JP McDougall & Company Limited Staff Pension & Life Assurance 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 Trustees has 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 guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees' primary objective is to ensure that sufficient assets are available to pay out member's benefits as and when they arise.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

Review of the SIP

The Trustees last reviewed the SIP in July 2021 following changes to the Scheme's investment strategy. The Trustees signed the revised SIP in October 2021 having taken the appropriate advice from the Scheme's Investment Consultant. It should be noted, that the SIP was reviewed shortly after Scheme year-end (February 2023) and approved by the Trustees.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP 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. As described in the SIP, the Trustees will not consider the ESG policies of Additional Voluntary Contributions ("AVCs") providers and associated investment funds as these are a small proportion of total assets.

The following work was undertaken during the year to 31 December 2022 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

- Through their Investment Consultant, the Trustees reviewed the mandates held with BlackRock Investment Management (UK) Limited ("BlackRock") and Mercer Global Investments Europe ("Mercer") (together the "Investment Managers") in relation to ESG factors, including climate change. This is carried out primarily through the investment consultant's ESG ratings, which are detailed in quarterly investment reports.

- These statements have highlighted a continued high rating of BlackRock's passive equity strategies, reflecting their engagement activity. Blackrock's credit strategies are also rated highly when compared with their peer group, many of whom are not rated on account of the limited scope to incorporate ESG issues into corporate bond investments, which reflects Blackrock's commitment to sustainable investing.

- Whilst the Investment Consultant does not formally rate the Mercer funds, the investment managers appointed by Mercer to manage these funds are expected to evaluate and engage on ESG factors, including climate change. Mercer review ESG ratings of the underlying investment managers of their funds during the quarterly monitoring processes, with a more comprehensive review performed annually. The underlying managers carry a rating at least in line with their peer group average.

- The Trustees have requested, via their Investment Consultant, that the Investment Managers confirm compliance with the principles of the UK Stewardship Code. The Investment Managers confirmed that they are signatories of the UK Stewardship Code as at the Scheme year-end.

- The Trustees, via their Investment Consultant, also received details of significant engagement activity for the year from the Scheme's investment managers. In terms of significant engagements, the Trustees have identified Climate Change as a specific area of focus following the changes to the equity portfolio implemented during the year. This focus is reflected in the voting and governance activities of the fund managers, BlackRock and Mercer, with both managers updating their engagement priorities and stewardship requirements in 2022 to reflect the issue.

Blackrock

BlackRock advocates for sound corporate governance and sustainable business practices that result in long-term value creation for their clients. The BlackRock Investment Stewardship team engages companies to provide feedback on their practices and inform BlackRock's voting. BlackRock's Investment Stewardship team focus on a range of issues that fall within each of the environmental, social and governance (ESG) categories where they assess whether there is potential for material long-term financial impact on a company's performance. As part of this, they engage with companies held in index and active portfolios alike to encourage them to adopt the robust business practices consistent with sustainable long-term performance.

Engagement is core to BlackRock's stewardship program as it helps them assess a company's approach to governance, including the management of relevant environmental and social factors. To that end, they conduct approximately 3,000 engagements a year on a range of ESG issues likely to impact their client's long-term economic interests.

During 2022, BlackRock focused on the following five engagement priorities:

- Board quality and effectiveness – As investors, BlackRock rely on a strong, independent board to represent shareholders' economic interests in the companies they invest in on their behalf. BlackRock believe boards should aspire to meaningful diversity of membership, at least consistent with local regulatory requirements and best practices, while recognising that building a strong, diverse board can take time.

- Climate and natural capital – BlackRock ask 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. Companies help investors understand their approach when they provide disclosures aligned with the four pillars of the TCFD—including scope 1 and 2 emissions, along with short-, medium-, and long-term science-based reduction targets, where available for their sector. BlackRock also look to companies to take a broader approach to environmental risk, going ‘beyond climate’, to consider their natural capital dependencies and impacts. The Trustees note that this is closely aligned to their priorities for engagement.

- Strategy, purpose and financial resilience – In BlackRock’s experience, purpose-driven companies that 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 – Having appropriate incentives rewards executives for delivering sustainable long-term value creation. BlackRock look for performance metrics in incentive plans to be stretching and aligned with a company’s long-term strategy and business model.

- Company impacts on people / human capital – 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, BlackRock seek to understand a company’s approach to human capital management.

The priorities outlined above are aligned with BlackRock’s commitment to make sustainability BlackRock’s standard for investing and to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

BlackRock has an ESG Capital Markets working group, including investment professionals globally across fixed income asset and capital markets, specifically focused on driving innovation and diversifying issuance in ESG oriented fixed income securities, working directly with issuers and dealers to expand issuance across sectors and market new concepts. BlackRock has been a signatory of the UN Principles of Responsible Investment (UN PRI) since 2008 and as such makes sure that ESG factors are incorporated and adhered to in their approach to investment and engagement.

