



Nacro Staff Benefits Plan (‘Plan’)

31 March 2022 Implementation
Statement

August 2022

Schroders' Solutions Disclaimer:

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Plans (Investment) Regulations 2005. It is important that the Trustees of the Plan understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts the Trustees at risk of breaching your legal duties.

This is a Trustee document and the Trustees must review the Implementation Statement draft, provided by its investment adviser, and confirm that they have considered the content prepared and reviewed any associated documentation such as voting policies.

1. Introduction

The Trustees are required to make publicly available online a statement (“the Implementation Statement”) covering the Nacro Staff Benefits Plan (‘Plan’) in relation to the Plan’s Statement of Investment Principles (the “SIP”).

The SIP was amended once during the year ending 31 March 2022 and the SIP has also been updated over the last 3 years to account for ESG considerations.

A copy of the current SIP can be found here:

This Implementation Statement covers the Plan year from 1 April 2021 to 31 March 2022 (the “Plan Year”). It sets out:

- How the Trustee’s policies on exercising voting rights and engagement have been followed over the Plan Year; and
- The voting by or on behalf of the Trustees during the Plan Year, including the most significant votes cast and any use of a proxy voter during the Plan Year.

A copy of this Implementation Statement is available here: <https://www.nacro.org.uk/policies-and-statements/>

2. How the Trustees policies on exercising voting rights and engagements have been followed over the Plan Year

The Trustees made no changes to the voting and engagement policies contained in the SIP during the year other than those noted above but will keep them under review in future years.

The Trustees have appointed Schroders IS Limited, formerly known as River and Mercantile Investments Limited ("R&M") as its Investment Manager and Adviser using its Fiduciary Management service (and is referred to as the "Fiduciary Manager" in the Implementation Statement). Schroders IS can appoint other investment managers in respect of underlying investments (referred to as "Underlying Investment Managers").

The Plan's Fiduciary Manager was acquired by Schroders Group to form Schroders Solutions from 1 February 2022. Therefore, there are two set of engagement priorities/themes which are applicable to the Plan during the Plan Year. However, going forward, the Fiduciary Manager's engagement priorities will be aligned with the broader Schroders Group's priorities. Schroders Group has a long history of engagement and active ownership, dating back to 1998 where the global asset manager appointed its first governance resource and since then have recorded & monitored ESG engagements spanning more than 20 years.

Schroders Group, the parent company of Schroders Solutions, is a signatory to the UK Stewardship code. Its external recognition includes an A+ rating for UN Principles for Responsible Investment, A- rating for Carbon Disclosure Project, Advanced ESG recognition from Morningstar and Best Investor Engagement recognition from IR Society Best Practice Award for 2021.

The Trustees have aligned its stewardship priorities with its Fiduciary Manager's engagement themes over the Plan Year and the details of those engagement themes can be found in the next section. The Trustees believe the Fiduciary Manager's engagement themes/priorities are issues which are considered to be material to the long-term value of the investments. When they are material and relevant, the Trustees believe that companies that address those factors, where lacking, will drive improved financial performance for the Plan. These issues also reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. By strengthening relationships with these range of stakeholders, business models become more sustainable and ultimately will benefit the Plan and its members and beneficiaries.

The Plan invests in assets with voting rights attached. However, these investments are generally made via pooled investment funds with the Underlying Investment Managers where the Plan's investments are pooled with other investors. Therefore, direct control of the process of engaging with the companies that issue the underlying securities is delegated to those Underlying Investment Managers.

A copy of the SIP has been provided to the Fiduciary Manager and the Fiduciary Manager is expected to adopt that approach to corporate governance and to other financially material considerations when providing Fiduciary Management services and/or in selecting Underlying Investment Managers.

The Trustees require that the Fiduciary Manager considers stewardship activity including voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change when choosing new or monitoring existing Underlying Investment Managers. The Trustees believe it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. The Trustees have therefore not sought to set its own stewardship policy and does not intend to change its position at this time. The Trustees believe the current approach to stewardship is in members and beneficiaries' best interest, as the voting and engagement carried out by both Fiduciary Manager and Underlying Investment Managers is expected to improve ESG related risk management as well as climate risk which ultimately is expected improve the financial outcome for the Plan's members.

Over the Plan Year, the Fiduciary Manager provided the Trustees with monitoring of the ESG characteristics including TCFD (“Taskforce for climate-related financial disclosures”) carbon metrics of the portfolio on a quarterly basis. The Trustees are satisfied with the Fiduciary Manager’s activity in this area.

