Engagement Policy Implementation Statement

Magnox Electric Group of the Electricity Supply Pension Scheme ("the Group")

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Magnox Electric Group Trustee Company Limited ("the Group Trustee") and covers the Group year 1 April 2021 to 31 March 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Group Trustee produces an annual statement which outlines the following:

- How and the extent to which the Group Trustee has followed its engagement policy which is set out in the Statement of Investment Principles ("SIP").

- The voting behaviour by or on behalf of the Group Trustee (including the most significant votes cast) during the Group year and use of third-party providers of proxy voting services.

Executive summary

Based on the activity carried out over the year by the Group Trustee, its investment advisers, and its investment managers, the Group Trustee is of the opinion that its stewardship policy has been implemented effectively in practice.

The Group Trustee notes that while all of the investment managers it requested information from were able to disclose evidence of engagement activity, not all were able to provide engagement examples specific to the funds in which the Group invests. The Group Trustee expects investment managers to be able to provide specific engagement examples and for disclosures to improve over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement.

The Group Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Group invests in. The Group Trustee will therefore continue to use its influence to drive positive behaviour and change among the investment managers that it has employed to invest the assets of the Group, and with other third parties that the Group Trustee relies on such as its investment advisers. The Trustee will monitor, assess and ultimately hold them to account to make sure that the assets of the Group are appropriately invested

Preparing the EPIS – Data

The Group Trustee has prepared the EPIS using information provided by its investment adviser and investment managers. Both parties have given permission for the contents to be made publicly available.

The Group Trustee has concentrated on summarising the stewardship activities of material holdings where there is meaningful scope for engagement. With this in mind, the EPIS does not disclose stewardship information in relation to:

- Funds representing less than 2% of the Group's total assets at 31 March 2022 on the grounds of materiality, except for the investments held with Lindsell Train, Ruffer & Schroders given the managers have allocations to listed equities; and
- The Group's LDI holdings with BMO (c32% of total Group assets), annuity held with Canada Life (c1% of total Group assets) and cash held with BlackRock (c1% of total Group assets) as the Group Trustee deems the scope for engagement to be very limited.

Group stewardship policy

The below bullet points summarise the Group's stewardship policy in force over the Group year to 31 March 2022.

The Group's full policies can be found in the SIP for each Section. These can be found on the Group's website: https://my-magnox-pension.com/library/scheme-documents.

- The Group Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside.

- The Group Trustee expects its investment managers to use their influence as major institutional investors to engage with underlying investee companies to promote good corporate governance, accountability, and positive change.

- The Group Trustee regularly reviews the ongoing suitability of the investment managers and takes advice from its investment adviser regarding any changes.

- The Group Trustee expects the appointed investment managers to provide transparency on engagement and voting activity.

- From time to time, the Group Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Group Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Group stewardship activity over the year

Ongoing monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Group Trustee by its investment adviser. The Group Trustee expects its investment adviser to proactively highlight any areas of concern and provide clear advice where action is required – this includes, but is not limited to, matters in relation to responsible investment.

The Group Trustee regularly invites its managers to provide updates at its meetings. These updates will include, among other things, information on performance, stewardship and Environmental, Social and Governance ("ESG") factors.

In-depth ESG-focused meetings

In addition to the ongoing monitoring, the Group Trustee has also agreed to have an in-depth ESG-focussed meeting with each of its investment managers. The Group Trustee completed interviews with 10 of its investment managers in the year to 31 March 2022, with the remaining 8 investment managers scheduled for interview during the next Group year. Following the in-depth meetings the Group Trustee intends to follow-up with managers on ESG issues as part of its ongoing monitoring of managers.

Climate risk management

The Group Trustee continued to work towards meeting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD is an initiative that developed some best practice guidance for climate-risk reporting.

The Group's first report will cover the period 1 October 2022 to 31 March 2023 and be published online within 7 months of 31 March 2023. Thereafter, the Group Trustee will publish a report annually within seven months of the Group year end.

