

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 has been followed during the year to 31 December 2023.

This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

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 Trustees' 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

A revised was agreed in June 2023 in order to reflect the Trustees' decision to switch to a more sustainable Diversified Growth Fund that is more aligned to their overall beliefs. The latest SIP can be found online at [<https://www.scotland.anglican.org/who-we-are/organisation/boards-and-committees/pension-fund>]

The SIP was also updated following the year end to reflect agreed changes to the Fund's Liability Driven Investment ("LDI") mandate.

The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, including 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. The Trustees keep their policies under regular review.

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 included 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 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 legacy fund, but has enhanced sustainability and

Environmental, Social and Governance (“ESG”) characteristics. In 2023, the switch to the newly selected Sustainable Future Multi-Asset Fund was carried out, with the trade settling on 12 April 2023.

In June 2023 the Trustees established an Ethical Investment Policy Statement for the Fund, which endorses the principles outlined in the Ethical Investment policy developed by the Church. The current policy is to avoid *direct* investment in armaments, fossil fuel extraction, tobacco, gambling and pornography and the Trustees wish to work towards fully divesting the Fund of such investments as and when suitable pooled fund vehicles become available. In the meantime, the Trustees appointment of the more sustainable Diversified Growth mandate (Sustainable Future Multi-Assets Fund) better aligns with the Trustees’ overall beliefs and was adopted to reduce (but not exclude) overall exposure to exclusionary sectors within the Church’s ethical policy.

As set out in the SIP, the Trustees have given the appointed investment manager, Schrodgers, 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 do not require the Fund’s investment manager to take non-financial matters into account in their selection, retention and realisation of 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, Schrodgers, 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. Schrodgers 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. Schrodgers 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 legacy Diversified Growth Fund and the Sustainable Future Multi-Asset Fund, managed by Schrodgers.

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 2023, the Fund’s investment performance report was reviewed by the Trustees 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 Trustees consider 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 legacy Diversified Growth Fund to an alternative, more sustainable Fund offered by Schrodgers during 2022/2023. The newly selected Fund has a superior

ESG rating (as provided by the investment advisor) relative to the legacy fund recognising the teams' high level of commitment to integrating ESG and sustainability issues within the Fund.

Over the year to 31 December 2023, the Trustees assessed how well the Fund is currently integrating ESG considerations into their decision making via their Investment Consultants' Responsible Investment Total Evaluation review. This considered the Trustees' responsible investment beliefs, policy, process and portfolio against best practice and potential intervention actions to improve responsible investment integration. The review will be carried out on an annual basis going forward to assess any possible areas for future improvements.

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 were 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. In relation to the Sustainable Future Multi-Asset Fund:

- Over the last year, the manager attended 519 engagement events, with 1,075 different engagement topics discussed.
- Of the 1,075 topics, the most common themes were: climate change, corporate governance and natural capital and biodiversity.

Key information on the number engagements undertaken over the full year to 31 December 2023 in relation to the Sustainable Future Multi-Asset Fund are summarised below:

- Environmental topics discussed	672
- Social topics discussed	228
- Governance and Strategy topics discussed	175
Total number of topics discussed	1,075

Source: Schroders. Data above is for the year to 31 December 2023, rather than the part period covering the Fund's investment.

Schroders also provided a summary of some of their engagement activities in the table below:

Company	Activity
Whitbread	The Global and Thematic Equities team sought to follow up with Whitbread as part of our ongoing engagements on modern slavery and climate change. The company appears to have made progress by actively seeking to assess policies for human rights in Germany and its Middle Eastern joint venture. We asked about how the company considers payment of a living wage for both direct workers and workers in the supply chain. The company did note that retention rates have performed well in the past year which it views as a measure of employee satisfaction. We reiterated our request for Workforce Disclosure Initiative (WDI) disclosure. With regards to the environment, the company explained that it is undertaking a biodiversity assessment and is expected to report to The Taskforce on Nature-related Financial Disclosures (TNFD) in the next couple of years. Whitbread is expected to publish a TNFD readiness overview in the next ESG report.
Kimberly Clark	The Global and Thematic Equities team conducted a call with Kimberly Clark to better understand the company's goals on deforestation and approach to traceability, as well as understanding progress on supply chain human rights. We questioned if the company's target around reducing sourcing from northern forests could have the unintended consequence of shifting sourcing to higher risk regions for deforestation such as Brazil. We also asked if the company plans to set goals for sourcing environmentally preferred fibres beyond its 90% goal in tissue products (such as for personal care and packaging). We also questioned how well prepared the company is for incoming legislation on deforestation. On human rights, the company explained how improvements to the due diligence process has meant there has been an uptick in serious audit findings. We sought to understand how it approaches disengagement with suppliers, which it confirmed is the case for one supplier in Malaysia, following allegations of modern slavery. Lastly, we asked the company about progress on improving grievance lines and worker voice in the supply chain.
JPMorgan Chase & Co	The Sustainability team conducted a call with JPMorgan Chase & Co to understand how the company identifies and retains key talents, as well as how it is working to build an inclusive culture, specifically in the bonus and promotion programmes. We were disappointed that the company was not able to provide sufficiently detailed answers to our questions, particularly around the performance management and promotions process as it relates to inclusion and diversity. We were interested to understand this area as we noted from company disclosures that promotion rates appear lower for women versus the broader employee population. Moreover, while the company noted it has internal goals for diversity and inclusion, it does not make these public.

