Stewardship and Engagement

Implementation Statement – 1 April 2022 to 31 March 2023

1. Introduction

This document is the Annual Implementation Statement ("the statement") which has been prepared by the Trustee with the assistance of the Scheme's Master Manager Russell Investments[1] and covers the Scheme year ("the year") from 1 April 2022 to 31 March 2023.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policy on engagement and voting as set out in the Statement of Investment Principles ("the SIP") has been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of proxy voting services during the year.

The SIP is a document which outlines the Trustee's policy with respect to various aspects related to investing and managing the Scheme's assets including but not limited to: oversight of Investment Managers, portfolio construction and risks.

Over this period, the Scheme had two SIPs in effect; the earlier version of the SIP dated 1 October 2020 and the most recent version of the SIP effective on and from 24 February 2023. The SIP was updated to include new policies to adhere to regulatory requirements.

In preparing this statement, only the SIP effective on and from 24 February 2023 has been considered. The Trustee is satisfied that the policies described in the most recent version of the SIP dated February 2023 are the same or more rigorous than the earlier version of the SIP dated October 2020. The latest version of the SIP can be found online at ngukgaspension.co.uk/documents.

2. How the Trustee has adhered to the engagement and voting policy

The Trustee's engagement and voting policy as outlined in the SIP is as follows:

The Trustee believes that active ownership (voting and engagement) is the most appropriate channel to promote positive environmental, social and governance ("ESG") practices. All of the Scheme's assets are managed externally by the appointed investment managers and overseen by the Master Manager. As such, the Trustee delegates active ownership to the investment managers, and delegates the responsibility for overseeing the investment managers' active ownership practices to the Master Manager.

The key role of active ownership to promote positive ESG practices is reflected in the Trustee's Responsible Investment ("RI") Policy. This sets out the approach to integrate ESG/RI considerations to the different parts of the Scheme's investment process and aims to drive the Scheme towards best practice.

The RI Policy articulates requirements to the external Investment Managers to engage and vote on the Scheme's behalf. The Trustee, via its in-house team Trustee Executive Limited ("TEL") and, since 1 December 2021, via Russell Investments, continuously engages with its external investment managers to monitor compliance with this framework. Furthermore, the framework enables the Trustee to either unilaterally or collaboratively undertake direct engagement on themes and topics that are particularly relevant to the Scheme.

Over the year, the Trustee has undertaken the following actions in line with its RI Policy:

- TEL and Russell Investments monitored the external investment managers and their mandates on an ongoing basis and met with each manager at least quarterly. During these meetings, the integration of RI/ESG into the investment processes, risk management and engagement activities of the investment managers were challenged and discussed. A particular focus during these meetings was the identification and assessment of climate-related risks and opportunities in their investment processes and engagement

[1] Appointed 1 December 2021. The role of the Master Manager is to provide oversight and implementation of investments with the in-house team Trustee Executive Limited ("TEL") and the Trustee retaining responsibility for strategic asset allocation.

approaches. In line with the Scheme's Climate Change Strategy, TEL and Russell Investments have worked to ensure the Scheme was fully divested from thermal coal-related assets by the end of the year.

