

Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustee produces an annual Implementation Statement which outlines the following:

- A summary of the changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year;
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. This Implementation Statement for the EE Pension Scheme (the "Scheme") has been prepared by the Trustee of the Scheme (the "Trustee") and covers the Scheme year, 1 January 2021 to 31 December 2021. The report only covers objectives and policies that apply to the DB section of the pension scheme.

Summary

Overall, the Trustee is of the opinion that, from the evidence reviewed, the stewardship carried out on behalf of the Scheme is adequate. The Trustee notes examples of the willingness and ability of PIMCO and Insight to engage proactively where appropriate.

Having said that, the Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time, for example, fund level examples of engagement from Legal and General Investment Management in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Changes to the SIP over the year to 31 December 2021

Aon conducted a review of the SIP and it was found compliant with current regulation. There were no further updates to strategy, other than those following the 2020 strategy review, and hence no updates were made to the SIP.

Meeting the objectives and policies as set out in the SIP that apply to DB section alone

The Trustee outlines in the SIP several key objectives and policies. The relevant sections are noted in *blue* in this report, together with an explanation of how these objectives and policies have been met and adhered to over the course of the year.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

1. Investment Objective

The overall return objective has been determined by the Trustee after an assessment of the Defined Benefit section's liabilities and associated risks of the Defined Benefit section of the Scheme and consultation with the Employer and is, based on the Actuarial Valuation date of 31 December 2018, as follows:

"To implement an investment strategy which targets an expected return over fixed interest gilts of at least 2.0% per annum (net of fees) until 31 December 2030, declining to 0.5% ahead of fixed interest gilts at 31 December 2040"

The Trustee recognises that targeting outperformance of the Defined Benefit section's liabilities requires the adoption of an asset mix that will perform differently from the liabilities. This implies that the funding level will be subject to volatility. The Trustee will measure and monitor this volatility using Value at Risk (VaR). The Trustee will aim to keep the VaR within an acceptable range determined by the Trustee after consultation with the Employer.

- Through its quarterly investment monitoring report the Trustee receives updates on the funding level of the Scheme, the performance of the Scheme's assets and how future expected returns and risk (VaR) compare to those stated in the investment objective.

2. Strategy

When choosing the Defined Benefit section's asset allocation strategy the Trustee considered written advice from its investment advisers and, in doing so, addressed the following:

- *The need to consider a full range of asset classes.*
 - *The risks and rewards of a range of alternative asset allocation strategies.*
 - *The suitability of each asset class.*
 - *The need for appropriate diversification.*
- The current investment strategy set out in the SIP was set following a detailed review and advice from the Trustee's investment adviser, Aon, and following consultation with the Employer regarding the change of investment strategy.

3. Risk

Due to the complex and interrelated nature of these (the Scheme's) risks, the Trustee considers the majority of risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks quarterly.

- Please refer to "Investment Objective" and "Implementation" for further details on how risks within the Scheme are monitored and reported. In addition to the regular monitoring, the Trustee reviews the risk within the investment strategy as part of the investment strategy review carried out triennially alongside the actuarial valuation.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

4. Implementation

The Trustee has delegated all day-to-day decisions about the Defined Benefit section investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts.

- Over the year the Trustee committed to three new illiquid mandates as a part of its long term goal of increasing the allocations to Illiquid Alternatives. These included Basalt, KKR and ISQ.

The Trustee took the following into consideration when making the decision:

- Utilisation of its investment adviser's manager research team to conduct necessary due diligence
- The return and overall risk of the investment
- The overall liquidity of the Scheme

Arrangements with asset managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies.

- The Trustee is supported in this monitoring activity by its investment adviser. Some of the detailed monitoring is often delegated to the F&ISC. This typically includes updates from the investment adviser on various items, including the investment strategy, assessment of fund managers, performance and longer-term positioning of the portfolio.

Investment performance monitoring

- The Trustee receives, typically on a quarterly basis, monitoring reports from its investment adviser outlining the valuation of all investments held, the performance of these investments and any significant transactions made during the quarter. Investment returns are compared against appropriate performance objectives. The asset allocation is also monitored and compared to the strategic asset allocation for the Scheme.
- Within this report, the Trustee receives an overview of each "buy" rated manager produced by Aon's manager research team giving a quarterly update on the rating of the manager. This includes an ESG rating for equity and fixed income managers where available.
- Aon continues to monitor the asset managers and report to the Trustee via the quarterly report, in person at meetings and through regular correspondence outside of meetings.

The Trustee shares the policies, as set out in this SIP, with the Scheme's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

- Over the year the Trustee committed to three new illiquid mandates as a part of its long term goal of increasing the allocations to Illiquid Alternatives. These included Basalt, KKR and ISQ. All investment managers confirmed their ability to meet the obligations as set out in the SIP.
- Aon will share the SIP with future Scheme's asset managers for their awareness of the Scheme's expectations and gather responses and raise any material concerns with the Trustee.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies.

- When assessing investment managers, both at initial appointment and on an ongoing basis, the Trustee ensures appropriate governing documentation is in place and sets clear expectations with investment managers.
- The Trustee along with its advisors will review governing documentation associated with any new investment to ensure consistency with Trustee policies and look to amend governing documentation where necessary.

