University of Nottingham Contributory Pension and Assurance Scheme ("the Scheme")

Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee of the Scheme has been followed during the year to 31 July 2024. This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place for the year to 31 July 2024, which was the SIP dated March 2022 (covering the period between July 2023 and March 2024) and the SIP dated March 2204 (covering the period between March 2024 and July 2024).

A copy of the latest SIP is available at [CPAS Pension Scheme - The University of Nottingham]

Investment Objectives of the Scheme

The Trustee's overriding objective is to invest the Scheme's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustee's primary aim is to ensure all benefits are paid when they fall due.

Over the longer term, the Trustee would like to adopt a 'self-sufficiency' approach whereby the Scheme's assets are subject to a lower level of anticipated investment risk, and there is a reduced probability of a funding deficit arising in the future. The Trustee does not have automated de-risking triggers in place. It has agreed with the University that once the Scheme achieves full funding on a low risk target (gilts+0.6% p.a.), the Scheme will reduce risk in the investment strategy further. The exact asset allocation will be considered at the time. However, it is expected this portfolio will target best estimate expected returns including a margin above gilts+0.6% p.a. consistent with achieving the Scheme's funding objectives.

The Trustee is comfortable that the strength of the covenant offered by the University means that they can take a degree of risk in the portfolio over the longer term and receive advice on the strength of the covenant.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, Stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. The Trustee keeps the policies under regular review with the SIP subject to review at least triennially - the most recent update to the SIP was made in March 2024.

The following work was undertaken during the year to 31 July 2024 relating to the Trustee's policy on ESG factors, Stewardship and Climate Change:

Engagement

- The Trustee believes that environmental, social, and corporate governance ('ESG') factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

- The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

- The strategic rationale of different asset classes that help the Trustee to achieve the Scheme's investment objectives and constraints remains the primary driver behind the Scheme's investment strategy. However, within this context, the Trustee is increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

- The Trustee will also consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments.

Below are some examples provided by the Scheme's investment managers' outlining their engagements with companies over the year to 31 July 2024:

<u>M&G – Alpha Opportunities</u>

M&G had a meeting with the head of IR, Corporate Affairs and Head of Net Zero and Carbon Accounting at Standard Chartered Plc. Standard Chartered Plc, along with 3 other major banks, have disassociated themselves from the Science Based Targets initiative ("SBTi"), expressing reservations about the scrutiny of climate targets imposed on corporations. M&G wanted to understand this decision and ensure sufficient climate plans moving forward.

Standard Chartered Plc does not think that SBTi is the most appropriate net zero guidance for banks as it does not allow them to run their business as it requires. Standard Chartered feel they are very advanced versus peers and M&G believe they are clearly very on top of all climate risks and opportunities. The wider industry is adopting Net-Zero Banking Alliance ("NZBA") and M&G admit they may need to adjust to incorporate NZBA for bank net zero pathways as a more relevant target.

<u>Ruffer – Absolute Return</u>

Ruffer engaged with the Head of Investor Relations and the Director Of Sustainability and Finance at Ryanair during the year regarding their emissions targets and carbon intensity. The objective of this engagement was to discuss the company's efforts on the use of sustainable aviation fuel ("SAF"); to ask for an update on emissions reduction targets being validated by the Science Based Targets initiative ("SBTi"); to discuss the company's partnership with Trinity College Dublin to leverage research and development on carbon savings in fuel and SAF certification; to encourage clearer disclosure of SAF usage and lifecycle carbon intensity so that the market can observe progress more clearly.

On SBTi, the company said it had formally submitted its targets, but the validation process was slow-moving. Ryanair had been engaging with SBTi when guidance for the aviation sector was being prepared. The company gave a detailed update on its partnership with Trinity College Dublin, and how research was focused on getting a better understanding of CO_2 savings in fuel. On better disclosures around SAF usage Ruffer explained that, whilst they can infer the numbers from Carbon Disclosure Project (CDP) disclosures, it would help investors if the company published data itself. Ryanair said it would likely be required to include SAF usage figures in its Sustainability Report given the incoming Corporate Sustainability Reporting Directive (CSRD) regulations.

Ruffer remain impressed by the Ryanair's approach to SAF and emission reductions more broadly and think it is well placed to reinforce its competitive advantage through the transition.

<u>LGT – Crown Multi-Alternatives</u>

Each year LGT conducts an assessment of the underlying managers for the strategy, which forms a part of the firm's larger ESG due diligence, monitoring and manager engagement process. This review of managers allows LGT to facilitate active engagement with managers on ESG, highlighting excellence in implementation and flagging areas for improvement.

In the assessment, LGT asks managers about, and scores them on, four key areas of ESG practice:

- Manager commitment – the extent to which they have demonstrated their commitment to ESG through actions such as defining a policy, committing to an industry initiative like the Principles for Responsible Investment (PRI) and engaging with their portfolio companies
- Investment process – the extent to which they have formally integrated ESG into their investment processes, using it as a framework for evaluating investments and identifying areas for improvement
- Ownership – the extent to which they have exhibited active ownership through activities like defining ESG guidelines, establishing key performance indicators ('KPIs') or assigning ESG responsibilities for portfolio companies
- Reporting – the extent to which they have provided regular and relevant reporting on ESG on a portfolio company level and on the aggregate fund level

Managers receive a score of 1 to 4, resulting in an overall rating for each manager which is then monitored by LGT. They then actively engage with managers receiving low scores, encouraging improvement over time.

