

## **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 2022.

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 2019 and the Statutory and Non-Statutory Guidance prepared by the DWP.

### **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**

During the year, a revised SIP was agreed in October 2022 in order reflect updates to the objectives and fees of the Schroders Diversified Growth Fund. Following the year-end, further revisions to the SIP were made to reflect the switch to a more sustainable Diversified Growth Fund (more on this later). The latest SIP can be found online at <https://www.scotland.anglican.org/wp-content/uploads/SIP-June-2023.pdf>

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**

In summary, the Trustees believe that environmental, social and corporate governance ("ESG") issues will have an impact on investment risk and returns and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Fund when considering how to integrate these issues into the investment decision making process.

During 2022, the Trustees carried out a broader review of Investment Beliefs, which also include beliefs on ESG Integration. The Trustees continue to believe that ESG factors can materially impact investment returns and should be considered when choosing investments.

During 2022 the Trustees also considered the Fund's investments in light of the Church's broader exclusionary policies. As part of this review, the Trustees agreed to switch from the existing Diversified Growth Fund to an alternative, more sustainable Fund offered by Schroders. The "Sustainable Future Multi-Asset Fund" selected, is largely managed in a similar way to the current fund, but has enhanced sustainability and Environmental, Social and Governance ("ESG") characteristics. The implementation of these changes took place post year-end.

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As set out in the SIP, the Trustees have given appointed investment manager 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.

### **ESG Integration**

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. Schroders 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 Trustee considers how ESG, climate change and stewardship is integrated within investment processes in monitoring existing investment managers, including considering investment manager ESG ratings provided by the investment advisor. During the year to 31 December 2022, the Fund's investment performance report was reviewed by the Trustee on a semi-annual basis – this includes ratings (both general and ESG-specific) from Mercer, the investment advisor, as well as detail on how investment manager is delivering against their specific mandate.
- 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.
- When looking to appoint a new manager, the Trustee considers how ESG, climate change and stewardship is integrated within investment processes. As mentioned previously, during the year to December 2022, the Trustees considered the Fund's investments in light of the Church's broader exclusionary policies. As part of this review, the Trustees agreed to switch from the existing Diversified Growth Fund to an alternative, more sustainable Fund offered by Schroders. This Fund also has a superior ESG rating, as provided by the investment advisor, to the Diversified Growth Fund currently invested in.

### **Engagement Activity**

The Fund's investment manager engaged with companies over the period under review on a wide range of different issues, including ESG matters. 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

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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.

- Over the last year the manager engaged with 448 Companies on 1,193 different engagement issues.
- Of the 1,193 topics, the most common themes were: climate change, natural resource use, human and labour rights, human capital management and governance.
- Key information on the number engagements undertaken over the prior year are summarised below:

<b>Total number of engagements</b>	<b>1,193</b>
- Environmental topics discussed	665
- Social topics discussed	256
- Governance and Strategy topics discussed	272
<b>Total number of topics discussed</b>	<b>1,193</b>

Source: Schroders

Schroders also provided a summary of some of the challenges and encouragements of their engagement activities:

Company	Suggestion for change	Result
<b>Financials</b>		
<b>Unite</b>	Asked that the non-financial element of the short term award to be limited to 30% rather than 40%.	<b>Achieved</b> In the final remuneration proposal, non-financial elements were limited to 30% rather than 40% as we had asked.
	We asked for the sustainability element to the long-term incentive plan (LTIP) to be taken as a small section from each of the current financial metrics, rather than as a large portion of the weighting of Total Shareholder Return (TSR).	<b>Achieved</b> In the final remuneration proposal, all financial elements had been reduced equally so that it was not such a large portion of TSR. This meant that the TSR component remained as 28% of the LTIP, rather than the proposed 15%.
<b>Healthcare</b>		
<b>Alcon</b>	Urged Alcon not to de-prioritise environmental performance, and we expect to see scope 1 and 2 targets in the next Corporate Social Responsibility (CSR) report.	<b>Almost</b> The company has made a commitment to be carbon neutral by 2030 and have made scope 1 and 2 commitments but are not yet in a position to include scope 3 and don't have a time frame for this.

Source: Schroders. The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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

### Significant Votes

DWP released a set of Implementation Statement requirements on 17 June 2022, "Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance" to be adopted in all Implementation Statements for schemes with years on or after 1 October 2022. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

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- A significant vote is defined as one that is linked to the Scheme's stewardship priorities/themes;
- A vote could also be significant for other reasons, e.g. due to the size of holding;
- Trustees are to include details on why a vote is considered significant and rationale for voting decision.

The Trustees have identified the key themes based on a priority scale are: **climate change, modern slavery and biodiversity.**

### **Voting Activity**

The Trustees do not use the direct services of a proxy voter. Schroders, however, engage the Institutional Shareholder Services (ISS) who act as the service provider. Over the last 12 months to 31 December 2022, the key voting activity within the DGF mandate was as follows:

- Schroders\_– Diversified Growth Funds
  - Schroders receive research from ISS 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.
  - Key information on the votes undertaken over the year are summarised below in relation to the Diversified Growth Fund:
    - Schroders was eligible to vote at 469 meetings, and on 5,374 resolutions during the year to 31 December 2022.
    - Schroders voted on 93% of resolutions.
    - Of Schroders' total number of votes, c. 90% were votes with management and c.9% were against management. Schroders' abstained from a small numbers of resolutions (47 proposals in total, rounded to 0% of resolutions).

