norwegian Oil and Gas operator (DNO) was noted. Insight questioned gas flaring with DNO several years ago. DNO has now become the first company in Kurdistan to reinject gas into reservoirs and continues to invest in gas reinjection despite initial Kurdish Government objections due to cost. Insight's active engagement meant that DNO has set an ambitious target to cap its Scope 1 and Scope 2 carbon intensity at one half of the Oil and Gas Climate Initiative (OGCI)'s figure on a five-year moving average basis through 2030.
- In relation to liability hedging , 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 a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored. As of 31st March 2022, £2.4m has been invested in Green Gilts (3.3% of the total LDI), which can be seen as a vote in favour of the UK Government's commitments to achieving the Paris Agreement goals.
- In relation to the DB Section's liability hedging and structured equity mandates, the Trustees 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 a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

DC section

- Mobius Life did not vote on behalf of the Trustees. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors. This is common practice in the industry. However, Mobius Life does actively engage with asset managers and is in support of the UK Stewardship Code. Mobius contact each of the asset managers they invest with on an annual basis to ensure they are complying with their governance requirements at a company level and in their investment approach.

The Trustee is satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers was in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustee will keep the position under review.

Appendix A – DB Section only

1. Voting and engagement by the Fiduciary Manager (Schroders IS, formerly known as R&M) in relation to underlying pooled funds held on behalf of the Trustee

Most of the rights and voting relating to the Scheme's investments relate to underlying securities investment in through pooled funds managed by underlying investment managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustee and we cover these here.

Over the year to 31 March 2022, the Fiduciary Manager voted on 111 resolutions across 27 meetings. The Fiduciary Manager voted against management on 6 resolutions which was 5.7% of total resolutions and abstained on 6 resolutions (5.7% of the total resolutions).

The Schroders IS Investment Research team engaged with underlying investment managers regarding their clients' pooled fund investment on approximately 800 occasions during the 12 months period. The engagement topics covered a range of areas including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

The following provides an ongoing engagement example where the Fiduciary Manager engaged Neuberger Berman ("NB", an underlying credit manager) on the tenure of Ernst and Young ("E&Y") as fund auditor. In January 2021, we noted that following the 2019 accounts E&Y have now been in-place for 20 years as fund auditor. We believe there is some additional protection to investors from rotation of auditors (assuming the quality of the appointed party is maintained). We informed NB that in the absence of any plan to change auditor it is subsequently our intention to vote against E&Y's appointment at the 2021 AGM. In February 2021 NB informed us that it was their intention to put the NB audit out to tender later in 2021, with EY being allowed to participate.

The tender process was be completed before the 2022 AGM and that depending on the outcome of the tender process, one of the resolutions was to approve a new auditor. We had a routine operational due-diligence meeting with NB in their new offices in Victoria. We again raised the issue of auditor tenure. As a direct result of our engagement with them in 2021 the board issued a tender for the audit of the fund. E&Y, KPMG & GT were short listed. A score card was used to assess each firm. E&Y was reselected on the basis of the highest score. A new audit team was assigned to the engagement. Whilst our engagement did not result in a change of auditor it did result in a full tender process and a change in audit team.

Over the Scheme Year, the Fiduciary Manager also

- engaged all Underlying Investment Managers on their plans relating to net zero and will engage on a regular basis with those who do not have any net zero target or plan to decarbonise;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager is not satisfied with the quality of data currently provided.
- reviewed all Underlying Investment Managers against its updated proprietary ESG manager rating framework and will prioritise its engagement with five managers where ESG-related issues have been identified. The Fiduciary Manager plan to report back to the Trustee in the next Implementation Statement on progress. The top engagement themes are set out in the table below:

Top engagement themes

Manager A – Equity	▪ Board independence and diversity ▪ Incorporating ESG into employee training and appraisals/remuneration ▪ Voting policy and engagement processes
Manager B – Alternatives	▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Board independence and diversity ▪ Formalise voting and engagement policy
Manager C – Alternatives	▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy
Manager D – Alternatives	▪ Formalise diversity policy ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy
Manager E – Alternatives	▪ Creation of ESG working group to look into voluntary standards and formalising ESG policies within the business. ▪ Formalise diversity policy ▪ Formalise ESG investment policy

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

There are c. 30 Underlying Managers used by the Investment Manager. Set out below is the voting statistics for the most material equity holdings during the period that held voting rights, namely BNY Mellon Global Equity. Within other asset classes there are no voting rights. However, engagement activity is very important and so examples of engagement activity for the managers that represent 2.5% or more of the portfolio have also been discussed with the Trustee as described in section 3 above.