Stewardship – Voting and Engagement

As part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- *Where appropriate, engage with relevant parties, such as investee companies; and*
- *Exercise the Trustee's voting rights in relation to the Scheme's assets, with an aim to protect and enhance the long term value of Scheme assets.*

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

- Aon collates annual stewardship reports containing details of activities of each manager, for example voting records. These voting records are outlined below in the Voting and Engagement section.

Cost and Transparency

The Trustee is aware of the importance of monitoring its asset manager's total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by the asset manager that can increase the overall cost incurred by their investments.

- Over the year the Trustee received the ClearGlass cost and transparency report for 2020. The statement provided a consolidated summary of all the investment costs incurred in having assets invested with the Scheme's investment managers over 2020. A breakdown of the costs into their various component parts was also provided, including the costs of buying and selling assets (transaction costs) incurred by the underlying managers. The Trustee reviewed the cost data and Aon provided some context in respect of other Schemes; the Trustee concluded that no action was required in this instance. Should the Trustee discover cost data that is out of line with its expectations, it will take appropriate action.
- The Trustee along with its advisors will continue to gather cost data for the Scheme's asset managers, including turnover costs, annually. An additional cost benchmarking exercise will be discussed when the 2021 data is collated and presented.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

The Scheme's stewardship policy

The relevant extract of the SIP (as at Scheme financial year-end 31 December 2021) covering the Scheme's voting and engagement policy is as follows:

"As part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- *Where appropriate, engage with relevant parties, such as investee companies; and*
- *Exercise the Trustee's voting rights in relation to the Scheme's assets, with an aim to protect and enhance the long term value of Scheme assets.*

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustees in determining the extent to which the Scheme's stewardship policy has been followed throughout the year.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with relevant persons, including an issuer of debt or equity, an investment manager, other stakeholders or another holder of debt or equity. The Trustee may engage on relevant matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest. In practice, based on the current strategy and fund structures, the Trustee delegates this to the asset managers."

Throughout this Statement, the Trustee reviews how the actions of the Scheme's investment managers have aligned with the expectations and principles set out in the SIP.

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Trustee’s Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Voting and Engagement – Equity

The Scheme currently invests in the Legal and General Investment Management (“LGIM”) Developed Balanced Equity Multi Factor Index Fund.

The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

Voting statistics

The voting statistics for the Developed Balanced Equity Multi Factor Index Fund over the reporting period can be found below.

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
Legal and General Investment Management (“LGIM”)				
Developed Balanced Equity Multi Factor Index Fund	10,329	99.9%	19.1%	0.1%

Voting policy

LGIM makes use of third-party provider Institutional Shareholder Services (“ISS”)’s proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools; it does not outsource any of its strategic decisions. LGIM has put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what it considers to be minimum best practice standards all companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example – Target

In June 2021, LGIM voted against a resolution to elect Target Corporation’s Chief Executive Officer (“CEO”), Brian C. Cornell, to be its Director as well. It is LGIM’s policy to advocate for the separation of CEO and board chair roles. Due to risk management and oversight reasons, LGIM believes these two roles to be substantially different and therefore requiring distinct skills and experiences.

Since 2015 LGIM has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 it has been voting against all combined board chair/CEO roles. Furthermore, LGIM has published a guide for boards on the separation of chair and CEO roles and has reinforced its position on leadership structures across all stewardship activities.

The outcome of the resolution was that 93.7% of shareholders were in favour of the resolution, whereas LGIM voted against the resolution. LGIM considers this vote to be significant as it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Engagement policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhance the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found in LGIM's engagement policy [LGIM's Engagement Policy 2020](#)

Engagement example

In 2021, a firm level example of ongoing LGIM engagement with investee companies is on the theme of anti-microbial resistance (“AMR”). LGIM states the overuse and inappropriate use of many antimicrobials in human activities are often linked to the uncontrolled release and disposal of antimicrobial agents which can last for prolonged periods of time. This includes antibiotics in water systems, like clean water and sewage. Notably, the current water sanitation and management systems have not been designed to address AMR concerns.

LGIM has reached out to 20 water utility companies through an open letter to understand if these investee companies are aware of this issue, specifically if they have plans to introduce effective monitoring systems to detect agents such as antibiotic-resistant bacteria and genes. In addition, it has hosted meetings with some of the companies, and discovered low awareness of AMR in most countries. The manager believes this is due to lack of regulatory requirements and/ or little perception of potential business risks to the individual company.

Following continued engagements, LGIM found several investee companies considering AMR. In particular, one utility company is seeking to understand what happens to emerging contaminants in the wastewater treatment process. As part of this research it has implemented a programme that will analyse the results to try to understand what improvements in their systems would be required to address it.

Through the series of engagement, LGIM stresses it is important to promote a more enhanced and standardised approach to AMR through influencing the regulatory landscape. As part of such, it is also working with its peers within the Investor Action on AMR initiative¹.

