

ScottishPower Pension 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 Trustee has been followed during the year to 31 March 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 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme, as set out in the SIP, are as follows:

- The Trustee seeks to invest the Scheme's assets so as to maximise the likelihood:
 - that benefits will be paid to members as they fall due, and
 - of continued long-term financial support from the sponsoring Employer.

In addition, in consultation with the sponsoring Employer, the Trustee has adopted the following specific objectives:

- to target an expected return in excess of the expected change in the value of the liabilities, which in conjunction with the contributions to be paid by the sponsoring Employer under the agreed Recovery Plan, is consistent with the following funding objectives
 - to achieve and maintain an ongoing funding level of at least 100% by 2028
 - to achieve a funding level of 100% by 2028 by reference to liabilities determined using duration based gilt yields and inflation expectations with 0.4% p.a. outperformance assumed.

The Trustee has delegated certain investment powers to an Investment Sub-Committee (the "ISC").

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in February 2022.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by the investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. This training was provided in June 2018. Following this training, the Trustee undertook a review of its investment beliefs to assist the Trustee with establishing its policies in this area. Following the Trustee's investment beliefs being documented, the updated policies were incorporated into the SIP in September 2019. The Trustee keeps the policies under regular review with the SIP subject to review at least annually, but typically quarterly.

In June 2021 the ISC received further training on climate change, including the forthcoming regulatory requirements and the risks and opportunities associated with climate change. In November 2021, the full Trustee Board received training on ESG integration and climate change, and

in June 2022 the ISC received a more detailed training session on TCFD (“Task Force on Climate-related Financial Disclosures”), including on setting metrics for assessing climate change risk and also how to set appropriate targets for the Scheme. At the June 2022 ISC meeting a representative from ScottishPower also presented on TCFD, reporting that the Company has been preparing for reporting on TCFD for ScottishPower and covered the potential risks and opportunities of climate-change from a ScottishPower perspective.

The following work was undertaken during the year relating to the Trustee’s policy on ESG factors, stewardship and climate change, and sets out how the Trustee’s engagement and voting policies were followed and implemented during the year.

Engagement

As set out in the SIP, the Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. The Trustee also considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers.

During the year under review, Audax, Park Square, Permira, Highbridge, Wellington, OakHill, Insight, BlackRock, Nordea, CBRE and Angelo Gordon presented to the ISC. During the managers’ presentations, the ISC questioned the investment managers on how they integrate ESG into their investment processes and discussed example investments as case studies.

Of the Scheme’s managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held directly (BlackRock) or indirectly through the Diversified Growth Funds (DGF) (BlackRock and Nordea).

- The Trustee reviewed Nordea (DGF) and BlackRock (DGF and passive equities) in regards to their approach to ESG and their annual voting and stewardship activities at the June 2022 ISC Meeting. The ISC was comfortable that the managers’ engagement policies were in line with those of the Trustee, but agreed to review the mandates regularly, at least annually, in case the policies changed.
- A summary as at 31 March 2022 is provided below:
 - Nordea engage with investee companies (and vote) on various issues, such as shareholder rights, board composition, remuneration and risk management.
 - Over the last year, Nordea has taken part in 131 ESG engagement cases in relation to the Diversified Growth mandate. Governance was a topic of engagement in 47% of cases, social issues were considered in 22% of engagements and 31% of cases included environmental engagement.
 - Nordea’s engagement with Waste Management Inc is one such example. The waste management industry is an area of focus for Nordea as it is one of the largest emitting sources of carbon dioxide and methane globally. In 2020, Waste Management disclosed their TCFD reporting publicly and Nordea’s view was that while the Company did set a carbon abatement target of x3 to x4 carbon emissions in their operations, it did not demonstrate a clear decarbonisation strategy, as it did not address absolute emission reduction aligned with the Paris Agreement target. Nordea therefore met with Waste Management to discuss how the company is considering absolute carbon emission reduction targets and when these will be approved by the Science-Based Target initiative (“SBTi”). In 2021, Waste

Management realised that the climate expectations were changing and that their x4 target was insufficient. Together with an external consultant they are now working to set a 1.5 degree aligned absolute reduction target, with the ambition of reducing absolute greenhouse gas emissions for scope 1 and 2 by as much as 42% by 2030 compared to the 2021 level. Nordea see this as a serious decarbonisation commitment, where Waste Management's focus is on better carbon emission measurement, capture and the use of biogas conversion as a source of renewable fuel for their collection fleet.