Summary of voting activity – Equity mandates

	BNYM Global Equity Fund
Total meetings eligible to vote	882
Total resolutions eligible to vote	11,989
% of resolutions did you vote on for which you were eligible?	97%
% did vote with management?	88%
% vote against management?	8%
% abstained	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%

Note:

- BNYM uses Institutional Shareholder Services, “ISS”, for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM does not use PLSA template. We included votes withhold in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withhold and votes abstained. BNYM also did not vote on 3% of the overall proposals.
- 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.

3. Examples of most significant votes carried out by the Underlying Managers

Engagement priorities	Examples
Climate change	Electronic Arts Inc, Pepper
Human capital	Microsoft, Goldman Sachs, Altice
Corporate governance	EXXON

BNYM Global Equity Fund

Microsoft

In November 2021, BNYM supported a shareholder proposal that requested a report on effectiveness of workplace sexual harassment policies. Given Microsoft faces a litany of potential controversies in recent years, BNYM believe a transparent report allows shareholders to more adequately assess if the company is addressing these risks effectively. The proposal passed with majority support, forcing Microsoft to report on the effectiveness of workplace sexual harassment policies.

Goldman Sachs

In April 2021, BNYM voted for a shareholder proposal requesting Goldman Sachs report on the impact of the use of mandatory arbitration on employees and workplace culture. As Goldman Sachs requires employees to agree to arbitrate employment-related claims, BNYM believe additional information is useful for shareholders to determine if this process had any impact on human capital management issues such as employee retention and recruitment. The proposal did not pass; however, Goldman Sachs chose to act and produce a response in light of the high level of support which is a good outcome despite the result of the proposal.

Electronic Arts Inc

BNYM inquired as to whether or not Electronic Arts will be including Scope 3 emissions in their reporting and also will they be setting TCFD disclosure targets. Electronic Arts responded that they recently hired new talent to comply with the environmental disclosures and will be explaining the disclosures over the coming months.

EXXON MOBIL CORPORATION

In 2021, BNYM held multiple engagements with Exxon Mobil Corporation and the dissident in the proxy contest, Engine No.1. At the May 2021 meeting, BNYM submitted a cross-slate vote, voting for all dissident candidates and the replacement of one management nominee with an alternative whom BNYM believed had a more appropriate skillset required for Exxon’s business strategy. BNYM believe that this support will enhance Exxon’s preparedness for an energy transition in the future and the dissident nominees will bring necessary independent industry expertise to the board.

Cashflow Matching Credit – Insight

Insight, as a global asset manager, believe that they must take a proactive role in ensuring the long-term sustainability of the markets – this is in their clients' long-term interests, as well as that of wider society. Long-term initiatives include:

- Active engagement with other industry members to ensure their clients' rights and considerations are fully represented, including:
    - Joining the Net Zero Asset Managers initiative, a group of international asset managers committed to supporting the goal of net zero greenhouse gasses. As an organisation, this means they are specifically committing to:
        - As an organisation they are committed to working in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management.
        - Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner.
            - Supporting the acceleration of action, signatories will submit an interim target, within a year of joining the initiative, for the proportion of assets to be managed in line with reaching net zero emissions by 2050 or sooner.
        - Review their interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.
    - Joining the Working Group on Sterling Risk-Free Rates.
    - Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.
    - Collaboration with peers on a range of issues, such as credit risk and ratings with the PRI initiative.
    - Encouraging issuers to submit their carbon emissions to CDP initiative.
- Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.
- Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions - a key issue for pension funds seeking to manage risk effectively over the long term.
- Supported the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through our Advisory Council role with the Green and Social Bond Principles.

Most significant company engagements

Altice

MSCI recently downgraded Altice France following the company being taken private, and as a result the Insight ESG score declined from a 4 to a 5. Therefore, Insight's engagement with Altice France was reactive to their internal ESG deteriorating to a worst in class 5. This engagement took place during a private meeting with management led by Insight's in-house analyst, and is aligned to the 16th SDG of Peace, Justice and Strong Institutions.

Altice France are currently in discussions with MSCI on a variety of points that Altice believes are incorrect in the MSCI report. Much of this relates to MSCI not including the company's most recent Non Financial Performance Statement in its report. Despite these inaccuracies they acknowledge in conversations with Insight that there is still room for improvement on their end regarding disclosure, targets and in particular the audit committee which is not independent.