¹ [Investor Action on Antimicrobial Resistance \(amrinvestoraction.org\)](https://amrinvestoraction.org)

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Engagement – Fixed Income

The Scheme has material investments in the following Fixed Income funds:

PIMCO	Diversified Income Fund
Insight Investment Management	High Grade Asset Backed Securities Fund Bond Plus 400 Fund

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Scheme's fixed income managers over the reporting year.

PIMCO Diversified Income Fund

Engagement

PIMCO believes its size, scale and history as a fixed income manager gives it an influential platform to engage with issuers and drive positive change. PIMCO believes engagement is an essential tool for delivering impact for investors and can be a direct way for PIMCO to contribute to positive changes that may benefit all stakeholders, including investors, employees, society and the environment.

PIMCO aims to have an industry-leading engagement program among fixed income investment managers. By investing across a diverse asset class and group of issuers – including corporates, municipalities, sovereigns and others – PIMCO believes it is ideally positioned to drive meaningful change.

PIMCO's credit research analysts engage regularly with the issuers they cover. Topics of discussion with company management teams include corporate strategy, leverage and balance sheet management, as well as sustainability-related topics like climate change targets and environmental plans, human capital management, and board qualifications and composition.

Further detail on PIMCO's policy can be found here: <https://www.pimco.co.uk/en-gb/our-firm/policy-statements>

Engagement example

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. This engagement demonstrates PIMCO's willingness and capacity to leverage the full scale of its international credit analysts and ability to work collaboratively with issuers to encourage long term value creation and positive change.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

PIMCO notes that the Diversified Income Fund (the "Fund") is not an ESG focused fund and so engagement is not a key objective of this fund, however it does benefit from firm-wide engagement (including PIMCO's ESG focused strategies) to the extent it holds overlapping securities. Over the 2021 reporting period, PIMCO engaged with 312 issuers, amounting to 63% of entities within the Fund and 57% of total portfolio weighting. The outcome of the engagement resulted in a sustainability bond being issued by the West African Development Bank with an emphasis on high impact projects, primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Insight Investment Management ("Insight")

Engagement Policy

Pro-active engagement with issuers is a key part of Insight's credit analysis and monitoring and complements its approach to responsible investment. Given the size and depth of its credit analyst resource, one of the key inputs into Insight's ESG analysis is the direct information which it receives from companies via engagements that take place.

As a matter of policy, all Insight's credit analysts regularly meet with issuers to discuss ESG-related and non-ESG related issues. Each analyst identifies the engagement issues relevant for each specific issuer. Insight will then use ESG ratings and its proprietary carbon model to engage so-called 'laggard' companies. Meetings with company management provide the opportunity to raise these issues. Where meetings with management is not possible, or additional action is deemed appropriate in order to further the interests of its clients, Insight may consider raising the issue(s) with the company's broker or, if appropriate, the chairman. Further to this if Insight does not receive a response from the issuer regarding engagement, then it will lead on a wider collaborative initiative, via the PRI² or by engaging with other investors, to achieve greater influence over the issuer.

Additionally, as a global investment manager, the company plays an important role in financial markets. Insight therefore believes that it must take proactive steps in ensuring the long-term sustainability of markets – which are in its clients' long-term interests, as well as that of wider society.

Long-term initiatives include:

- Active engagement with other industry members to ensure Insight's clients' rights and considerations are fully represented, including:
 - Joining the Working Group on Sterling Risk-Free Rates.
 - Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.
 - Collaborating with peers on a range of issues, such as credit risk and ratings with the PRI initiative.
 - Encouraging issuers to submit their carbon emissions to CDP (formerly Carbon Disclosures Project) .
- Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.

² [PRI | Home \(unpri.org\)](https://www.unpri.org)[PRI | Home \(unpri.org\)](https://www.unpri.org)

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

- Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions - a key issue for pension funds seeking to manage risk effectively over the long term.
- Supporting the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through Insight's Advisory Council role with the Green and Social Bond Principles.

These engagements inform the overall credit analyst views of the companies and provide a platform not only for both increased transparency around ESG issues, but also ongoing engagement to change company behaviour, where appropriate.

Insight High Grade Asset Backed Securities Fund

Engagement Example – Together Financial Services

In Q2 of 2021, Insight engaged with a Financial Services company, Together. Its analyst had a one-to-one meeting with the senior management at Together to discuss the company's responses to Insight's ESG template. The two areas of weakness identified were environmental issues and social impact. Regarding environmental issues, the senior management had not taken the time to monitor risks or stress test the company for future risks. Together do not incorporate any climate risks within its loans beyond standard business practice.

Regarding social impact Insight would like to see Together doing more on ensuring borrowers have flexible terms when a change in circumstances arises. The policies regarding third-party services need to be better governed with complaints independently evaluated. Insight scores companies on its ESG rating where a one represents the best possible score and a five represents the worst possible score. Insight views Together as a well-managed business from an ESG perspective and has rated it 3 overall.