On behalf of the Trustees, monitoring of voting and engagement policy by Underlying Investment Managers in relation to the Plan’s investments was carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers. In addition, the Trustees with the help of the Fiduciary Manager, monitors the performance of the Underlying Investment Managers against the agreed performance objectives at quarterly Trustee meetings held during the Plan Year.

Following activity during the Plan Year and by preparing this Implementation Statement, the Trustees believe that it has acted in accordance with the Statement of Investment Principles over the Plan Year.

The Trustees have identified areas in which it can enhance its stewardship activities in the following Plan year by:

- Identifying ESG beliefs and areas of priority to aid in stewardship and focus engagement.
- Reviewing the Fiduciary Manager’s (Schroders Solutions) latest ESG-related policies.
- Continuing to review the Fiduciary Manager on its ESG integration and its own stewardship activities over the year.

3. Voting and Engagement Summary

The process for exercising voting rights and engaging with the managers of assets held on behalf of the Plan is as follows:

- 1) Engagement and the exercise of voting rights delegated to the Fiduciary Manager

The Fiduciary Manager exercises voting rights and engages with the Underlying Investment Managers on behalf of the Trustees in line with voting and engagement policies that sets out how the Fiduciary Manager will aim to vote at a general meeting of a pooled fund or how the Fiduciary Manager approaches engagement with Underlying Investment Managers and intended outcomes.

- 2) The Underlying Investment Managers exercise voting rights in the underlying securities and engages with the company issuing the security in line with the policies voted on by the Fiduciary Manager. One of the Underlying Investment Managers, Bank of New York Mellon (“BNYM”), uses a proxy voting company called Institutional Shareholder Services (“ISS”) to exercise these rights on its behalf and monitors ISS’s activities accordingly. Similarly, Vanguard Investment Stewardship also uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.

The Trustees have considered the voting behaviour (provided in the Appendix) along with engagement activity that took place on their behalf during the Plan Year within the growth asset portfolio, cashflow matching credit portfolio and the liability hedging portfolio and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting activity, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustees noted that:

- Each relevant manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activities over the Plan Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- There are two set of engagement priorities/themes from the Fiduciary Manager which the Trustees considered in this Implementation Statement. Examples were provided in the appendix and they were selected to demonstrate how the Fiduciary Manager & Underlying Investment Managers, on behalf of the Trustees, voted and engaged with the investee companies. Those engagement priorities and themes were set out below:
 - For R&M Solutions engagement priorities up to January 2022 (which will be aligned with Schroder Solutions’ going forward given the acquisition of the business):
 - E Climate change: carbon emissions and footprint of our funds
 - S Human capital: employee engagement and satisfaction
 - G Corporate governance: board composition, executive pay / compensation
 - For Schroder Solutions’ engagement themes (from February 2022 onwards):
 - Climate: Climate risk and oversight, Climate alignment including decarbonising and minimising emissions, climate adaptation and carbon capture and removal

- Natural Capital and Biodiversity: Nature-related risk and management, circular economy, pollution and waste, sustainable food and water, deforestation
 - Human Rights: Overarching approach to human rights, works and communities, customers and consumers
 - Human Capital Management: Corporate culture and oversight, investment in the workforce, engagement and representation, health, safety and wellbeing
 - Diversity and Inclusion: Board diversity and inclusion, executive & Workforce diversity and inclusion
 - Corporate Governance: Board and management, executive remuneration, relationship with shareholders
- For the Plan, the general themes of the voting and engagement activity carried out by the Underlying Investment Managers were in relation to environmental issues, climate strategy in particular, corporate governance including board composition. Executive pay, board diversity and improving social outcomes were the other main themes identified. These themes are in line with the Fiduciary Manager's engagement priorities/themes set out above. We have included a table which sets out the engagement priorities and relevant voting and engagement examples in the appendix.
 - On behalf of the Trustees, the Plan's Fiduciary Manager have also identified five Underlying Investment Managers who will be the engagement targets over the next Plan year. The main engagement themes include working with those Underlying Investment Managers to create formalised ESG related investment policies and improving the board independence and diversity.
 - As a result of the Russia-Ukraine war, the Fiduciary Manager has implemented a no-Russia investments policy and by the end of March 2021, Schroders Solutions had begun removing any Russia exposures from the portfolio and engaging with underlying managers who continue to hold exposures. This will be a priority engagement theme for the next Plan year. The Trustees are supportive of this approach and receives updates from the Fiduciary Manager on the success of its engagements in this area.