<u>BlackRock</u>

BlackRock advocate for sound corporate governance and sustainable business practices that results in long-term value creation for clients. To that end, they conduct approximately 116 and 868 engagements relating to the Buy and Maintain Credit Fund Low Carbon Equity Funds, respectively. BlackRock have mapped their engagement priorities to specific UN Sustainable Development Goals, and can be categorised into the following areas:

- Board Quality and Effectiveness – BlackRock believes boards should aspire to meaningful diversity of membership.

- Strategy, Purpose, and Financial Resilience – BlackRock acknowledges that purpose-driven companies which effectively balance stakeholder considerations while delivering value for their shareholders have been better able to attract long-term capital and build financial and business resilience to help navigate volatility.

- Incentives Aligned with Value Creation – BlackRock supports having appropriate incentives to reward executives for delivering sustainable long-term value creation.

- Climate and Natural Capital – BlackRock asks companies to discuss in their reporting how their business model is aligned to a scenario in which global warming is limited to well below 2°C, moving towards global net zero emissions by 2050.

- Company Impacts on People – BlackRock believes sustainable business models create enduring value for all key stakeholders – employees, suppliers (and the employees of suppliers), customers, and the communities in which companies operate. In this context, they seek to understand a company's approach to human capital management.

Significant Voting Activity

Following new guidance from the Department for Work and Pensions ('DWP'), the Trustee is required to define what constitutes a 'most significant vote' to guide the inclusions in this Implementation Statement.

The Trustee has decided to measure significance by holding size in the funds' portfolios and by consistency with the University's sustainability priorities/themes. The Trustee has decided to report in this Implementation Statement on votes related to material holdings (over 5% of assets in any of the Scheme's underlying investments), and will aim to focus on in the following stewardship areas:

- Climate Change: including low-carbon transition and physical damages resilience.
- Biodiversity: enhancing biodiversity and maintaining and/or reinstating natural habitats.

The Trustee has delegated their voting rights to the investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. These reports are reviewed as part of the production of this Statement.

The Trustee does not use the direct services of a proxy voter.

The Trustee has considered the voting policy of the equity managers and the Trustee deems them consistent with their investment beliefs. Over the prior 12 months, the Trustee has not actively challenged the managers on their voting activity. The Trustee has asked managers to explain the reasons behind their key voting and engagement. The voting processes of the relevant managers are outlined below.

There were no votes undertaken on behalf of the Trustee over the year to 31 July 2024 that formally meet the significant vote criteria – however the Trustee has set out votes consistent with the significant voting priorities for each individual manager that holds equities.

BlackRock

Over the year to the 31 July 2024, BlackRock were eligible to vote at 871 meetings on 12,705 resolutions. BlackRock voted 93% of the time. Of the resolutions on which BlackRock voted they voted in favour of management 96% of the time, voting against management 3% of the time. BlackRock voted at least once against management in 20% of meetings at which they voted.

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 differing ways, or a vote of 'Abstain' is also considered a vote against management.

While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, they are just two among many inputs into their vote analysis process, and they do not blindly follow their recommendations on how to vote. BlackRock primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial.

One significant vote on behalf of the Trustee was with respect to Amazon.com, inc., held on 22 May 2024 which represented 0.44%[1] of Scheme assets. BlackRock voted against a shareholder proposal for the Amazon to report on their efforts to reduce plastic use, expressing that Amazon already provides sufficient disclosure and reporting regarding this issue, or is already enhancing its relevant disclosures. This vote did not pass.

Ruffer

Over the year to 31 July 2024 Ruffer were eligible to vote at 63 meetings on a total of 1,017 resolutions, of which they voted 100% of the time. On the resolutions Ruffer voted on, they voted in favour of management 96% of the time. Ruffer voted at least once against management in 27% of meetings.

Ruffer's proxy voting advisor is Institutional Shareholder Services (ISS). They have developed their own internal voting guidelines, however take into account issues raised by ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although Ruffer are cognisant of proxy advisers' voting recommendations, they do not delegate or outsource their stewardship activities when deciding how to vote on clients' shares.

Each research analyst, supported by their responsible investment team, reviews the relevant issues on a case-by-case basis and exercises their judgement, based on their in-depth knowledge of the company. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be

[1] Calculated using approximate size of holding as a percentage of the fund and underlying asset valuations at 31 July 2024.
[2] Calculated using approximate size of holding as a percentage of the fund at the date of the vote and underlying asset valuations at 31 July 2024.

reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer.

One significant vote on behalf of the Trustee was in respect of Bank of America, held on 24 April 2024, which represented 0.01%[2] of Scheme holdings. They voted against a shareholder resolution with respect to their energy transition, specifically relating to the request for a report on clean energy supply financing ratio. This vote was in line with management's recommendation.

This resolution failed. Ruffer voted against this proposal because they believe Bank of America is committed to its Net Zero targets and provides much of the necessary data to support this. While they support enhanced disclosures more broadly, the proponent's required ratio is already available via a third-party (Bloomberg). Hence, in support of greater uniformity within the responsible investing space, Ruffer feel a vote against this proposal was the best option rather than company itself calculating this ratio with a possibly varying methodology.