Insight Bond Plus 400 Fund

In Q3 of 2021, Insight engaged with Transport for London ("TFL") regarding the company's ESG trajectory. It engaged with TFL to discuss TFL's overall carbon transition plans and its overall ESG strategy. Insight started the discussion by asking about TFL's transition plans for its bus fleet. TFL has the largest bus fleet in the world and is targeting a fully electric fleet by 2037. Insight asked the reason for the long transition period preferring a more aggressive programme to move to electric. The rationale behind the later transition is that it costs £1bn to scrap the current bus fleet earlier. TFL also pointed out it is already trialling hybrid buses and electric buses. Insight asked TFL about the Greater London Authority's plans on improving air quality and the disclosed information about their plan to invest in renewables on their own sites such as through solar generation on roof tops. TFL also has plans to use the heat on tube networks to deliver heating solutions.

The engagement confirmed that TFL is making convincing strides to transition to a lower carbon footprint. Overall, Insight was pleased with the transition plans and the governance framework to ensure they are met. TFL has been issued a one ESG rating with top scores for Environmental and Governance.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Engagement – Alternatives

The Scheme invests in a number of other strategies such as property, private credit and infrastructure.

While the Trustee acknowledges the ability to engage and influence companies through property, private debt holding and infrastructure investments may be limited in comparison to pure equity holdings, the Trustee is encouraged from the information received that the applicable managers are generally aware of ESG risks and opportunities and of their role as stewards of capital. Given the limited ability to engage and influence only a subsection of the Scheme's investment managers engagement data is shown within the statement. Those not shown are listed below:

- UBS – Triton Property Fund
- Standard Life – Pooled Property Fund
- Chorus Capital – Credit Fund IV
- Basalt – Infrastructure Partners III
- KKR – Diversified Core Infrastructure Fund
- ISQ – Global Infrastructure Fund III

The following policies and examples demonstrate the positive engagement activity of managers on behalf of the Scheme.

Aviva Investors Global Services Ltd (“Aviva”) - Realm Multi Sector Fund

The Realm Multi Sector Fund is a fund of funds and aims to provide investors with access to a diversified pool of secure income assets. As the Realm Multi Sector Fund is a fund of funds, it does not carry out any engagement activity directly.

Engagement policy

At present Aviva does not report at entity, fund or mandate level on engagement. This is because:

- Where real assets managers invest in companies, the companies are not listed and so don't operate a traditional listed company voting system.
- Where real assets managers invest directly, the manager's staff make decisions about how the asset is managed, so there is no 'company' to engage with.
- Where real assets managers invest in private debt, the opportunity to engage with counterparties concerns only the management of the secured asset, and not the general management of the borrowing company itself.

Aviva believes engagement in real assets is via structured interaction on environmental and social issues with the occupier, sponsor or counterparty. The engagement should be carried out through the transaction process, or through ongoing investment management if possible.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Aviva's team engage by:

- 1) Including ESG covenants in its transactions to mandate positive change from its sponsors over the lifetime of the loan; and
- 2) Providing financial incentives to encourage positive behaviours such as reducing energy use or installing renewable energy equipment.

Engagement Example

At a firm level, Aviva believes efforts to decarbonise the real estate sector must involve a greater level of cooperation between landlords and tenants to improve the sustainable occupancy and management of buildings. During a lease regear Aviva expanded the lease term for a major retailer to seven years and provided a three-month rent-free incentive, worth approximately £275,000. This financial incentive was linked with the requirement to improve the Energy Performance Certificate ("EPC") rating of the warehouse asset from a D to a B or higher. Reducing emissions generated by its assets is essential for Aviva to meet its net zero 2040 targets.

Increasing the EPC rating through installing energy-efficient technology helps reduce energy consumption and associated emissions, creating a future proofed asset whilst reducing costs for occupiers.

M&G Investments ("M&G") - UK Residential Property Fund

Engagement policy

M&G developed its engagement process, adopting the Sustainable Accounting Standards Board ("SASB") framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages. Since 2019 M&G has created a question databank of over 600 sector-specific ESG questions. These highlight key material risks and themes as identified by both SASB and its own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative ("TPI") and World Economic Forum ("WEF") Climate Governance guidelines to further build its capability to identify financially material risks on a sector-by-sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies dependent on their sector and ensures that when there is a potentially material risk, M&G is able to identify and act on it in an efficient way.

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G's Fixed Income teams to understand their engagement activities, participate in ESG-related engagements and help to coordinate engagements across asset classes where appropriate.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Hayfin Capital Management (“Hayfin”)- Direct Lending

Engagement policy

Hayfin is an active member of several collaborative initiatives. In addition to being a signatory to the UN PRI since 2018 and a supporter of the Task Force on Climate-Related Financial Disclosures (“TCFD”) since 2021, Hayfin has, over the last 12-months, engaged with other investors and stakeholders to drive change. Hayfin recognises that collaboration on specific issues can be more effective in amplifying that change. Some of the issues Hayfin has focused on include the lack of ESG data available to lenders and the evolution towards carbon neutrality, specifically for the maritime industry.

Summary

The Trustee is of the opinion that, from the evidence reviewed, the managers are exercising their respective voting and engagement duties, where applicable, to a satisfactory level consistent with the Trustee's stewardship policy.

However, the Trustee notes there is still room for improvement in the quality of disclosures available and expect to see this improve over time with more specific examples across all asset classes.

Whilst the Trustee acknowledges that stewardship may be less applicable to certain asset classes, particularly alternatives, it expects to see RI policies and processes formalised and developed over time and will continue to monitor progress on this front.