In line with new guidance, the Trustees have identified their 'significant vote' topics to be climate change, biodiversity and modern slavery. Over the year to 31 December 2022, within the DGF Schroders undertook 62 votes in relation to climate change, 7 votes in relation to modern slavery and 5 in relation to biodiversity. More information is provided on these votes below, but given the number of votes in relation to climate change, we have focused on those which have the largest weights in the portfolio.

### **Significant Vote examples:**

- **Alphabet Inc Inc. AGM on 1 June 2022**
  - **Key Topics:** climate change
  - **Resolution:** 6 – Report on climate lobbying

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- **Schroders voted for this proposal (in line with management).** The company is asked to produce a report on climate lobbying. Shareholders are likely to benefit from a review of how the company and its trade associations' lobbying positions align with Paris Agreement
- **Microsoft Corporation AGM on 13 December 2022**
  - **Key Topics:** climate change
  - **Resolution:** 6 – Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk
  - **Schroders voted against this proposal (in line with management).** Schroders noted that a vote against this resolution is warranted. The company offers an option to employees that want to invest more responsibly, and the Department of Labor is finalizing rules on how ESG factors should be considered by fiduciaries.
- **Metro Inc. AGM on 25 January 2022**
  - **Key Topics:** biodiversity
  - **Resolution:** 9 - Specify in a Code of Conduct the Corporation's Requirements with its Suppliers the Commitments of the Preservation of Biodiversity
  - **Schroders voted for this proposal (against management).** The company is asked to specify biodiversity requirements from suppliers in its code of conduct. Schroders understand that the company encourages suppliers to maintain biodiversity and ecosystem quality in its 2017 code of conduct, and in supplementary policies. Schroders vote for this proposal was an indication that they wish to see the company continue to build on its approach to biodiversity as good practice evolves.
- **Metro Inc. AGM on 25 January 2022**
  - **Key Topics:** biodiversity
  - **Resolution:** 8 – Propose an Action Plan to achieve zero plastic waste by 2030
  - **Schroders voted for this proposal (against management).** Schroders believe their vote for this item will maximise the value to clients. The company is asked to propose an action plan to achieve zero plastic waste by 2030. The vote for this proposal is an indication that Schroders wish to see the company revisit and develop their plastic goals in response to the Government of Canada's commitment to zero plastic waste by 2030, and as good practice evolves.
- **Alphabet Inc. AGM on 1 June 2022**
  - **Key Topics:** biodiversity
  - **Resolution:** 8 – Report on Metrics and efforts to reduce water related risk
  - **Schroders voted for this proposal (against management).** Schroders believe shareholders would benefit from increased disclosure regarding how the company is managing climate-related water risks.
- **GIS AGM on 27 September 2022**

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- **Key Topics:** biodiversity
  - **Resolution:** 6 – Report on absolute plastic packaging use reduction
  - **Schroders voted for this proposal (against management).** Schroders believe shareholders would benefit from additional information on how the company is managing risks related to its use of plastic packaging.
- **Tyson Foods Inc. AGM on 10 February 2022**
- **Key Topics:** biodiversity
  - **Resolution:** 3 – Report on Sustainable Packing efforts
  - **Schroders voted for this proposal (against management).** Schroders are supportive of this proposal as the company's current reporting on sustainable packaging falls short of Schroders' expectations. Schroders believe that setting targets and disclosing progress on plastic packaging would be beneficial to the company's wider stakeholders.
- **Apple Inc. AGM on 4 March 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 7 – Report on forced labour
  - **Schroders voted for this proposal (against management).** Increased transparency on Apple's supply chain policies and processes could help alleviate growing risks related to manufacturing in certain regions.
- **The Walt Disney Company AGM on 9 March 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 6 – Report on human rights due diligence
  - **Schroders voted for this proposal (against management).** Schroders noted that a vote FOR this proposal is warranted, as increased transparency on Disney's supply chain policies and processes could help alleviate growing risks related to manufacturing and operations in certain regions.
- **3M Company AGM on 10 May 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 5 – Report on operations in communist China
  - **Schroders voted against this resolution (in line with management).** Schroders noted that a vote AGAINST this proposal is warranted, as the company provides sufficient disclosure related to its policies, processes, and oversight mechanisms related to managing and mitigating risks of its operations and business activities in China.
- **Verizon Communications Inc. AGM on 12 May 2022**

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- **Key Topics:** modern slavery
  - **Resolution:** 7 – Report on operations in communist China
  - **Schroders voted against this resolution (in line with management).** Schroders noted that a vote AGAINST this proposal is warranted, as the company provides sufficient disclosure related to its policies, processes, and oversight mechanisms related to managing and mitigating risks of its operations and business activities in China.
- **Meta Platforms. AGM on 25 May 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 10 – Publish third part human rights impact assessment
  - **Schroders voted for this resolution (against management).** Schroders noted that an independent Human Rights Impact Assessment would help shareholders better assess Meta’s management of risks related to its targeted advertising policies and practices.
- **Alphabet Inc. AGM on 1 June 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 13 – Report on risks of doing business with countries with significant human rights concerns
  - **Schroders voted for this resolution (in line with management).** Schroders noted that Shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.
- **Nike Inc. AGM on 9 September 2022**
- **Key Topics:** modern slavery
  - **Resolution:** 5 – adopt a policy on China Sourcing
  - **Schroders voted against this resolution (in line with management).** Schroders believe a vote against this proposal is warranted at this time.

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

May 2023