Voting and engagement activity – Equity and multi-asset funds

Over the year, the equity and multi-asset funds held by the Group were:

Lindsell Train	UK Equity Fund
Schroder Investment Management	Diversified Growth Fund
Ruffer LLP	Absolute Return Fund

The Group's managers with holdings in listed equities have provided voting statistics and examples of 'significant' votes they have participated in. Each investment manager has its own criteria for determining whether a vote is significant. However, the definition of a significant vote typically includes:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the investment management's proposal;
- where the investment manager voted against a management recommendation or against the recommendation of a third party provider of proxy voting;
- a vote that is connected to wider engagement with the company involved; and
- a vote that demonstrates clear and considered rationale.

For the purpose of the EPIS we have assumed that the Group Trustee considers a significant vote as one which the voting manager deems to be significant.

Lindsell Train – UK Equity Fund
(c0.2% of Group and a total of 19 equity holdings as at 31 March 2022)

Voting policy

Lindsell Train uses the proxy voting services of Glass Lewis. It will give consideration to Glass Lewis' voting recommendations but will not necessarily support them if they are not in the best interests of its investors. Lindsell Train maintains final decision-making responsibility for all votes, based on its detailed knowledge of the companies in which it invests. Lindsell Train will vote against any agenda item that threatens the economic value of its investments. Some of the areas of particular interest are inappropriate management remuneration or incentives, general corporate governance matters, environmental and social issues, changes in capital structure and mergers or acquisitions which are seen as detrimental to the creation of business value.

Voting statistics

The table below shows the voting statistics for Lindsell Train's UK Equity Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	420
% of resolutions voted on for which the fund was eligible	100.0%
Of the resolutions on which the fund voted, % that were voted against management	0.0%
Of the resolutions on which the fund voted, % that were abstained from	0.2%

Source: Lindsell Train.

Voting example: Mondalez

In May 2021, Lindsell Train abstained from a vote regarding executive compensation for a company Mondelez. When considering executive compensation, Lindsell Train assesses companies' compensation policies and focuses more on how incentives are structured rather than the actual amount of compensation. It can be comfortable with large rewards provided that the incentives are aligned with shareholders' interests and Lindsell Train's principles.

In this case, Lindsell Train abstained from voting because it did not believe the company's compensation policy was aligned with the long-term interests of shareholders. Lindsell Train recognised the significant effort that Mondelez's management made throughout the past two years in explaining its rationale for its compensation policies and therefore chose to abstain rather than vote against management.

Engagement policy

More than 90% of Lindsell Train's engagement activities are with corporates, but it has also engaged with regulators, the Financial Reporting Council ("FRC"), industry bodies and Japan's Ministry of Economy, Trade and Industry ("METI").

Lindsell Train's engagement objectives can be broad. For example, it encourages corporate reporting in line with the Sustainability Accounting Standards Board ("SASB"), TCFD, and alignment with the Sustainable Development Goals ("SDGs"). The objectives may also relate to the success or failure of specific matters, upon which it would engage with management or the specific company. If Lindsell Train does not believe that raising its concerns with companies through constructive dialogue is having the desired effect, it will, where appropriate and if possible, use its voting rights. As the manager's holdings in individual companies tend to be large, its votes often carry significant weight.

Engagement example (firm level): Yakult

Lindsell Train engaged with the management and investor relations team of Yakult and several other companies throughout 2021. This was regarding Yakult's strategies to reduce the amount of plastic packaging, and improve its recycling practices, to protect the environment and specifically the oceans, to help achieve SDG 14 – Life Below water.

With regards to Yakult, Lindsell Train had concerns that the company's progress in terms of its environmental policies had been slow, in particular, its greenhouse gas ("GHG") reduction targets, plastic recycling and water consumption reduction targets. Lindsell Train's primary concern is that the brand may be tarnished if the problems are not addressed. Yakult has responded to concerns with management conveying that climate change, reducing plastic packaging, and water-related issues are of enormous strategic importance. Yakult went on to provide a detailed overview of its recycling infrastructure, as well as the various recycling techniques that are currently practiced. Lindsell Train believes the company will face tough decisions in terms of the future of its production strategy and the material it uses to bottle its product and continues to monitor the company's actions closely.