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Annual Statement of Investment Principles Implementation Statement

EE Pension Scheme ('the Scheme') – DC Section

Introduction

This statement, prepared by the Trustee of the Scheme ("the Trustee"), sets out how, and the extent to which, the Statement of Investment Principles ("SIP") has been followed during the year to 31 December 2021 ("the Scheme year"). This statement covers the DC Section of the Scheme and should be read in conjunction with the Defined Contribution Section of the Scheme's SIP.

In addition, this statement also describes any reviews and changes to the SIP during the Scheme year and sets out details of voting behaviour that has been carried out, on behalf of the Trustee, by the investment managers during the Scheme year.

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 objective of the Scheme included in the DC Section of the SIP is as follows:

"The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options for this purpose.

*For members who do not wish to take an active role in investment decisions, the Trustee offers a **default option** ("Do it for me") which includes lifestyling arrangements to de-risk investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. More details regarding the default options are available in Appendix B (DC Members) and Appendix C (AVCs) of this Statement."*

Investment Structure

The DC Section of the Scheme has a delegated investment arrangement in place. The DC Section invests in a range of funds on the Scottish Widows insurance platform. These funds are made available through the Trustee's arrangement with Mercer Workplace Savings ("MWS"). Members are able to access funds managed by Mercer Global Investments Europe Limited ('MGIE'), BlackRock, BMO, LGIM and HSBC. MGIE operates on a 'manager of managers' basis, appointing underlying fund managers to its funds under management. MGIE has discretion on the allocations to the underlying fund managers and the selection of those managers.

The Trustee has ultimate oversight responsibility of this delegated arrangement and monitors this arrangement regularly and the performance of the funds on a quarterly basis.



Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Review of the SIP

The Trustee reviewed and amended the Scheme's SIP once during the Scheme year to reflect the latest AVC arrangements.

- For the legacy DB AVC members invested in the Utmost Money Market Fund, these members were transferred into a new AVC arrangement, which mirrors the Scheme's DC arrangement with Scottish Widows.
- The Trustee also held an AVC policy with Fidelity. Following a review by the Trustee in January 2021, members' AVC assets invested under this policy were subsequently transferred to the Scheme's AVC arrangements with Scottish Widows.
- Removed the wording on the legacy Utmost Life arrangements which were removed in 2020.
- The AVC arrangements with Scottish Widows are now the sole AVC policy.

Assessment of how the policies in the SIP have been followed for the year to 31 December 2021

The information provided in the following table highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP. The SIP sets out the policies referenced below.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme year to 31 December 2021.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

	Requirement	Section of the SIP where the policy can be found	In the year to 31 December 2021
1	Securing compliance with the legal requirements about choosing investments	DC Section 2. Investment Policies	<p>The Trustee has established a Funding & Investment Committee which meets regularly to monitor the controls and processes in place in connection with the Scheme's investments. The Scheme's investment advisors attended all Funding & Investment Meetings during the year and provided updates on Scheme performance.</p> <p>Over the year to 31 December 2021, the following changes were made to the AVC arrangements:</p> <ul style="list-style-type: none"> • For the legacy DB AVC members invested in the Utmost Money Market Fund, these members were transferred into a new AVC arrangement, which mirrors the Scheme's DC arrangement with Scottish Widows. • The Trustee also held an AVC policy with Fidelity. Following a review by the Trustee in January 2021, members' AVC assets invested under this policy were subsequently transferred to the Scheme's AVC arrangements with Scottish Widows. • The AVC arrangements with Scottish Widows are now the sole AVC policy. <p>In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of a suitably-qualified investment advisor. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).</p>
2	Kinds of investments to be held	DC Section 2. Investment Policies	<p>Within the Scottish Widows DC Platform, there have been no changes during the Scheme year to the kinds of investments held and the balance between investments in the Scheme.</p> <p>As noted above, the AVC arrangements with Scottish Widows are now the sole AVC policy. The continued suitability of the funds is assessed quarterly through performance reporting.</p> <p>The arrangements in place are consistent with the policies in the SIP.</p>

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Requirement	Section of the SIP where the policy can be found	In the year to 31 December 2021
3	The balance between different kinds of investments	<p>DC Section</p> <p>2. Investment Policies</p> <p>The last formal Trustee review of the DC investment arrangements was undertaken in June 2019. The purpose of the review was to consider whether the default investment strategy of the Scheme, which is a lifestyle which targets drawdown, remains appropriate for the DC Section. The review concluded that the lifestyle remained appropriate.</p> <p>The MWS arrangement in place is a delegated investment arrangement. The delegated investment manager regularly monitors the arrangements in place and produces a more formal review annually. A review was produced in May 2020 that reviewed the ongoing suitability of the strategies and funds used. However, no changes as a result of this review required updates to the SIP.</p>
4	Risks, including the ways in which risks are to be measured and managed	<p>DC Section</p> <p>Section 3. Risk</p> <p>There were no material changes to this policy during the Scheme year.</p> <p>As detailed in the risk table in the SIP, the Trustee considers both quantitative and qualitative measures for risks when deciding investment policies, strategic asset allocation, the choice of delegated investment manager / fund managers / funds / asset classes.</p> <p>The Trustee has delegated to the Funding & Investment Committee responsibility for assessing (in conjunction with investment consultant) the performance delivered by the delegated investment arrangements and their ongoing suitability for the Scheme's membership. The Committee reviewed the measurement of these risks on a quarterly basis during the year as part of their regularly investment performance monitoring. The investment performance monitoring reports were provided by the Scheme's investment consultant. Any issues identified / discussed with the Committee were raised and discussed with the Trustee, however no issues warranted a change in investments / managers.</p> <p>The Trustee is comfortable with the manager ratings applied by its investment consultant and continues to closely monitor the ratings and any significant developments at each of the underlying investment managers.</p> <p>In member-facing communications, the Trustee highlights a number of risks that a member may face as a result of investing in any particular funds.</p>