Some details of the voting and engagement from the Plan's Underlying Investment Managers are set out below:

- Within the Plan's portfolio, **BNYM Global Equity Fund** makes up the majority of the Plan's investments in return-seeking assets, the Trustees noted that BNYM prioritised engagement with each of their underlying holdings on the following areas: governance practices, executive compensation, sustainability including climate change, human capital management, and diversity and inclusion. An example would be their engagement with an American multinational shipping & receiving supply chain management company. BNYM voted for a shareholder proposal requesting that the company report on its plans to reduce its total contribution to climate change and align its operations consistent with the Paris Agreement Goals. BNYM consider some of the company's peers to have set ambitious targets and they believe by supporting this proposal, it will provide shareholders with more transparency into the company's policy and goal-setting process, especially at a time when this company is looking to expand its airline and vehicle fleets. The BNYM annual proxy voting report (2021, link included in Appendix) was reviewed by the Trustees. The proxy voting report includes details of the significant votes and engagement examples covering a board range of underlying investment companies.
- For the largest mandate within the return-seeking credit assets, engagement on improving public disclosure and operational risk management was noted as a significant example. The manager engaged with a leading financial services company that has approximately \$1.9 trillion in assets who is subject to several consent orders and other regulatory actions, requiring the company to undertake certain changes to its business, operations, products, services and risk management practices. The manager's engagement objectives was to improve compliance and operational risk management and enhance public disclosures regarding risk control improvements. The engagement process focused on prioritising the governance with new leadership from outside the organisation, enhanced audits, procedures and controls to mitigate the chance of improper lending practices. The outcomes of the engagement was largely positive such that a new CEO was hired externally, its operating committee who was the most senior group responsible for running the company, has seen nine of its 18 members hired externally.

- In relation to the liability hedging and structured equity mandates, the Trustees noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored. The Plan is also invested in green gilts supporting the UK Government's commitments to achieving the Paris Agreement goals. The Plan had an allocation in UK Green Gilts as at 31 March 2022.

The Trustees are satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers was in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustees will keep the position under review.

A handwritten signature in dark brown ink that reads "Paul Whitehouse". The signature is written in a cursive, flowing style.

Paul Whitehouse
Chair of Trustee
Nacro Staff Benefits Plan

Appendix 1 – Voting & Engagement statistics

1. Voting and engagement by the Fiduciary Manager (Schroders IS, formerly known as R&M) in relation to underlying pooled funds held on behalf of the Trustees

Most of the rights and voting relating to the Plan's investments relate to underlying securities investment in through pooled funds managed by underlying investment managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustees and we cover these here.

Over the year to 31 March 2022, the Fiduciary Manager voted on 111 resolutions across 27 meetings. The Fiduciary Manager voted against management on 6 resolutions which was 5.7% of total resolutions and abstained on 6 resolutions (5.7% of the total resolutions).

The Schroders IS Investment Research team engaged with underlying investment managers regarding their clients' pooled fund investment on approximately 800 occasions during the 12 months period. The engagement topics covered a range of areas including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

The following provides an ongoing engagement example where the Fiduciary Manager engaged Neuberger Berman ("NB", an underlying credit manager) on the tenure of E&Y as fund auditor. In January 2021, we noted that following the 2019 accounts EY have now been in-place for 20 years as fund auditor. We believe there is some additional protection to investors from rotation of auditors (assuming the quality of the appointed party is maintained). We informed NB that in the absence of any plan to change auditor it is subsequently our intention to vote against E&Y's appointment at the 2021 AGM. In February 2021 NB informed us that it was their intention to put the NBIF audit out to tender later in 2021, with EY being allowed to participate.

The tender process was completed before the 2022 AGM and that depending on the outcome of the tender process, one of the resolutions was to approve a new auditor. We had a routine operational due-diligence meeting with NB in their new offices in Victoria. We again raised the issue of auditor tenure. As a direct result of our engagement with them in 2021 the board issued a tender for the audit of the fund. E&Y, KPMG & GT were short listed. A score card was used to assess each firm. E&Y was reselected on the basis of the highest score. A new audit team was assigned to the engagement. Whilst our engagement did not result in a change of auditor it did result in a full tender process and a change in audit team.