Schroders – Diversified Growth Fund
(c0.4% of Group and a total of 1,394 equity holdings as at 31 March 2022)

Voting policy

Schroders uses research from both Institutional Shareholder Services ("ISS") and Institutional Voting Information Service ("IVIS"), however, it states that this is only one component of the analysis which feeds into its voting decisions. Schroders stresses that its own research is also integral to its final voting decision. This research is conducted by its financial and ESG analysts. For contentious issues, Schroders' Corporate Governance specialists will engage with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Schroders considers most significant votes as those against company management. It opposes management if it believes that doing so is in the best interests of shareholders and its clients. Schroders discloses its voting activity publicly. On a monthly basis, Schroders produces voting reports which detail how votes were cast, including votes against management and abstentions.

Voting statistics

The table on the next page shows the voting statistics for Schroders' Diversified Growth Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	22,236
% of resolutions voted on for which the fund was eligible	90.4%
Of the resolutions on which the fund voted, % that were voted against management	9.0%
Of the resolutions on which the fund voted, % that were abstained from	0.6%

Source: Schroders.

Voting example: Total SE

In May 2021, Schroders voted against a resolution to approve Total SE (energy company) Sustainable Development and Energy Transition. The transition included targets towards long-term carbon neutrality commitment and inclusion of scope 3 emissions targets at medium and long term. Schroders voted against this resolution because parts of the emissions strategy did not appear stretching, having already reached short term targets and with other targets potentially allowing for overall expansion in emissions from oil and gas. The strategy also did not include any absolute reduction targets between 2030 and 2050 which Schroders considers to be best practice within the sector. The company has also failed to provide a periodic vote schedule for investors to continually vote, track progress and monitor ambition on the company's transition plan.

Engagement policy

Schroders defines engagement to be purposeful communication with an entity (e.g. government, corporate, institution, financial counterparties, regulator, industry body) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is considered a key part of the ESG process at Schroders.

The Investment team monitors the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team, to ensure it is driving ESG improvements at the underlying holding level. Engagement is an ongoing activity and where change is required, it can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying investment manager based on engagement activity.

Engagement example (firm level): Board diversity

In 2021, Schroders engaged with a number of FTSE 100 companies to inform them that, from 2022 onwards, it will be using its shareholder votes to apply pressure on firms that have failed to meet board diversity targets. Schroders' believes that diversity is important for a company's long-term strategy and success as it reduces groupthink and provides better representation of wider stakeholders.

Schroders engaged by sending out letters to companies. Since sending out these letters, 25 companies acknowledged receipt, 15 provided a substantial response and one has since appointed a non-white director to its board. Schroders will monitor the progress of companies on this issue.

Ruffer – Absolute Return Fund
(c0.1% of Group and a total of 81 equity holdings as at 31 March 2022)

Voting policy

Ruffer has internal voting guidelines as well as access to proxy voting research from ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although it is cognisant of proxy advisers' voting recommendations, Ruffer does not delegate or outsource stewardship activities when deciding how to vote. Research analysts are responsible, supported by Ruffer's responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based upon their in-depth knowledge of the company. They look to discuss any relevant or material issue that could impact the investment with the relevant companies. Ruffer will ask for additional information or an explanation, if necessary, to inform its voting discussions, and will look to communicate decisions to the company before the vote, along with an explanation, when possible.

Voting statistics

The table below shows the voting statistics for Ruffer's Absolute Return Fund for the reporting period to 31 March 2022.

Number of resolutions eligible to vote on over the period	1,307
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted, % that were voted against management	6.4%
Of the resolutions on which the fund voted, % that were abstained from	1.8%

Source: Ruffer.

Voting example: American Express

In May 2021, Ruffer supported a shareholder resolution at American Express requiring the company to publish a report assessing diversity, equity and inclusion efforts an annual basis. Whilst American Express is taking meaningful steps to increase its workforce diversity and promote inclusion, reporting of its diversity statistics has room for improvement. Diversity feeds into social considerations when investing, under the guise of human capital and social opportunities and consequently, improvement in disclosure would benefit shareholders in assessing the company's long-term value and reputational and legal risks. The resolution passed with 59.7% votes in favour.

Engagement policy

Ruffer's approach to engagement determines the way it sets objectives. Ruffer's engagement activities fall into three categories:

1) Thematic engagements;
2) ESG integration – engagement informed by its internal ESG team; and
3) Fundamental analysis and engagement with policy makers.