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

	Requirement	Section of the SIP where the policy can be found	In the year to 31 December 2021
5	Expected return on investments	DC Section 2. Investment Policies	<p>There was no change to this policy during the Scheme year. The investment performance was reviewed by the Funding & Investment Committee on a quarterly basis. Any issues identified / discussed with the Committee were raised and discussed, however no issues warranted a change in investments / managers.</p> <p>Investment performance reports are provided on a quarterly basis to the Trustee, including how each fund or strategy were delivering against their specific mandates. The Trustee reviews performance on an ongoing basis – including additional monitoring of the Scheme's main investments as a result of heightened market volatility under the Covid-19 pandemic.</p>
6	Realisation of investments	DC Section 7. Implementation and Engagement Policy	<p>There were no changes during the year to the liquidity of the funds used by the Scheme. All assets are daily-dealt pooled investment arrangements, with assets mainly invested in regulated markets, and therefore should be realisable at short notice in response to member demand.</p> <p>The funds used by the Scheme are accessed via an investment platform and are held through a long-term insurance policy issued by Scottish Widows. The investment funds are commingled investment vehicles that are managed by various investment managers. The selection, retention and realisation of assets within the pooled funds are managed by the respective investment managers in line with the mandates of the funds. There were no liquidity issues over the year.</p>
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	DC Section Section 3. Risk	<p>There were no material updates to this policy during the year.</p> <p>The Trustee believes the appropriate time horizon over which to assess these considerations should be viewed at a member level (depending on their need to fund future benefits by investments of the Scheme). This will be dependent on the member's age and when they expect to retire.</p> <p>The investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific ESG) from the investment advisers. All of the managers remained highly rated during the year. The investment performance report also includes detail on how each investment manager is delivering against their specific mandates.</p>

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

	Requirement	Section of the SIP where the policy can be found	In the year to 31 December 2021
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	DC Section 2. Investment Policies	No changes during the year to this policy and the policy reflects current practice. Non-financial matters, such as member and beneficiary ethical views, views in relation to social and environmental impact, and their present and future quality of life, are not explicitly taken into account in the selection, retention and realisation of investments. However, the Trustee does make available an Ethical Fund and a Shariah Fund, which consider the views of members and their non-financial concerns.
9	The exercise of the rights (including voting rights) attaching to the investments	DC Section 7. Implementation and Engagement Policy	The Trustee does not use the direct services of a proxy voter. The delegated investment manager and underlying fund managers have discretion over exercising voting rights and stewardship obligations. The delegated investment manager has a responsible investment framework in place and reviews the underlying investment managers and funds in line with this framework on an annual basis.
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustee would monitor and engage with relevant persons about relevant matters)		The Trustee has requested key voting activities from MWS during the Scheme year in order to consider this, and the information received is summarised in the Engagement Policy Statement that follows. The Trustee annually receives and reviews MWS's Stewardship policies.
11	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies	DC Section 7. Implementation and Engagement Policy	As the Trustee invests in pooled investment vehicles it accepts that it has no ability to influence the delegated investment manager and investment managers to align their decisions with the Trustee policies set out in this Statement. However, appropriate mandates are selected to align with the overall investment strategy. The Trustee reviewed the performance of the Plan's funds quarterly. There was one concern over 2021. A change in fund objectives occurred once in 2021 due to a change in benchmark from LIBOR (London Interbank Offered Rate) to SONIA (Sterling Overnight Index Average) for one investment fund used by the Scheme, following the discontinuance of LIBOR as a cash benchmark. The Trustee reviewed the continued suitability of affected funds and was comfortable that the differences between LIBOR and SONIA are sufficiently minor that no action was required.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

	Requirement	Section of the SIP where the policy can be found	In the year to 31 December 2021
12	How the arrangement incentivises the asset manager 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	DC Section 7. Implementation and Engagement Policy	At regular monitoring meetings, the Trustee receives information on investment decisions taken over the recent period.
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies	DC Section 7. Implementation and Engagement Policy	The Trustee has reviewed both short term and longer term investment performance on a quarterly basis during the year and informally intra-meeting. There were no performance concerns raised in 2021. In 2021, the Scheme benchmarked the investment management fees paid by members and successfully negotiated a reduction in the Mercer Growth Fund of 0.04% p.a., which will be implemented in 2022.
14	How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range	DC Section 7. Implementation and Engagement Policy	The Trustee considers the levels transaction costs as part of their annual Value for Members assessment, last carried out as at 31 December 2021 and by publishing this information as part of the costs and charges disclosures mandated by regulations governing the Chair's Statement. As the Scheme invests through pooled funds, the Trustee is unable to define target portfolio turnover ranges for funds. However, they will engage with an underlying investment manager if portfolio turnover is higher than expected.
15	The duration of the arrangement with the asset manager	DC Section 7. Implementation and Engagement Policy	The Trustee reviewed the performance of the Scheme's funds quarterly. There were no concerns over 2021.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Engagement Policy Statement