- BlackRock's Stewardship team engages annually with companies globally on ESG issues, meets with executives and board directors, communicates with the company's advisors, and engages with other shareholders, where appropriate.
- In the 12 months to 31 March 2022, BlackRock has had 5,752 engagements with companies in their DGF and passive equity portfolios. Governance was a topic of engagement in 88% of cases, social issues were considered in 38% of engagements and 67% of cases included environmental engagement. BlackRock's environmental engagements focused primarily on climate risk and environmental impact management as well as operational sustainability. The main focus of the governance engagement included board composition and effectiveness, corporate strategy and remuneration.
- The Trustee has asked their investment managers, where applicable, to confirm compliance with the principles of the UK Stewardship Code and also to confirm if they are signatories of the UN Principles of Responsible Investment (UN PRI). The ISC has reviewed the managers' responses.
- The investment performance report, produced by the Scheme's investment consultant, is reviewed by the ISC on a quarterly basis – this includes ratings (both general and ESG specific) from the investment consultant. All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the ISC has discussed the reasons with the investment consultant. When implementing a new manager during the year under review, the ISC has considered the ESG rating of the manager.

Voting Activity

As set out in the SIP, the Trustee believes that responsible share ownership and seeking the best long term value for investment in shares requires active exercise of voting rights.

The Trustee have delegated their voting rights to the investment managers. Where applicable, the Trustee expects the Scheme's investment managers, unless impracticable, to exercise all voting rights attaching to shares or securities and take account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The managers are authorised to exercise discretion to vote as they think fit, but in doing so reflect the best interests of the Scheme. The Trustees do not use the direct services of a proxy voter.

Investment managers, where relevant, are expected to provide voting summary reporting on a regular basis, at least annually. As noted in the previous section, of the Scheme's managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held directly (BlackRock) or indirectly through the Diversified Growth Funds (BlackRock and Nordea).

In June 2022, the ISC reviewed the Engagement and Voting reports produced by BlackRock and Nordea, covering the 12-month period to 31 March 2022, and the plan is for these reports to be reviewed on an annual basis going forwards to ensure they continue to align with the Trustee's policy.

Over the last 12 months to 31 March 2022, the key voting activity by BlackRock and Nordea on behalf of the Trustee was as follows:

- **BlackRock Investment – Diversified Growth and Passive Equities**

- BlackRock has established an internal ESG investment team, BlackRock Investment Stewardship, who are responsible for proxy voting. BlackRock's policy is, where practical, to vote 100% of the underlying securities within all its pooled funds in line with the established voting policy.
- Key information on the votes undertaken over the prior year are summarised below:
 - BlackRock voted in c. 99% of proposals over the year.
 - BlackRock aligned with management on c. 93% of votes (not including withheld votes) over the year, with the remaining c. 7% of votes being against management. BlackRock have noted that their policy is to refrain from abstaining votes, unless the valid option for voting against management is an abstain vote.
 - The majority of votes in the past 12 months have been Director and routine business related. Climate and ESG related votes contribute a small proportion of the overall votes for the year.
 - Significant vote example: Berkshire Hathaway - Voted 'For' a report on climate-related risks and opportunities, as in BlackRock's view the company does not meet BlackRock's expectations for disclosing a plan for how their business model will be compatible with a low-carbon economy.

- **Nordea Asset Management – Diversified Growth**

In terms of voting, Nordea votes both by proxy and by attending annual general meetings. Nordea's Funds utilize two external advisors; Institutional Shareholder Services and Nordic Investor Services. However, all voting decisions are taken by Nordea, the external advisors only provide input and second opinion when prompted.

- Nordea has an aggregated voting strategy, where it strives to vote for as large a part of its total holdings in any given company as possible.
- Key information on the votes undertaken over the prior year are summarised below:
 - Nordea were eligible to vote at 192 meetings during the year and on 2,296 resolutions, of which they voted on 100%. Nordea aligned with management in c. 88% of votes, voted against management in c. 11% of the votes and abstained on c. 1% of the votes.
 - The majority of votes over the past 12-months have been Director and routine business related, for both management and shareholder proposals. ESG and climate-related votes have made up a small proportion of overall proposals.

- In relation to ESG, Nordea voted in favour of a shareholder proposal for McDonald’s to produce a report on sugar and the impact on public health. Nordea believes that additional disclosure would benefit shareholders by increasing transparency regarding the company's efforts to address the risks related the use of sugar, and serve to provide greater assurance to shareholders in that the firm's initiatives and practices sufficiently guard against potential financial, litigation and operational risks to the company.
- Nordea also voted in favour of a shareholder proposal for Autozone to report on annual climate transition, noting that the company's current targets for GHG emissions includes short-term Scope 1 and 2 targets for operations in the United States. Thus, the emission targets have not been formulated in line with the Paris Agreement as they do not cover the entire Group and Scope 3 emissions. The requested report would allow investors to better assess how the company is managing climate-related risks.

Over the prior 12-months, the Trustee has not actively challenged the manager on its voting activity. Going forwards, the Trustee will be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change

For and on behalf of the SPPS Trustee Limited as Trustee of the ScottishPower Pension Scheme

September 2022