Ruffer believes in the power of collaborative engagement and was a founding investor signatory of the Climate Action 100+, as well as a member of the Institutional Investor Group on Climate Change ("IIGCC").

Ruffer's ESG analysis informs its active stewardship activities through engagement and voting. These are subsequently incorporated into its engagement plans as well as thematic engagements.
Once ESG risks or objectives are identified, Ruffer will draft an engagement plan and define specific objectives and targets for individual company engagement. It continually monitors engagement with companies throughout the holding period and uses a variety of methods to achieve its objectives.

Engagement example: Barclays

In July 2021, Ruffer engaged with Barclays to monitor the execution of its existing plan to manage climate-related risks within the company. Ruffer met with the Chair of the Board, the Group General Counsel and the ESG Investor Relations Director.

Ruffer discussed with Barclays the financing of certain sectors that the company invests in. The company explained that it would take an engagement rather than disinvestment approach which Ruffer is supportive of. This approach currently applies to lending within the energy and power sectors, with the aim of extending the reporting and data analysis to all sectors covered by its financing portfolio, including metals.

Management acknowledged the need for more detailed data and targets which the company is now working on. Barclays also accepted the need for it to provide more interim targets and benchmarking to its initial net zero 2050 commitment.

This was an initial, exploratory meeting and Ruffer intends to continue its engagement through involvement in future discussions on setting additional targets and further refining climate change policies.

Engagement activity – Credit funds

Whilst voting rights do not apply to non-equity mandates, the Group Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore debt issuers have a vested interest to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation, and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Group's credit managers with material allocations over the year.

Arcmont – European Direct Lending Fund III (c2% of Group as at 31 March 2022)

Engagement policy

Arcmont is committed to maintaining an open and active dialogue with management, enabling it to monitor the ESG risk profiles of its portfolio companies, assessing the severity of the risks, whilst moving to take appropriate action should a risk become too great. In March 2021, Arcmont formalised its engagement approach and began offering Environmental & Social ("E&S") Target Improvement Plans ("TIPs") to all new primary borrowers. The TIPs offer financial incentives via interest rate discounts to borrowers that meet certain agreed upon E&S performance targets. Arcmont views this approach as a key part of its ESG engagement strategy, allowing it to highlight and mitigate E&S risks amongst its portfolio companies.

Arcmont was unable to provide engagement examples due to only recently introducing the formal engagement programme. However, following the implementation of its TIPs programme, it has started to track engagement and will disclose examples going forward.

Barings – Global Loan Fund (c5% of Group as at 31 March 2022)

Engagement policy

Barings' engagements involve interactions between the investor and current or potential investees on ESG issues. Engagements are undertaken to influence ESG practices and improve ESG disclosures.

Through engagement, Barings aims to enhance the performance of its investments for the benefit of its clients. Barings does not, however, attempt to impose an inflexible approach that ignores local norms and contexts. Barings believes that value is derived from transparent communication with the entities in which it invests, coupled with the expertise and discretion of its experienced investment professionals.

As Barings invests in multiple asset classes, when appropriate approaches to and priorities for engagements differ, it gives its investment teams the flexibility to choose when to engage with investments. This is supplemented with general top-down guidance and assistance.

Barings will monitor controversies and escalate any issues that are not aligned with its ESG philosophy and approach as they occur. Escalation will involve articulating its ESG concerns primarily through private meetings with management teams. In cases where the company has significantly failed to improve, Barings will divest from the company at the earliest possibility.

Engagement example: Healthcare company

In September 2021, Barings engaged with a healthcare company as part of its due diligence process on a potential new transaction with the company.

Barings' due diligence process highlighted some care quality issues at the company's health facilities. During the debt syndication process, the company intended to include sustainability key performance indicators ("KPIs") into the finance terms of the deal. Barings actively engaged with senior management and the financial sponsor to support the addition of KPIs for the quality of patient care. The engagement was successful in adding these KPIs into the terms of the debt syndication.

