

The North of England Protecting and Indemnity Association Limited Retirement Benefit Scheme - Annual Engagement Policy Implementation Statement to 31 August 2021

1. Introduction

This Engagement Policy Implementation Statement ('the 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 August 2021. 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place for the Scheme Year, which were the SIP dated April 2020 which was subsequently superseded by the SIP dated September 2020.

Section 2 of this statement sets out the investment objectives of the Scheme and changes which have been made to the SIP during the Scheme Year, respectively.

Section 3 describes the voting behaviour on behalf of the Trustees along with the relevant statistics over the year. The Trustees can confirm that all policies in the SIP have been followed in the Scheme Year.

A copy of the SIP is available at <https://www.nepia.com/statement-of-investment-principles/>.

Mercer Limited ("Mercer") has been appointed as discretionary investment manager by the Trustees. Pursuant to that appointment, scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

2. Statement of Investment Principles

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the objectives they have set.

The Trustees' primary objective is to meet the benefit payments promised as they fall due. The Trustees believe this objective will be best achieved by seeking an investment return having due regard to the nature of the liabilities ("secondary investment objective"). To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have considered their objectives and adopted the following:

- To hold sufficient investment in the Growth Portfolio assets to target full funding on a gilts +0.5% p.a. basis.
- To reduce the volatility in the funding level by reducing un-hedged liability exposure;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

Review of the SIP

During the Scheme Year, the Trustees reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant, Mercer.

A revised SIP was produced, dated September 2020, in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 to outline the Trustees' arrangements with its asset managers including:

- How the arrangements with the asset managers incentivise them to align their investment strategies and decisions with the Trustees' investment policies.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of the asset managers' performance and the remuneration of asset managers are in line with the Trustees' investment policies.
- How the Trustees monitor "portfolio turnover costs" incurred by the asset managers.
- The duration of the arrangements with the asset managers.

Assessment of how the Trustees' engagement policies in the SIP have been followed during the Scheme Year

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer-term where relevant, to set out how this work followed the Trustees' engagement policies in the SIP (dated September 2020), relating to the Scheme.

In summary, it is the Trustees' view that the engagement policies in the SIP have been followed during the Scheme Year.

3. 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. The Trustees keep the policy under regular review.

As noted in the SIP, the Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, 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, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The following work was undertaken during the year 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.

Policy Updates

- The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustees on a regular basis.
- The Mercer Sustainability Policy <https://investment-solutions.mercer.com/content/dam/mercero-subdomains/delegated-solutions/CorporatePolicies/Sustainability-Policy-March2021.pdf> is made available for the Trustees review at all times. In August 2020 the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020.

In March 2021 there was a further update in relation to sustainability–related disclosures in the financial services sector (“SFDR”) implementation.

- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive. <https://investment-solutions.mercer.com/content/dam/merc-subdomains/delegated-solutions/CorporatePolicies/Engagement%20Policy%20-%20MGIE%20and%20MGIM.pdf>

Climate Change Reporting and Carbon Footprinting

- Carbon Footprint analysis of all equity funds is completed on a six-monthly basis. From 31 December 2019 the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give the Mercer and MGIE investment teams additional information to drive engagement with managers.
- Since Q3 2020 carbon footprinting metrics for Mercer active equity funds have been included in the quarterly reporting reviewed by the Trustees, and a comparison of these against the metrics of their representative benchmarks. In the Q4 2020 report, this analysis was extended to include Mercer passive equity funds. Over 2020 there was a 15% reduction in the WACI across the Mercer discretionary equity funds and, as at 30 June 2021, all of the active equity funds used by the Scheme have a carbon intensity lower than the benchmark.

ESG Rating Review

- ESG ratings assigned by Mercer (and its affiliates’) global manager research team, are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. Since Q3 2020 the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer’s global investment manager database.
- As at 31 December 2020 the Trustees noted that 95% of Mercer Funds now have an ESG rating equal to or above their asset class universe, a 10% improvement on 2019.

Update to Exclusions

- As an overarching principle, Mercer and MGIE, as the Trustees discretionary investment manager, prefer an approach of positive engagement rather than negative divestment. However, Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainable themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.
- In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

Sustainably themed investments

- An allocation to Sustainable Equities is directly made by the Scheme.
- A detailed standalone report sustainability monitoring report is produced for the Active Sustainable Global Equity Fund on a semi-annual basis, including a more granular breakdown of the fund against ESG metrics, for example the UN Sustainability Development Goals, and is reviewed by the Trustees.

Diversity

- From 31 December 2020 Gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader investment policy.

4. Voting Activity

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers.