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

The Department for Work and Pensions 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".

- 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; and,
- 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 2023, the key voting activity within the DGF mandate was as follows:

- Schroders – Sustainable Future Multi-Asset Fund:
 - 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 full year are summarised below in relation to the Sustainable Future Multi-Asset Fund:
 - Schroders was eligible to vote at 759 meetings, and on 9,286 resolutions during the year to 31 December 2023.
 - Schroders voted on 94% of resolutions.
 - Of Schroders’ total number of votes, c. 89% were votes with management and c.10% were against management. Schroders’ abstained from a small numbers of resolutions (6 proposals in total, rounded to c.1% of resolutions).

In line with new guidance, the Trustees have identified their ‘significant vote’ topics to be climate change, modern slavery and biodiversity. Over the year to 31 December 2023, within the Sustainable Future Multi-Asset Fund, Schroders undertook 29 votes in relation to climate change, 5 votes in relation to modern slavery and 0 in relation to biodiversity. Given the number of votes in relation to the themes selected by the Trustees, in the table below we have highlighted all votes in relation to these themes where the holding in each company is equal or greater than 0.5% of the overall equity allocation within the Sustainable Future Multi-Asset Fund (based on holdings at year-end).

Significant Vote examples:

<u>Company</u>	<u>% allocation within Fund</u>	<u>Date of Vote</u>	<u>Vote Detail</u>	<u>Key Topic</u>
Carrefour SA	0.3% of fund, or 0.7% of equity holding	26 May 2023	<p>Resolution: Approve Opinion on Quantification of the Company's Various Scope 3 Action Levers</p> <p>Schroders voted for this proposal (in line with management). Schroders welcome the company providing further disclosure around the quantification of the company's scope 3 levers as they provide shareholders with a greater understanding of the company's underlying GHG emission reduction targets.</p>	Climate Change

Schneider Electric SE	0.6% of fund, or 1.5% of equity holding	4 May 2023	<p>Resolution: Approve Company's Climate Transition Plan</p> <p>Schroders voted for this proposal (in line with management). The company has set SBTi verified Paris aligned near and long-term targets covering emissions across their whole value chain. Additionally, they are providing adequate disclosure of climate-related risk in line with TCFD recommendations. Overall, the company has put forward a clear strategy outlining how they aim to achieve the targets that they have set.</p>	Climate Change
Alphabet Inc.	0.8% of fund, or 2.2% of equity holding	2 June 2023	<p>Resolution: Report on Risks of Doing Business in Countries with Significant Human Rights Concerns</p> <p>Schroders voted for this proposal (against management). Schroders believe enhanced transparency on the company's due diligence processes to address and minimise human rights risks when operating in high-risk areas would be beneficial for shareholders.</p>	Climate Change
Microsoft Corporation	1.3% of fund, or 3.5% of equity holding	7 December 2023	<p>Resolution: Report on Risks of Operating in Countries with Significant Human Rights Concerns</p> <p>Schroders voted for this proposal (against management). Schroders believe that shareholders would benefit from further disclosure on how the company mitigates risks in markets in which it operates where there are significant human rights concerns.</p>	Climate Change

Overall the Trustees are satisfied that the team managing the Schroders Sustainable Future Multi-Asset Fund demonstrate a high level of commitment to engagement, stewardship and integrating ESG into the investment decision making process.

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

April 2024