Chorus – Credit Fund IV (c3% of Group as at 31 March 2022)

<u>Engagement policy</u>

Chorus partners with many of the world's largest banks and helps them to achieve their capital management objectives through risk-sharing transactions. Chorus' engagement with banks when originating these transactions has enabled Chorus to promote its ESG values by rejecting or reducing credit exposures to companies whose business profile is in conflict with its values, which in turn influences the bank's origination appetite for non-ESG friendly borrowers. Chorus believes this is an effective way of exercising its ESG values and ensuring it has a real impact. Its beliefs are described in the firm's Responsible Investment ("RI") Policy, which was implemented in March 2019.

<u>Engagement example: Controversial weapons</u>

Chorus reviewed a potential investment in June 2021. Chorus' investment team screened the portfolio for any entities that were to be excluded according to the firm's RI policy. The team requested the exclusion of an investment grade rated borrower due to the company's involvement with controversial weapons. The bank agreed to remove the name. Chorus interacted with senior management (Managing Director level) within the bank's Credit Portfolio Management team, which is responsible for managing the bank's loan portfolio, and undertaking risk-sharing transactions. The exposure was successfully removed from the portfolio and will not be added during any future replenishments

Hayfin – Direct Lending Fund III (c2% of Group as at 31 March 2022)

<u>Engagement policy</u>

Engagement is a key component of Hayfin's ESG process with lenders and sponsors, with all deals approved by its internal ESG sub-committee before they go to its investment committee. In 2021 Hayfin included terms in its loan documentation that required data disclosure for the first time. And in three cases Hayfin included an ESG-linked margin ratchet, whereby borrowers are incentivised to improve their ESG metrics. Typically, margin ratchets tie the rate of interest on a loan to a borrower's operational performance. In an ESG margin ratchet, the rate of interest also depends on the borrower's performance against pre-agreed ESG-related criteria.

Hayfin engages by conducting quarterly meetings with industry bodies. Throughout 2021 Hayfin has continued engagement with borrowers on ESG data. This led to an evaluation of a systematic approach to ESG margin ratchets/information disclosure requests.

<u>Engagement example: FE Fundinfo</u>

In 2021, Hayfin engaged with the data and analytics company, FE Fundinfo, regarding climate change, diversity and inclusion. Hayfin engaged with FE Fundinfo regarding annual carbon footprint assessment, setting and achieving carbon emissions reduction targets and encouraging the gender diversity by increasing the proportion of women in senior management. The engagement is ongoing and Hayfin will continue to follow up with the company later in the year 2022.

Insight – Global ABS Fund (c3% of Group as at 31 March 2022)

<u>Engagement policy</u>

Insight proactively engages on industry and regulatory issues that have implications for its clients and the wider market. Insight's credit analysts regularly meet with issuers to discuss ESG-related issues. Insight's engagements inform the credit analysts' views of companies and provide a platform for increased transparency on ESG issues and ongoing engagement to change company behaviour, where appropriate.

The credit analysts identify the engagement issues relevant for each issuer. If Insight does not already have regular meetings with a company's management, its investment teams will request a meeting with them. Where this is not possible, or if Insight deems additional action to be needed, Insight may consider raising issues with the company's broker. If Insight does not receive a response from the issuer when it engages with it then Insight will lead a wider collaborative initiative, via the Principles for Responsible Investment ("PRI") or with other investors, to achieve greater influence over the issuer. It is involved in long-term initiatives such as Climate Action 100+.

Engagement example: Think Tank

In Q2 2021, Insight engaged with Think Tank's senior management to get a better understanding of the governance and social risks involved in the company's origination and servicing business. The areas Insight thought could be strengthened were the number of board members and some aspects of the renumeration policy.

Insight discussed the compensation and its linkage to the amounts of products sold as well as the collection recovery targets. Insight expressed some concerns about the complaint's governance process and the lack of independent review. Regarding environmental disclosures, Insight has requested additional environmental metrics on the collateral pool.

Insight requested that Think Tank considers implementing an environmental assessment for all new loans. Insight expects to see improvements in servicing governance and environmental disclosures going forward and will continue to engage with the company to achieve this.

PIMCO – Diversified Income Fund (c7% of Group as at 31 March 2022)

Engagement policy

PIMCO sees engagement as an essential tool for delivering impact for investors, markets and society. It believes that engagement can be partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment.

PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board qualifications and composition.

