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 2023. This statement has been produced in accordance with: The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018; The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019; and Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - June 2022.

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 is comfortable that the strength of the covenant offered by the University means that the Scheme can afford to take a degree of risk in the portfolio over the longer term in order to achieve these objectives, and the Trustee receives advice on the strength of the covenant on a periodic basis.

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 2022.

The following work was undertaken during the year to 31 July 2023 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 2023:

<u>M&G – Alpha Opportunities</u>

M&G met with Infineon Technologies AG's head of corporate sustainability and business continuity, along with investor relations personnel, to discuss the company's carbon reduction targets and more specifically to encourage them to publish scope 3 targets, and to have these, along with its scope 1 and 2 targets validated by the Science Based Targets Initiative ('SBTi').

The company publishes a good scope 3 inventory, but does not currently have targets to reduce scope 3 emissions, which represent around half of its greenhouse gas ('GHG') emissions (and so need to be included in SBTi targets). The company believes that others in the industry do not measure scope 3 emissions to the same degree of detail as they do, and so their scope 3 targets are less onerous, as they feel they do not operate on a level playing field. They highlighted that there will be a board decision on the matter in 2023 and M&G continues to engage with them on this point.

<u>Ruffer – Absolute Return</u>

Ruffer engaged with BP in February 2023 to discuss their recent strategic reports which represented a "row-back" on renewables and a shift towards oil and gas production, casting doubt over whether the company was really committed to moving towards a low-carbon world. Ruffer spoke to BP's Chief Financial Officer and the newly appointed executive vice president of gas and low carbon energy. They confirmed that the company is aiming to marginally extend the life of its existing oil and gas assets to meet demand triggered by Russia's invasion of Ukraine, but is doing so in a resource and energy efficient manner by using existing machinery and fields, rather than investing in intensive new projects. Overall, Ruffer expressed that the announcements suggest that BP is taking a pragmatic and flexible approach to achieving its reiterated goal of a Net Zero transition.

LGT – Crown Multi-Alternatives

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.

BlackRock

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 3,600 engagements a year on a range of ESG issues. 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.

<u>Newton IM – Global Equity</u>

Over the year to 31 July 2023, Newton engaged with Alibaba, attending a group investor meeting with the company focusing on the company's ESG strategy and its new sustainability report. The discussion centred on its initiatives in relation to climate and the environment.

Notably, the company has committed to join the Science Based Targets initiative (SBTi) and has aligned its decarbonisation measures and strategy with the Paris Agreement. It has set targets for scope 1 and 2 carbon neutrality, and a 50% carbon intensity reduction for scope 3 by 2030. It has also added a new scope 3+ (emissions generated by a wider range of participants beyond scope 1, 2 and 3 emissions) dimension to its targets to facilitate additional decarbonisation across the company ecosystem by 2035. Newton will continue to engage with the company to gain clarity and share their expectations as the company's ESG journey continues.

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, however have 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 2023 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 2023, BlackRock were eligible to vote at 957 meetings on 13,766 resolutions. BlackRock voted 98% of the time. Of the resolutions on which BlackRock voted they voted in favour of management 94% of the time, voting against management 4% of the time. BlackRock voted at least once against management in 24% 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 24 May 2023 which represented 0.40%[1] of Scheme assets. BlackRock voted against a shareholder proposal for the Amazon to report on climate lobbying, expressing that Amazon already provides sufficient disclosure and/or reporting regarding this issue, or is already enhancing its relevant disclosures.

Newton IM

Over the year to 31 July 2023 Newton were eligible to vote at 60 meetings on a total of 1,011 resolutions, of which they voted 100% of the time. On the resolutions Newton voted on, they voted in favour of management 89% of the time. Newton voted at least once against management in 55% of meetings.

Newton has established overarching stewardship principles, which guide their ultimate voting decision, based on guidance established by internationally recognised governance principles including the OECD Corporate Governance Principles, the ICGN Global Governance Principles, the UK Investment Association’s Principles of Remuneration and the UK Corporate Governance Code, in addition to other local governance codes. All voting decisions are taken on a case-by-case basis, reflecting Newton’s investment rationale, engagement activity and the company’s approach to relevant codes, market practices and regulations.

Newton’s Head of Responsible Investment (RI) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. Newton do not maintain a strict proxy voting policy. Instead, they prefer to take into account a company's individual circumstances, Newton’s investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. For the avoidance of doubt, all voting decisions are made by Newton. Newton voted against the recommendation of their proxy advisor for 6% of the resolutions on which they voted.

[1] Calculated using approximate size of holding as a percentage of the fund at vote date and underlying asset valuations at 31 July 2023.

One significant vote on behalf of the Trustee was in respect of JPMorgan & Co held on 16 May 2023, which represented 0.33%[2] of Scheme holdings. Newton supported a shareholder proposal for a report on the company's climate transition plan as it would aide shareholders better evaluate the company's strategy for implementing its commitments to advance a low-carbon economy and the company's management of related risks and opportunities. The proposal failed, however following significant support for the proposal, Newton expect the company to strengthen its disclosures and practices around its climate transition planning, especially around engagement with clients, and more transparent metrics and timelines for its decarbonisation plan.

Newton believed that this disclosure was necessary to ensure the company aligns its goals with the groups it supports, and allows Shareholders to assess the related risks.

Ruffer

Over the year to 31 July 2023 Ruffer were eligible to vote at 63 meetings on a total of 1,055 resolutions, of which they voted 100% of the time. On the resolutions Ruffer voted on, they voted in favour of management 91.4% of the time. Ruffer voted at least once against management in 28.6% 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 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 BP Plc held on 27 April 2023, which represented 0.07%[3] of Scheme holdings. They voted against a shareholder resolution with respect to climate change targets. This vote was in line with management's recommendation. This resolution failed, with 83.3% of voters voting against this. Ruffer justified this vote by noting that they believe BP have a credible transition strategy with appropriate decarbonisation targets, which reflects demand for oil & gas energy whilst also allocating capital to the 'transition growth engines'.

[2] Calculated using approximate size of holding as a percentage of the fund at vote date, Newton valuation at 27 June 2023 (the date of disinvestment) and underlying asset valuations for the Scheme at 31 July 2023.

[3] Calculated using approximate size of holding as a percentage of the fund at vote date and underlying asset valuations for the Scheme at 31 July 2023.