

Scottish Episcopal Church Pension Fund – 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 Trustees have been followed during the year to 31 December 2021.

This statement has been produced in accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 and the guidance published by the Pensions Regulator.

Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives it has set for the Fund.

The Fund continues to be open to future accrual and new members and as such has a long term investment horizon. The Trustee's overall investment policy is guided by the following objective:

- Achieve and maintain a fully funded scheme, on a low risk basis with reduced reliance on equity markets and sponsor funding

Review of the SIP

The most up to date SIP was agreed in August 2020 in order reflect policies on engagement with the investment manager, Schroder. In particular, the policies cover:

- Aligning manager appointments with investment strategy;
- Encouraging long-termism and consideration of ESG issues;
- Monitoring manager appointments;
- Monitoring portfolio turnover costs;
- Duration of manager appointments.

The Fund's SIP also includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

Policy on ESG, Stewardship and Climate Change

As set out in the SIP, the Trustees have given appointed investment managers full discretion in evaluating how ESG factors, including climate change considerations are taken into account in selecting and retaining the Fund's investments. The Trustees also consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers.

Implementation Statements on SIP policies and Engagement Policy

Investment Managers' Voting and Engagement Activity

As the assets are held in pooled funds, the Trustees have given their investment manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising any voting rights and stewardship obligations attached to the Fund's investments. This includes undertaking engagement activities, in accordance with their own corporate governance policies and current best practice including the UK Corporate Governance Code and UK Stewardship Code.

The investment manager is expected to report on their adherence to current best practice codes, such as the UK Stewardship Code, from time to time. Schroders fully supports the UK Stewardship Code ("the Code") and complies with all its principles. Although the Code is focused on the UK, it sets a standard for stewardship and engagement for non-UK equity investments and they seek to apply the same principles globally, taking into account local practice and law. They acknowledge the emergence of Stewardship Codes in other jurisdictions in which they invest. They keep these under review and look to this document to be their response to other such Codes.

Of the Fund's mandates, the Voting and Engagement policies and activities are most relevant where equities are held indirectly through the Diversified Growth Fund managed by Schroders.

- The Fund's investment mandates with Schroders' are reviewed following periods of sustained underperformance from their respective targets. The Trustees will review the appropriateness of using active and passive managed funds (on an asset class basis) on an ad-hoc basis. Where managers may not be highly rated from an ESG perspective the Trustees have discussed the reasons with the investment consultant. When implementing a new manager, the Trustees will consider the ESG rating of the manager and how ESG considerations are integrated into the investment manager's investment process.
- The Trustees receive investment manager performance reports on a 6 monthly basis, which presents performance information over 6 months, 1 year, 3 year, 5 year and since inception periods. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period). If the manager is not meeting their investment objectives for the mandate, the Trustees may review the mandate including the annual management charge levied by the manager.
- The Fund's investment manager engaged with companies over the period under review on a wide range of different issues, including ESG matters. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (e.g. those linked to the Paris agreement). The Fund's investment manager provided examples of instances where they had engaged with companies they were invested in or about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the investment managers invest in or by voting on resolutions at companies' Annual General Meetings.

The Trustees expect to be more active in challenging the investment manager in relation to voting and engagement in the future. It is expected that, when the investment manager presents to the Trustees at

Implementation Statements on SIP policies and Engagement Policy

future meetings, the Trustees will ask the investment managers to highlight key voting and engagement activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

Over the last 12 months to 31 December 2021, the key voting activity within the DGF mandate was as follows:

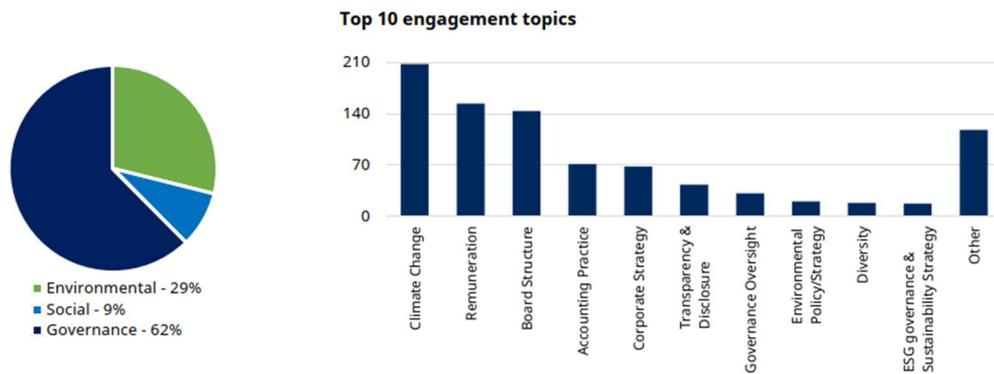
- Schroders_– Diversified Growth Funds
 - Schroders receive research from both ISS and the Investment Association’s Institutional Voting Information Services (IVIS) as well as using their own research conducted by Schroders financial and ESG analysts.
 - Schroders evaluate voting issues arising at their investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. They utilise company engagement, internal research, investor views and governance expertise to confirm their intention.
 - Over the last year the manager’s engagement with companies were split by the following topics: **governance c. 62% of cases, social issues c. 9% of cases and environmental engagement in c. 29% of cases.**
 - Key information on the votes undertaken over the prior year are summarised below:
 - Schroders was eligible to vote at 2,023 meetings, and on 23,597 resolutions during the year to 31 December 2021.
 - Of Schroders’ total number of votes, c. 91.0% were votes with management, c.8.4% were against management and the remaining 0.6% were abstentions.

Total number of engagements	670
- Environmental topics discussed	259
- Social topics discussed	80
- Governance topics discussed	553
Total number of topics discussed	892

Source: Schroders

- Of the 892 topics, the most occurring themes were: climate change, remuneration, board structure, accounting practice, corporate strategy and transparency and disclosure.

Implementation Statements on SIP policies and Engagement Policy



Source: Schroder

Going forwards, when investment managers present, the Trustees will be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change.

For and behalf of the Trustees of the Scottish Episcopal Church Pension Fund

March 2022