Section 4 of the DC Section of the SIP sets out the Trustee's policy on ESG factors, stewardship and climate change. The Trustee believes that environmental, social, and corporate governance ("ESG") factors 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process.

Voting Activity during the Scheme year

The Trustee has delegated their voting rights to the investment managers. The SIP states:

"The Trustee and the Delegated Investment Manager expect investment managers to incorporate the consideration of medium to long term financial performance longer term factors, such as ESG factors, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments, undertaken by the Delegated Investment Manager. Voting and engagement activity should be used by investment managers to discuss and improve the medium to long term performance of an issuer of debt or equity."

It is the Trustee's view that the policy has been followed during the Scheme year. The MWS Statement with regards to Climate change management reporting, including stewardship policy, is available at: <https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer%20Workplace%20Savings%20-%20TCFD%20Statement%20-%20April%202020.pdf>

Over the prior 12 months, the Trustee has not actively challenged the delegated investment manager or the investment manager of the externally managed fund on their voting activity. The Trustee does not use the direct services of a proxy voter.

The majority of voting activity will arise in public equity funds, though voting opportunities may arise in other asset classes such as certain bonds, property, private equity and multi-asset funds. For the purposes of this statement, the Trustee has reported voting information with respect to all funds that hold equity and reported on the significant votes with respect to the main investment options used by the Scheme.

The Scheme invests in the daily dealt and daily priced pooled funds detailed below. The funds highlighted in bold hold equities:

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Investment option	Investment Strategy	Fund Name
Default	Growth Phase	Mercer Growth Fund
Default	Mercer SmartPath Drawdown	Target Drawdown 2022 Fund Target Drawdown 2023 Fund Target Drawdown 2024 Fund Target Drawdown 2025 Fund Target Drawdown 2026 Fund Target Drawdown 2027 Fund Target Drawdown 2028 Fund Target Drawdown 2029 Fund Drawdown Retirement Fund
Lifestyle	Growth Phase	Mercer Growth Fund
Lifestyle	Mercer SmartPath Annuity	Target Annuity 2022 Fund Target Annuity 2023 Fund Target Annuity 2024 Fund Target Annuity 2025 Fund Target Annuity 2026 Fund Target Annuity 2027 Fund Target Annuity 2028 Fund Target Annuity 2029 Fund Annuity Retirement Fund
Lifestyle	Mercer SmartPath Cash	Target Cash 2022 Fund Target Cash 2023 Fund Target Cash 2024 Fund Target Cash 2025 Fund Target Cash 2026 Fund Target Cash 2027 Fund Target Cash 2028 Fund Target Cash 2029 Fund Cash Retirement Fund

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Investment option	Investment Strategy	Fund Name
Self-Select Funds		Defensive Fund Diversified Retirement Fund Growth Fund High Growth Fund Moderate Growth Fund Cash and Money Market Fund Diversified Growth Fund Emerging Markets Equity Fund Ethical Fund European ex-UK Equity Fund Fixed Interest Gilt Fund Global Equity (60/40) Fund Index-Linked Gilt Fund Japanese Equity Fund Overseas Equity Fund Pacific Rim ex-Japan Equity Fund Pre-Retirement Fund Property Fund Shariah Fund UK Corporate Bond Fund UK Equity Fund US Equity Fund Global Listed Infrastructure

Overview of MGIE approach to voting and engagement

MGIE's policy on consulting with clients before voting

The legal right to vote belongs to the relevant fund, as the owner of the securities. The voting activity is delegated to the external underlying investment managers as appointed by MGIE, as the investment manager for the investment vehicles in which clients are invested. MGIE expects underlying investment managers to comply with its Engagement Policy and will seek to ensure that obligations under this Engagement Policy are discharged by the underlying investment managers. The Engagement Policy is available here: <https://investment-solutions.mercer.com/global/all/en/investment-solutions-home/corporate-policies.html>

MGIE's process for deciding how to vote

MGIE has developed adequate and effective strategies for determining when and how any voting rights in funds are to be exercised, to the exclusive benefit of the fund and its investors. MGIE has put in place a policy covering each fund to ensure the exercise of voting rights are in accordance with the investment objective and policy of the fund. Mercer will provide a report on an annual basis which provides an overview of underlying investment manager engagement processes, significant votes, use of proxy advisers and engagement examples.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

MGIE's proxy voting services

An overview on the use of any proxy voting services by underlying investment managers will be provided by Mercer on an annual basis going forward.