Engagement example (firm level): West African Development Bank

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund new green and social projects. These include the construction of a solar power plant and a smart hydro-agricultural development. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan.

Robeco – Buy and Maintain Credit (c5% of Group as at 31 March 2022)

Engagement policy

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments. Robeco engages with companies worldwide, in both its equity and credit portfolios.

Robeco carries out three types of engagement with the companies in which it invests:

- Value engagement;
- Enhanced engagement; and
- Sustainable development goals engagement.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

Engagement example (Firm level): Barclays

Robeco engaged with the British bank, Barclays, about its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The culture at Barclays was a key area for improvement and Barclays did a lot of work to improve this. For example, the bank regularly reports the importance of behaviours to its staff and tries to foster an open culture. The bank's approach to financial crime is also now largely in line with other European banks. Robeco closed this engagement successfully in Q4 2021.

Engagement activity – Real estate & infrastructure

The Group also invests in a number of real estate and infrastructure funds. The Group Trustee acknowledges that the ability of real estate/infrastructure managers to engage with and influence investee companies may be less compared to equity managers. However, the Group Trustee still expects investment managers to be an active and responsible steward of the properties/projects it manages and the parties it contracts with.

The following section demonstrates some of the engagement activity being carried out by the Group's real estate and infrastructure managers over the year.

CBRE – UK Property PAIF & Long Income Fund (c7% of Group as at 31 March 2022)

Engagement policy

CBRE engages with a range of key stakeholders including investors, clients, employees, suppliers, and representatives from the industry. These engagement activities include written communications, meetings, surveys, and participation in various industry organisations and initiatives.

CBRE's engagements with investee companies are focused on company-specific issues and are prioritised by its investment analysts. The investment analyst determines the objective of the engagement and monitors the company's response. CBRE also has a committee, the Responsible Investment Management Committee, which engages with multiple companies on a broader ESG themes, such as disclosure or transparency. CBRE tends to engage more frequently with companies whose shares it owns or which are significant in size relative to industry benchmarks.

Engagement example – UK Property PAIF: Syzygy and OPDC

In 2021, CBRE engaged with the independent specialist renewable energy consultancy, Syzygy Consulting, and the Old Oak and Park Royal Development Corporation ("OPDC"), a development corporation working to transform the Old Oak and Park Royal areas of West London. OPDC was seeking to maximise the use of solar power generation in its developments and there was a project underway to install solar panels in suitable buildings. It involved ten sites in the Park Royal area and required close engagement with the tenants of the units identified as suitable for solar panels to be installed.

The project is ongoing; however, the following outcomes are expected:

- Total output of 3,500,000 kWh/year;
- Carbon emissions savings of approximately 800 tonnes/year which is equivalent of powering 1,500 electric cars every year; and
- Between 50-70% carbon offset of energy used.

Engagement example – Long Income Fund: Elflock Pubs

CBRE engaged with Elflock Pubs, owners of public houses and bars, on the environmental topic of green leases. A green lease is a lease that incorporate clauses whereby the owner and occupier must undertake specific requirements with regards to the sustainable occupation of a property e.g. energy efficiency measures, waste reduction or water efficiency.

As a result of the engagement CBRE successfully negotiated green lease clauses within leases at all the Elflock Pub sites. The leases cover three broad themes:

1) EPC ("Energy Performance Certificate") Compliance – ensuring that the tenant maintains the EPC rating.
2) Data Sharing – an agreement with the tenant to share their energy data on an annual basis to assist with the fund's voluntary reporting.
3) Collaboration – focusing on landlord and tenant collaboration to improve the environmental performance of the asset.

These clauses help the fund meet its ESG targets and help protect the asset value from current environmental legislation and future climate risks.

IFM – Global Infrastructure Fund (c3% of Group as at 31 March 2022)

Engagement policy

IFM's Infrastructure Team pursues an active engagement strategy with assets held in the Global Infrastructure Fund. The investment professionals engage on a variety of ESG matters such as energy and GHG emissions management, biodiversity, water and waste management, stakeholder engagement, labour relations, health and safety initiatives, customer privacy and diversity, and board composition and remuneration.