Insight expect to see further details on executives on the board, disclosure of labour management policies and disclosure of emissions targets that management have said they have in place to be recorded by H1 2022 by the company and reflected in MSCIs new rating. The next MSCI report on Altice is due to come out in Q1 '22, and Insight are in dialogue with the company on their discussions with MSCI to get the identified errors corrected; Insight hope this will be reflected in the next report, which should see the ESG score go back to a '4' as well. Additionally, the audit committee is not independent, and management have expressed this is not an immediate focus therefore Insight will have to continue to monitor this area.

Insight continue to hold Altice in our portfolios as they think once MSCI corrects their errors, the rating will be upgraded back to a '4'. However, this will be monitored in the near future to and Insight will re-asses following MSCI's revised report.

Pepper

Pepper are the largest Australian non-bank lender offering home, car, commercial and equipment loans. They have A$5bn of loan and lease assets under management and commenced operations in 2001.

The overall ESG assessment of Pepper is positive with an Insight ESG rating of 3. From governance perspective this is a well-managed business with a diverse board. The Chairman and the CEO roles are separate. They have an independent risk, audit and compensation committee. From a social perspective Pepper also score highly. They have comprehensive policies in place to deal with changes in borrowers circumstances including a forbearance policy. They have an independent complaint handling policy.

Insight engaged with Pepper on how they deal with environmental risks as this was an area of weakness. Insight engaged with Pepper senior management on their overall environmental strategy and asked for information on who on their board overseas their environmental performance. Pepper is in the process of improving how they gather and track environmental metrics for use in future disclosure. Currently their disclosure is limited. They do not currently monitor the carbon impact of the loans or have any environmental stress tests. Insight have requested them come back to us with details of any new measures they are putting in place regarding how they will do environmental assessments for any new loans.

Insight invest in Pepper asset backed securities and will have follow up engagement conversations looking for progress on their environmental disclosure. Insight will review process with Pepper in September 2022. If Pepper does not bring in environmental assessments Insight will look to re-engage on the request and discuss the progress made, or lack of, and why.

Appendix B – DC Section

There are c. 26 underlying investment managers used by the Fiduciary Manager. Set out below is the voting statistics for the most material equity holdings during the period that held voting rights, namely the BNY Mellon Global Equity and Vanguard funds. Within other asset classes there are no voting rights; however, fixed income managers can still engage with underlying companies, as demonstrated below.

The Fiduciary Manager has only included allocations which represent at least 2.5% of assets within any of the default strategy's blended funds as at 31 March 2022 and have listed out the funds we have considered in detail below. The Fiduciary Manager has not shown or considered allocations to gilt funds.

Asset class	Fund name	Maximum allocation within DC blended fund
Equity	BNY Mellon Global Equity Fund	50.0%
Equity	Vanguard FTSE Developed Markets Fund	6.6%
Equity	Vanguard Total World Stock Fund	4.7%
Equity	Vanguard S&P 500 Fund	2.7%
Bonds	BNY Mellon Efficient US High Yield Beta Fund (GBP hedged)	8.5%
Bonds	BNY Mellon Efficient Global IG Corporate Beta Fund	6.8%
Bonds	BlackRock Aquila Connect Corporate Bond All Stocks Fund	4.3%
Bonds	Neuberger Berman Global Flexible Credit Fund	5.6%
Bonds	Neuberger Berman Global ESG Credit Fund	5.9%
Cash	Sterling Cash	4.5%

Equity

- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM does not use PLSA template. We included votes withhold in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withhold and votes abstained. BNYM also did not vote on 3% of the overall proposals.
- 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.

Summary of voting activity and engagement for the 12 months to 31/03/2022 – BNYM Global Equity Fund:

Please see Appendix A.

Summary of voting activity for the 12 months to 31/03/2022 – Vanguard FTSE Developed Markets, Vanguard Total World Stock, Vanguard S&P 500:

	Vanguard FTSE Developed Markets	Vanguard Total World Stock*	Vanguard S&P 500
Total meetings eligible to vote	2,344	12,945	5,268
Total resolutions eligible to vote	29,732	124,175	54,483
% of resolutions did you vote on for which you were eligible?	99%	98%	99%
% did vote with management?	96%	94%	94%
% vote against management?	3%	5%	5%
% abstained	1%	1%	2%
% of voted resolutions, where voted contrary to ISS recommendation	21%	25%	25%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%	0%	0%

*Voting activity to 31 December 2022, the data for Q1 2022 was not available at the date of reporting

Most significant vote(s) and examples of engagement

BERKSHIRE HATHAWAY Inc

The manager voted in favour of the following proposals: Report on climate-related risks and opportunities, Publish annually a report assessing diversity and inclusion efforts. The manager believes the proposed resolutions address material risks and an oversight or disclosure gap, are not overly prescriptive, and are determined to be in the best long-term interest of shareholders.