Further details are set out in Section 10 of the SIP (Environmental, Social, and Corporate Governance, Stewardship, and Climate Change).

The Trustees' investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third-party investment managers appointed by MGIE. MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustees do not use the direct services of a proxy voter.

The MGIE Engagement Policy outlines this framework: <https://investment-solutions.mercer.com/content/dam/merc-subdomains/delegated-solutions/CorporatePolicies/Engagement%20Policy%20-%20MGIE%20and%20MGIM.pdf>

Set out below is a summary of voting activity for the year to 31 August 2021 relating to the relevant Mercer Funds.

- **Voting:** As part of the monitoring of managers' approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

"Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds.

Voting Activity Summary 1 July 2020 to 30 June 2021

Voting data is produced on a quarterly basis by Mercer. Therefore, the period reported considers the latest available data, which cover the year to 30 June 2021.

Fund Name	Total Proposals	Vote Decision (%)					For/Against Mgmt (%)		Use of Proxy Advisor
		For	Against	Abstain	Unvoted	Others ¹	For	Against	
Mercer Fundamental Indexation Global Equity CCF	2,307	90	8	0	2	0	90	10	Yes
Mercer Global Small Cap Equity Fund	9,738	92	6	1	1	0	94	6	Yes ²
Mercer Low Volatility Equity Fund	7,610	93	5	1	1	0	94	6	Yes
Mercer Multi-Asset Credit Fund	24	63	0	38	0	0	93	7	Yes ³
Mercer Passive Emerging Markets Equity Fund	25,469	84	13	3	0	0	87	13	Yes
Mercer Sustainable Global Equity Fund	4,879	85	13	1	1	0	88	12	Yes

Sample of Significant Votes

Fund	Shareholder Proposal ("SHP")	Issuer	Vote Decision
Mercer Fundamental Indexation Global Equity CCF	Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement	RIO Tinto Ltd.	For
	Shareholder Proposal Regarding Climate Change Proxy Voting Practices	T. Rowe Price Assoc Inc.	For
	Shareholder Proposal Regarding Human Rights Risk Report	Thomson-Reuters Corp	For
	Shareholder Proposal Regarding Report on Alignment of Racial Justice Goals with Starting Pay	Walmart Inc	For
Mercer Global Small Cap Equity Fund	Shareholder Proposal Regarding TCFD Reporting	Toyo Seikan Group Holdings Ltd.	Against
	Shareholder Proposal Regarding Phase Out of Oil and Gas	Beach Energy Limited	For
	Shareholder Proposal Regarding Board Diversity Report	Badger Meter Inc.	For
	Shareholder Proposal Regarding Human Rights Reporting	Tesla Inc	Against
Mercer Low Volatility Equity Fund	Shareholder Proposal Regarding Formation of a Human Rights Risk Oversight Committee	American Tower Corp.	Against
	Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement	Exxon Mobil Corp.	For
	Shareholder Proposal Regarding Child Labor Linked to Electric Vehicles	Exelon Corp.	Against
	Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board	Alphabet Inc	Mixed ⁴
Mercer Multi-Asset Credit Fund ⁵	Shareholder Proposal Regarding Proxy Access Bylaw Amendment	Facebook Inc	Against
	Management Proposals Regarding Election of Directors	Nisource Inc. (Holding Co.)	For
	Management Proposal Regarding Advisory Vote on Executive Compensation	PG&E Corporation	Abstain
Mercer Passive Emerging Markets Equity Fund	Shareholder Proposal Regarding Election of Dissident Supervisory Board Member Nicola Northway	PG&E Corporation	Abstain
		Moneta Money Bank	Abstain

¹ Reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

² Proxy advisor not used by at least one underlying manager of the fund.

³ Due to the nature of the Mercer Multi Asset Credit fund, there are only a small number of equity holdings that can be reported on.

⁴ One manager voted for, one against.

⁵ Due to the nature of the Mercer Multi Asset Credit fund, there are only a small number of equity holdings that can be reported on.

Fund	Shareholder Proposal (“SHP”)	Issuer	Vote Decision
	Shareholder Proposal Regarding the Election of Two Shareholder Representatives	Emirates NBD PJSC.	For
Mercer Sustainable Global Equity Fund	Shareholder Proposal Regarding Deforestation Report	Procter & Gamble Co.	For
	Shareholder Proposal Regarding Report on Plastic Packaging	Amazon.com Inc.	Abstain
	Shareholder Proposal Regarding Racial Equity Audit	Amazon.com Inc.	Abstain
	Shareholder Proposal Regarding Human Rights Reporting	Tesla Inc	For