- In Q1 2023, Russell Investments rolled out its new Active Ownership Enhanced Oversight process which seeks formalised input on the key ESG risks and engagement opportunities identified by the managers to strengthen the understanding of the managers' ESG assessments.
- TEL and Russell Investments have monitored the extent to which the external investment managers' engagement activities are aligned with the Trustee's Key Engagement Themes that are set on an annual basis. Overall, the investment managers' engagement activities were found to have sufficient focus on the Trustee's Key Engagement Themes.
- Over the year, Russell Investments formalised its stewardship operating model for the Scheme assets which is based on two pillars: (1) Active ownership activities of the third-party investment managers that are responsible for the day-to-day management of the Scheme's portfolios. Activities include direct engagement, collaborative engagement and proxy voting. (2) Active ownership activities of Russell Investments itself, which include direct engagements, collaborative engagement, active participation in industry consultations and collaborations as well as third party manager monitoring.
- Summarising the outcomes of its continuous monitoring activities, Russell Investments has reported RI/ESG ratings of the external investment managers in the quarterly manager reports to TEL and the quarterly reporting received by the Trustee. Where appropriate, Russell Investments provides key observations and highlights changes from previous quarters.
- Furthermore, Russell Investments provides a quarterly ESG report which includes various RI/ESG-related metrics like ESG risk scores, temperature alignment measures and carbon footprint; that support the Trustee in its assessment of the Scheme's total exposure to climate change risk.
- Consistent with the Trustee beliefs and RI Policy, TEL has continued the dialogue on ESG/RI matters with the insurers that it has entered into buy-in transactions with. This included the provision of climate change-related metrics for inclusion in the Scheme's Taskforce for Climate-related Financial Disclosures ("TCFD") compliant reporting, which created further transparency regarding the ESG/RI characteristics of the insurers' investment portfolios.
- With regards to collaborative engagement, in February 2021 the Scheme joined the Paris Aligned Investment Initiative ("PAII") Net Zero Asset Owner Initiative, thereby committing to transition the Scheme's investments to achieve net zero portfolio greenhouse gas emissions by 2050 or sooner. This commitment is in line with the ambitions of the Paris Agreement to limit the average temperature increase to 1.5°C above pre-industrial levels and is also consistent with National Grid's own ambitions in this area. In 2022, the Scheme disclosed its initial targets which were publicly shared alongside that of other asset owners in the Paris Aligned Asset Owners initial target disclosure report.
- The Scheme formally joined the Institutional Investors Group on Climate Change (IIGCC) in 2018 to share best practices across industry practitioners and to facilitate information sharing and collective knowledge building. Over the past year, the Scheme has had multiple discussions with the IIGCC to share best practice development around climate metric performance attribution and baselining principles of climate targets. The Scheme is also an asset owner supporter of Climate Action 100+.

The Appendix summarises the voting behaviour and use of proxy voting services of the external investment manager that managed the Scheme's equity investments during the year. Furthermore, the Appendix summarises the key engagement activities of the external investment managers that manage the Scheme's public debt investments which do not hold voting rights but do provide the opportunity to drive change by engaging with the underlying issuers.

3. Conclusion

The Trustee believes that the engagement policy, as outlined in the SIP, has been adhered to over the year.

Following the monitoring of the Scheme's investment managers over the year and reviewing the voting information and engagement activities outlined in this statement, the Trustee is satisfied that the external investment managers stewardship activity has been undertaken in the Scheme members' best interests to help drive long-term value. The Trustee believes that the investment managers are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis.

Appendix

This section focusses on the Scheme's equity investments, which have voting rights attached, and the engagement activities regarding the Scheme's public debt investments that do not hold voting rights but provide the opportunity to drive change by engaging with the underlying issuers. Over the year, all of the Scheme's equity investments were managed by Legal & General Investment Management (LGIM). The investment managers LGIM and AXA managed the Scheme's public debt investments which come with the opportunity to engage with the issuers.

As set out in the SIP, the Trustee's policy is to delegate the exercising of voting rights to the Scheme's external investment managers. The Scheme's investment managers have their own voting policies which determine their approaches to voting, and the principles they follow when voting on their investors' behalf. The Master Manager reviews the managers' approaches to voting and engagement annually, to ensure these approaches are in line with the Trustee's own voting and engagement policy. The review also ensures that the managers' policies are in line with market practice and the Trustee's expectations. Over the year, key changes to LGIM's voting policy were to increase focus on deforestation, director independence and accountability, which are line with the Trustee's engagement themes: Natural Capital, Climate Change Resilience, Human Capital, Diversity & Inclusion, Board Compensation & Accountability, Executive Compensation and Cyber Security.

Investment managers also use voting proxy advisors which aid in their decision-making when voting. LGIM's use of proxy voting services is summarised below:

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote on clients' shares. All voting decisions are made by LGIM and LGIM does not outsource any part of the strategic decisions. Its use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services ("IVIS") to supplement the research reports that the team receives from ISS for UK companies when making specific voting decisions.

To ensure its proxy provider votes in accordance with LGIM's position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers to be minimum best practice standards which it believes all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, based on LGIM's custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to its voting judgement. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

The below table sets out the voting activity of LGIM, on behalf of the Trustee, over the year:

Voting activity	LGIM
Number of meetings at which the manager was eligible to vote	1907
Number of resolutions on which manager was eligible to vote	23,767
Percentage of eligible votes cast	99.8%
Percentage of votes with management	78.6%
Percentage of votes against management	20.1%
Percentage of votes abstained from	1.1%
Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser	14.2%

Given the large number of votes which are cast by managers during every Annual General Meeting season (as shown in the table above), the timescales over which voting takes place as well the resource requirements necessary to allow this, the Trustee did not inform LGIM which votes it considered to be most significant in advance of those votes being cast. Instead, the Master Manager on behalf of the Trustee, communicates the Trustee's engagement themes to LGIM annually ahead of the votes being cast and reviewed the most significant votes cast by LGIM.