Oversight of IFM's RI framework occurs top down, as well as bottom up. The IFM Board Responsible Investment and Sustainability Committee (BRISC) assists the IFM Board by providing an objective view of the effectiveness of IFM's RI strategy and reporting framework and is convened on a quarterly basis. The Responsible Investment Team, which consists of five professionals and has Investment Committee representation, ensures that IFM remains disciplined with its scrutiny and analysis of responsible investment considerations in the investment process. The Infrastructure Team owns the investment case for each acquisition and is ultimately responsible for identifying all ESG matters and developing mitigation pathways prior to acquisition and improving the performance of investee companies with respect to ESG issues following acquisition.

Engagement example: D&I initiative

IFM's focus on promoting diverse and inclusive workplace cultures is based on its view that a diversity of perspectives, backgrounds and opinions drives improved employee engagement, productivity and commercial outcomes. The infrastructure diversity and inclusion ("D&I") initiative commenced in 2019 with an initial focus on collecting data to assess the current diversity profile of individual assets, including D&I strategy and reporting maturity. This work will inform IFM's approach to supporting portfolio companies to implement D&I improvement plans.

InfraRed – Infrastructure Yield Fund (c2% of Group as at 31 March 2022)

Engagement policy

InfraRed develops strong partnerships with stakeholders, including clients, co-shareholders and business partners, in each of its projects. InfraRed believes effective and efficient engagement is crucial to preserve and enhance both investor and stakeholder value.

InfraRed focuses its resources and influence on its four overarching priorities:

1) Climate;
2) Environment;
3) Communities; and
4) People

Engagement example (firm level): Education Taskforce

In 2021, the InfraRed's Social Impact Committee set up the Education Taskforce, a working group aimed at engaging with educational facilities to uncover the challenges faced by schools in order to have a tailored approach to address these. The Taskforce contacted the headteachers of schools across InfraRed's UK portfolio to better understand the greatest issues faced by these schools. The survey identified that child hunger was one of the greatest issues they were experiencing, in addition to poor access to IT equipment.

In response to the findings from the survey, InfraRed aims to implement a number of initiatives to help address some of the issues, such as growing its laptop donation programme.

To help combat child hunger the InfraRed Charitable Foundation has pledged £50,000 to Magic Breakfast and InfraRed held a breakfast in its London office to launch its partnership with Magic Breakfast. The purpose was to raise awareness about the prevalence of food poverty in the UK, its effect on social mobility and the positive impact the Magic Breakfast initiative is having on school communities.

Innisfree – PFI Continuation Fund and Secondary Fund 2 (c7% of Group as at 31 March 2022)

Engagement policy

Regular and ongoing engagement with the public sector clients throughout the concession life is key to the effective working and financial performance of the project. In terms of industry engagement, the Private Finance Initiative ("PFI") industry is small with only a handful of familiar participants. The principal means of government/industry engagement is with the Infrastructure and Projects Authority on matters such as hand back protocols and climate change.

Innisfree's funds hold the projects for the duration of the concessions and therefore decision-making in the management of assets is made with the perspective of a long-term partnership with the public sector including all stakeholders and asset users. Environmental and sustainability factors with regards to variations and lifecycle are considered at project board level and adopted where possible, but ultimately the decision (for example with regard to energy savings from switching to LED lighting or installing solar panels) often lies with Innisfree's government client as it could entail a change to the building's specification. Where it is possible to replace larger building lifecycle items with greener or more efficient options Innisfree seeks to encourage these.

Invesco –UK Residential Fund (c3% of Group as at 31 March 2022)

Engagement policy

At the issuer level, Invesco primarily seeks to address problematic areas or opportunities for improvement from an ESG perspective. When engaging with other stakeholders, such as regulators or industry bodies, the goal is to create an inducive environment that would allow for optimal ESG outcomes in an efficient and fair manner, such as alignment with existing frameworks and reduced reporting burden.

While Invesco's engagement activity is based on the premise of a company's continual improvement, it is in a process of setting up an engagement reporting template that tracks engagement outcomes on a yearly basis based on a clearly defined ESG objectives and goals. It is developing an escalation engagement framework to guide stewardship processes and achievements. For example, in 2022 it will be developing a Net-Zero engagement framework that will guide Invesco's climate related engagements

Engagement example (firm level): Australian state-owned oil & gas

As a Climate Action 100+ lead investor, Invesco met with an Australian state-owned oil and gas company's senior leadership four times in 2021 and sent a separate letter to the Chairman and CEO to further advocate for the net zero agenda.