BlackRock are also a founding member of the TCFD and since 2017 have been working to increase the transparency of their climate related disclosures as well as build and improve BlackRock’s low carbon and renewable energy product offerings.

Mercer

Mercer produce an annual Stewardship Monitoring Report. The report provides summary reporting on engagement activities undertaken by managers to capture the level of disclosure and examples given by the managers for insights into where the manager has exchanged views with companies on a range of strategic and governance issues, together with environmental and social topics. The most recent report covers the period 1 January 2021 to 31 December 2021. The 2022 version was not available when this statement was being prepared.

Voting Activity over the Scheme Year

The Trustees does not use the direct services of a proxy voter. Voting activity is not applicable to the Scheme's Multi-Asset Credit mandate with Mercer due to its limited exposure to securities which carry voting rights (e.g. convertible bonds). Voting activity is most relevant to the Scheme's equity holdings and Diversified Growth Fund with BlackRock.

BlackRock provide voting summary reports at least annually to the Scheme's accounting year end date. The reports are reviewed by the Trustees' investment advisor, on behalf of the Trustees, to ensure voting activity undertaken aligns with their overarching investment policy and the policies set out within the SIP. Any material deviations from the SIP will be raised and discussed with the Trustees.

Over the last 12 months, key voting activity on behalf of the Trustees was as follows:

- **ACS Low Carbon Equity Tracker Fund:** There have been 958 votable meetings over the year ending 31 December 2022. In these meetings, there were a total of 12,890 votable items. BlackRock voted in 95% of resolutions for which they were eligible. In 94% of these votes for proposals, BlackRock has indicated their support to the companies' management, while voting against around 6% of the proposals.

- **Dynamic Diversified Growth Fund:** There have been 898 votable meetings over the year, in which there were a total of 11,377 resolutions. BlackRock voted on 95% of resolutions on which they were eligible, voting with management 93% of the time.

Significant Votes

New guidance on reporting on stewardship from the Department of Work and Pensions (DWP) came into effect for schemes with year ends post 1 October 2022. This guidance requires trustees to define what they consider to be a significant vote and report on all the most significant votes each year. The Trustees have requested key voting activities from their managers during the Scheme year. In particular, focus has been given on the stewardship priorities that the Trustees believe constitutes a "significant" vote. These have been set out below.

The Trustee considers significant votes on the underlying holdings of the Scheme on an annual basis. The Trustees have decided to consider votes focusing on shareholder resolutions relating to material holdings (a company that represented at least 1% of the year-end net asset value of any fund in which the Scheme was invested during the Scheme year), in three key stewardship priorities for the Scheme relating to:

- **Climate Change:** including, but not limited to, low-carbon transition and physical damages resilience;

- **Human Rights:** including, but not limited to, modern slavery, pay & safety in the workforce and abuses in conflict zones; and/or

- **Diversity, Equity and Inclusion:** including, but not limited to, inclusive & diverse decision-making.

Details of the votes that the Trustee deems to be most significant are provided overleaf. The Trustees requested information on the outcome of the significant votes however the investment manager was unable to provide this at the time of writing.

Fund	Issuer / Size of holding	Resolution Summary	Stewardship Priority	Vote	Management Recommendation	Rationale

ACS Low Carbon Equity Tracker Fund	Amazon Inc. >1%	Report on Efforts to Reduce Plastic Use	Climate	For	Against	The company does not meet BlackRock's expectations for disclosure of natural capital policies and/or risk.
ACS Low Carbon Equity Tracker Fund	Apple Inc. >1%	Report on Forced Labor	Human Rights	Against	Against	Apple already undertakes thorough review of its suppliers, including third party assessments
ACS Low Carbon Equity Tracker Fund	Microsoft Corporation >1%	Report on Cost/Benefit Analysis of Diversity and Inclusion	Diversity, Equity and Inclusion	Against	Against	Company already has policies in place to address these issues.
Dynamic Diversified Growth Fund	Amazon Inc. >1%	Report on Retirement Plan Options Aligned with Company Climate Goals	Climate	Against	Against	The company already has policies in place to address the request being made by the proposal, or is already enhancing its relevant policies
Dynamic Diversified Growth Fund	Apple Inc. >1%	Report on Median Gender/Racial Pay Gap	Diversity, Equity and Inclusion	Against	Against	The median pay gap measure would not provide accurate measurement as to whether employees are being fairly paid or not
Dynamic Diversified Growth Fund	Microsoft Corporation >1%	Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk	Climate	Against	Against	Company already has policies in place to address these issues.

This statement was prepared by the Trustees of the JP McDougall & Company Limited Staff Pension & Life Assurance Scheme in July 2023.