Over the Plan Year, the Fiduciary Manager also

- engaged all Underlying Investment Managers on their plans relating to net zero and will engage on a regular basis with those who do not have any net zero target or plan to decarbonise;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager is not satisfied with the quality of data currently provided.
- reviewed all Underlying Investment Managers against its updated proprietary ESG manager rating framework and will prioritise its engagement with five managers where ESG-related issues have been identified. The Fiduciary Manager plan to report back to the Trustees in the next Implementation Statement on progress. The top engagement themes are set out in the table below:

Top engagement themes

| | |
|--------------------------|---|
| Manager A – Equity | <ul style="list-style-type: none"> ▪ Board independence and diversity ▪ Incorporating ESG into employee training and appraisals/remuneration ▪ Voting policy and engagement processes |
| Manager B – Alternatives | <ul style="list-style-type: none"> ▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Board independence and diversity ▪ Formalise voting and engagement policy |
| Manager C – Alternatives | <ul style="list-style-type: none"> ▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy |
| Manager D – Alternatives | <ul style="list-style-type: none"> ▪ Formalise diversity policy ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy |
| Manager E – Alternatives | <ul style="list-style-type: none"> ▪ Creation of ESG working group to look into voluntary standards and formalising ESG policies within the business. ▪ Formalise diversity policy ▪ Formalise ESG investment policy |

2. Voting by the Underlying Investment Managers on securities held on behalf of the Trustees

There are c. 30 Underlying Managers used by the Investment Manager. Set out below is the voting statistics for the most material equity holdings during the period that held voting rights, namely BNY Mellon Global Equity and Vanguard FTSE All World ETF Fund. Within other asset classes there are no voting rights. However, engagement activity is very important and so examples of engagement activity for the managers that represent 2.5% or more of the portfolio have also been discussed with the Trustees as described in section 3 above.

Summary of voting activity – Equity mandates

| BNYM Global Equity Fund | |
|---|--------|
| Total meetings eligible to vote | 882 |
| Total resolutions eligible to vote | 11,989 |
| % of resolutions did you vote on for which you were eligible? | 97% |
| % did vote with management? | 88% |
| % vote against management? | 8% |
| % abstained | 1% |
| % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable) | 2% |

Note:

- BNYM uses Institutional Shareholder Services, “ISS”, for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Plan holds.
- BNYM does not use PLSA template. We included votes withhold in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withhold and votes abstained. BNYM also did not vote on 3% of the overall proposals.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of “Abstain” is also considered a vote against management.

3. Examples of most significant votes carried out by the Underlying Managers

| Engagement priorities | Examples |
|-----------------------|--------------------------|
| Climate change | Electronic Arts Inc |
| Human capital | Microsoft, Goldman Sachs |
| Corporate governance | EXXON |

BNYM Global Equity Fund

Microsoft

In November 2021, BNYM supported a shareholder proposal that requested a report on effectiveness of workplace sexual harassment policies. Given Microsoft faces a litany of potential controversies in recent years, BNYM believe a transparent report allows shareholders to more adequately assess if the company is addressing these risks effectively. The proposal passed with majority support, forcing Microsoft to report on the effectiveness of workplace sexual harassment policies.

Goldman Sachs

In April 2021, BNYM voted for a shareholder proposal requesting Goldman Sachs report on the impact of the use of mandatory arbitration on employees and workplace culture. As Goldman Sachs requires employees to agree to arbitrate employment-related claims, BNYM believe additional information is useful for shareholders to determine if this process had any impact on human capital management issues such as employee retention and recruitment. The proposal did not pass; however, Goldman Sachs chose to act and produce a response in light of the high level of support which is a good outcome despite the result of the proposal.

Electronic Arts Inc

BNYM inquired as to whether or not Electronic Arts will be including Scope 3 emissions in their reporting and also will they be setting TCFD disclosure targets. Electronic Arts responded that they recently hired new talent to comply with the environmental disclosures and will be explaining the disclosures over the coming months.

EXXON MOBIL CORPORATION

In 2021, BNYM held multiple engagements with Exxon Mobil Corporation and the dissident in the proxy contest, Engine No.1. At the May 2021 meeting, BNYM submitted a cross-slate vote, voting for all dissident candidates and the replacement of one management nominee with an alternative whom BNYM believed had a more appropriate skillset required for Exxon's business strategy. BNYM believe that this support will enhance Exxon's preparedness for an energy transition in the future and the dissident nominees will bring necessary independent industry expertise to the board.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers can be found here:

| Investment Manager & Underlying Investment Manager | Voting & Engagement Policy |
|--|--|
| Schroders Solutions | https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf |
| Bank of New York Mellon | BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/2021-proxy-voting-report.html |
| Vanguard | Disclosure of rationale of voting can be found: https://global.vanguard.com/portal/site/portal/investment-stewardship/perspectives-commentary |
| Leadenhall | https://www.leadenhallcp.com/esg |
| Neuberger | https://www.nb.com/en/global/esg/engagement |
| CBRE | CBRE Global ESG policy: https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/cbreim-global-esg-policy.pdf |