The company's transition from oil and gas to chemicals resulted in structural and senior leadership changes in 2021, with the new CEO stepping in during September 2021. During this transition, Invesco met with the company and discussed its performance on the Net Zero Company Benchmark assessment, which was disclosed in March 2021, and highlighted examples of poor disclosure and insufficient commitments. In September 2021, Invesco sent a letter encouraging the company to fully comply with the net zero agenda by improving disclosures, scope 3 emissions targets and decarbonisation plans.

After the letter, Invesco's Global ESG team again met with the company and reiterated the need for it to address the Net Zero Company Benchmark assessment areas where the company lags in performance.

Since Invesco started engaging with the company in 2020, the company has now committed to achieving net zero emissions by 2050 or sooner, and to reducing its carbon intensity by at least 30% by 2025. The company has also committed to transforming its product range to be predominately low carbon/zero carbon by 2025. It has also increased the importance of emissions in executive's long-term incentive plans.

L&G – UK Build to Rent Fund (c3% of Group as at 31 March 2022)

Engagement policy

L&G UK Build to Rent (BTR) team engaged with c.10 entities over 2021. Engagements with entities such as suppliers and contractors revolved around embodied carbon and build cost inflation. The team actively monitors all its developments and the associated contractors.

Engagement example: The Fold Croydon

As part of LGIM's development at The Fold Croydon, BTR worked with UK-based Smile Plastics to provide coffee tables for the apartment development. Given the fund's goal of net zero operational carbon by 2030, BTR recognises the importance of working with suppliers who are aligned to ESG goals.

When considering a furniture supplier, BTR was mindful of sourcing locally where possible, but also sought out innovative suppliers who were committed to increasing the sustainability of the products they produce. BTR asset managers engaged with furniture suppliers that had a fundamental mission to reduce waste.

As a result of this engagement, Smile Plastics was chosen as one of the furniture suppliers, due to their focus on reducing waste by reusing plastic drinks bottles. Each coffee tabletop is unique and made from between 700-1000 500ml plastic drinks bottles. The material is made in a micro-factory in Wales using methods that create 80% less CO_2 and use 85% less water that conventional approaches.

M&G – Inflation Opportunities Fund (c8% of Group as at 31 March 2022)

Engagement policy

M&G developed its engagement process through adopting the SASB framework. It uses this framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages. M&G engages directly with companies and collaboratively through its membership of industry bodies, on both company-specific issues and broader thematic engagements. Over 2021, these included its climate engagement programme and its diversity and inclusion programme, as well as thematic engagements on modern slavery in supply chains and thermal coal.

Engagement example: Social housing

In 2021, M&G engaged with companies regarding social housing. The objective of the engagement was to create a new sustainability reporting standard for social housing that banks, housing associations and investors could agree on. In recent years there has been an increased focus on ESG in the sector, driven by multiple factors including poor energy efficiency in older houses, cladding and fire safety issues, as well as fuel poverty driven by rises in energy prices more broadly.

As a large and long-term investor in the asset class, M&G saw the importance of, and ability to meaningfully contribute to, developing an industry standard to improve the recorded measurements associated with each of these factors. Better data would enable the investment teams to measure ESG risk more accurately and improving the governance and transparency of the Social Housing companies themselves. M&G invested in the production of new ESG reporting, which, following various industry workshops, led to a draft template. M&G then engaged with Housing Associations and Investors to receive further feedback finalise a version suitable for all parties. As a result of M&G's actions, numerous banks, investors and housing associations have now signed up to undertake the new reporting.

Summary

Based on the activity over the year by the Group Trustee and its investment managers, the Group Trustee believes that the stewardship policy has been implemented effectively. The Group Trustee notes that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Group Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Group through considered voting and engagement. In particular, the Group Trustee expects improvements from Lindsell Train, Arcmont, Innisfree, ICG Longbow and Schroders on its reporting of fund level engagement examples. The Group Trustee has provided feedback to these managers through its investment adviser.