MGIE's Processes for determining the most significant votes

MGIE determine significant votes based on its Engagement Priorities, as set out in the Beliefs, Materiality and Impact (BMI) Framework in the MGIE Sustainable Investment Policy, which is available at: <https://investment-solutions.mercer.com/content/dam/mercercor-subdomains/delegated-solutions/CorporatePolicies/Mercer%20DSE%20Sustainable%20Investment%20Policy.pdf>

The significant votes outlined are votes relating to shareholder resolutions with a specific focus on Climate Change, Modern Slavery and Diversity (i.e. the engagement priority areas in the BMI framework). When there are a large number of votes in any one fund relating to these priority areas / themes we consider the size of the holding within the fund.

MGIE's policy with respect to conflicts of interest

MGIE applies an effective written conflicts of interest policy and has put in place procedures and measures for the prevention or management of conflicts of interest including where such conflicts may arise due to how it engages with the companies it invests in. A conflicts of interest policy is published here: <https://investment-solutions.mercer.com/global/all/en/investment-solutions-home/corporate-policies.html>

MGIE operates on a manager of managers basis, appointing underlying investment managers to its funds under management, and does not hold only securities directly on behalf of clients. The underlying investment managers manage the voting processes, therefore there is no conflict of interest involving MGIE as the investment manager.

MGIE's additional comments with respect to voting activities or processes

MGIE accepts that underlying investment managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled underlying investment managers to vote based on their own proxy-voting execution policy.

Source: MWS

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Fund	Mercer Defensive	Mercer Moderate Growth	Mercer Growth	Mercer High Growth	Overseas Equity Fund	UK Equity	Global Equity (60:40)	US Equity
Total DC Scheme Allocation at 31 December 2021	0.2%	0.2%	70.6%	0.3%	3.9%	3.5%	1.5%	0.4%
Number of meetings eligible to vote at over year to 31 December 2021	2,202	11,005	11,005	11,005	2,191	1,195	2,605	607
Number of resolutions eligible to vote on over year to 31 December 2021	26,178	111,475	111,475	111,475	26,821	15,457	32,220	7,399
Of the resolutions voted on, percentage voted with management	87.1%	83.1%	83.1%	83.1%	89.4%	92.0%	92.8%	95.3%
Of the resolutions voted on, percentage voted against management	11.3%	15.7%	15.7%	15.7%	9.6%	6.1%	7.2%	4.7%
Of the resolutions voted on, percentage abstained	1.6%	1.2%	1.2%	1.2%	0.8%	2.0%	0.4%	0.1%

Source: MWS, BlackRock.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Fund	Japanese Equity	Emerging Markets Equity	Ethical Fund	European (ex-UK) Equity	Asia Pacific (ex-Japan) Equity	Shariah Fund	Global Listed Infrastructure	Diversified Growth	Diversified Retirement
Total DC Scheme Allocation at 31 December 2021	0.2%	0.3%	0.7%	0.1%	0.5%	0.3%	0.0%	0.8%	0.0%
Number of meetings eligible to vote at over year to 31 December 2021	506	2,815	1,133	413	454	108	27	11,005	3,580
Number of resolutions eligible to vote on over year to 31 December 2021	5,938	24,750	7,447	6,495	3,228	1,650	356	111,475	44,474
Of the resolutions voted on, percentage voted with management	97.5%	82.3%	79.5%	85.0%	88.1%	89.0%	87.3%	83.1%	84.1%
Of the resolutions voted on, percentage voted against management	2.5%	15.1%	19.7%	14.0%	11.7%	11.0%	9.4%	15.7%	14.7%
Of the resolutions voted on, percentage abstained	-	2.6%	0.8%	1.0%	0.2%	-	3.3%	1.2%	1.2%

Source: MWS, BlackRock.

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Sample of significant votes undertaken in the MGIE funds for the 12 months to 31 December 2021

Managers have provided examples of significant votes across the funds previously noted as containing equity. Given the volume of voting activity across the funds, for the purpose of this statement, we have disclosed significant voting activity of funds used in the default strategy, where the majority of members' assets are invested.

Significant vote #1	
Funds that vote is relevant to	Mercer Growth Fund
Company	Microsoft Corporation
Date	30/11/2021
Resolution	Shareholder Proposal Regarding Implementation of the Fair Chance Business Pledge
Vote	For
Outcome	Approved

Significant vote #2	
Funds that vote is relevant to	Mercer Growth Fund
Company	Apple Inc
Date	23/02/2021
Resolution	Shareholder Proposal Regarding Improvements in Executive Compensation Program
Vote	Against
Outcome	Approved

Significant vote #3	
Funds that vote is relevant to	Mercer Growth Fund
Company	Alphabet Inc
Date	02/06/2021
Resolution	Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board
Vote	For
Outcome	Approved

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Trustee's Report – Investment Matters (continued)

EEPS Implementation Statement (continued)

Significant vote #4

Funds that vote is relevant to Mercer Growth Fund

Company Amazon

Date 26/05/2021

Resolution Elect Jeff Bezos

Vote Against

Outcome Approved

Significant vote #5

Funds that vote is relevant to Mercer Growth Fund

Company Microsoft Corporation

Date 30/11/2021

Resolution Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report

Vote For

Outcome Approved

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