EXXON MOBIL CORPORATION

The manager voted in favour or of the following resolutions: Report on lobbying payments and policy, Report on corporate climate lobbying aligned with Paris Agreement. The manager believes that both resolutions address material risks and an oversight or disclosure gap, are not overly prescriptive, and are determined to be in the best long-term interest of shareholders.

LVMH MOET HENNESSY LOUIS VUITTON SE

The manager voted against the following resolutions; Approve renumeration policy of Chairman and CEO, Approve renumeration policy of Vice-CEO. The manager's vote was based on it's concerns with one or more of the following: pay and performance alignment, magnitude (quantum) of pay, disclosure, and/or pay structure.

NESTLE SA

The manager voted in favour of the proposed resolution to approve climate change plan. The manager believes it addresses material risks, action or change is warranted, and terms determined to be in the best long-term interest of shareholders.

Bonds

BNY Mellon Efficient US High Yield Beta Fund and BNY Mellon Efficient Global IG Corporate Beta Fund

Most significant vote(s) and examples of engagement

Voting is not applicable to bond holdings and as such, examples of manager engagement with underlying bond issuers is set out in this section where information is available.

Electronic Arts, Inc. (EA):
Mellon met with Board Member Ueberroth, the VP of IR, VP of Legal, VP Total Rewards, and the Chief People Officer. Engagement Details:

- Compensation & Board:
  - Mellon met with EA to discuss their failed 2021 Say on Pay vote which only received 41.9% approval which was largely due to outsized special equity award to the CEO, which Mellon was not in favour of.
  - Mellon voted against Compensation Committee members as well as the Say on Pay. Due to feedback from investors, the Compensation Committee has been reconstituted and new compensation advisors were hired to change the structure of the compensation to provide an enhanced pay for performance alignment.
  - EA also confirmed to Mellon that no special awards will be granted until at least 2026, and that enhanced disclosure about the compensation structure will be presented going forward.

- Human Capital Management:
  - Mellon asked the Chief People Officer a few clarification questions regarding their Impact Report, including whether or not they were going to include their EEO-1 data in the report in the future. EA stated the data is disclosed on their website, but not in the report. Mellon asked for all relevant information to be disclosed in the Impact Report as well.

- Environmental Disclosure:
  - Mellon inquired as to whether or not EA will be including Scope 3 emissions in their reporting and also will they be setting TCFD disclosure targets. Mellon prefers to see Scope 3 emissions targets and disclosures
  - EA responded that they recently hired new talent to comply with the environmental disclosures and will be expanding the disclosures over the coming months.

BlackRock Aquila Connect Corporate Bond All Stocks

Most significant vote(s) and examples of engagement

- Over the year to 31 March 2022, the manager engaged with 273 companies globally.
- Engagements include multiple company meetings during the year with the same company. Most engagement conversations cover multiple topics and are based on BlackRock's vote guidelines and engagement priorities, which can be found here: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities.

- Engagement themes:
  - 77% Governance related
  - 31% Social
  - 62% Environmental

Neuberger Berman Global Flexible Credit Fund and Neuberger Berman Global ESG Credit Fund

Most significant vote(s) and examples of engagement

THE BOEING COMPANY
Engagement scope and process:

- Diligence process included 13 discussions over a period of 4 years with senior management including the CFO, Treasurer, and Investor Relations team.
- Developed engagement priorities with a focus on the following factors to which MSCI assigned a Very Severe Controversy flag:
- The manager 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.

- The manager 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.

Following the manager's engagements, Boeing has made the following change:

- 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 and DEI criteria

Cash

BlackRock – ICS Institutional Sterling Liquidity Fund

Due to the nature of this Fund's investments, it does not utilise vote proxies

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement polices for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions (formerly known as River and Mercantile Investments Limited)	The voting and engagement policies have been provided to the Trustee separately
Legal and General Investment Management	https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf
BlackRock	https://www.blackrock.com/corporate/literature/publication/2021-voting-spotlight-full-report.pdf
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: https://www.mellon.com/insights/insights-articles/2021-proxy-voting-report.html
Leadenhall	https://www.leadenhallcp.com/esg
CBRE	https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/home/about-us/sustainability/cbreim-global-esg-policy.pdf
Insight Investment	https://www.insightinvestment.com/investing-responsibly/
Vanguard	Disclosure of rationale of voting can be found: https://global.vanguard.com/portal/site/portal/investment-stewardship/perspectives-commentary
Neuberger	https://www.nb.com/en/global/esg/engagement