The following table outlines the **most significant votes** cast by LGIM on the Trustee's behalf over the year:

Rio Tinto Plc	
Voting topic	Climate change
NGUKPS Engagement theme	Climate Change Resilience
Summary of the Resolution	Resolution 17 - Approve Climate Action Plan
Date	08/04/2022
Management Recommendation	For
How the vote was cast	Against
Communication to company ahead of the vote	Yes
Vote Outcome	84.3% of the votes were in favour of the resolution
Reason for being a significant vote	Having an appropriate Climate Action plan is very important for the risk management of Rio Tinto plc. This vote is an escalation of LGIM's climate-related engagement activity and its public call for high quality and credible transition plans.
Size of holding (in % of equity allocation)	0.27%

Rationale

LGIM recognizes the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while LGIM acknowledges the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, it remains concerned with the absence of quantifiable targets for scope 3 emissions within the Climate Action Plan, given that these are such a material component of the company's overall emissions profile, and also had concerns with the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner. LGIM's vote was aligned with the Trustee's own stewardship policy on Climate Change Resilience.

Next steps

LGIM will continue to engage with the Rio Tinto plc on this, as part of LGIM's broader approach to engaging on climate change. LGIM will publicly advocate its position on this issue and monitor company and market-level progress.

Berkshire Hathaway inc.	
Voting topic	Corporate Governance
NGUKPS engagement theme	Climate Change Resilience, Board Composition and Accountability
Summary of the Resolution	Resolution 1.9: Elect Director Susan L. Decker
Date	30/04/2022
Management Recommendation	For
How the vote was cast	Against
Communication to company ahead of vote	Yes
Vote Outcome	86.6% of the votes were in favour of the resolution
Reason for being a significant vote	This was a relatively large holding in the portfolio, and the topic of climate change governance is significant for the company. This vote is

	an escalation of LGIM’s climate-related engagement activity and their public call for high quality and credible transition plans.
Size of holding (in % of equity allocation)	1.74%

Rationale

LGIM warranted a vote against the lead independent director Susan L. Decker as the company does not adequately disclose climate-change related risks and opportunities. LGIM expects companies to be undertaking appropriate analysis and reporting on climate change matters, as it considers this issue to be a material risk to the companies. It holds the Director responsible for the Board's oversight of climate change risks as Lead Independent Director and Chair of the Audit Committee. Additionally, LGIM voted against this election as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure and background. LGIM’s voting decision was aligned with the Trustee’s own stewardship policy on Board Composition and Accountability.

Next steps

LGIM will continue to engage with Berkshire Hathaway on this, as part of its broader climate change engagement strategy. LGIM will publicly advocate its position on this issue and monitor company and market-level progress.

<u>McDonald's Corporation</u>

Voting topic	Health
NGUKPS engagement theme	N/A
Summary of the Resolution	Resolution 6: Report on Antibiotics and Public Health Costs and Impact on Diversified Shareholders
Date	26/05/2022
Management Recommendation	For
How the vote was cast	For
Vote Outcome	13.2% of the votes were in favour of the resolution
Reason for being a significant vote	The topic of this proposal could not only have a large impact on the financial performance of the company, but could also pose a broader systemic risk to the whole global economy, given the potential for antimicrobial resistance to prompt the next global health crisis. LGIM pre-declared its vote intention for this resolution, demonstrating its significance.
Size of holding (in % of equity allocation)	0.56%

Rationale

LGIM voted in favor of the proposal as it believed the proposed report would contribute to informing shareholders and other stakeholders of the negative externalities created by the sustained use of antibiotics in the company’s supply chain and its impact on global health, with a particular focus on the systemic implications.

Antimicrobial resistance (“AMR”) continues to be a key focus of the LGIM Investment Stewardship team’s engagement strategy. LGIM believes that, without coordinated action today, AMR could prompt the next global health crisis, with a potentially dramatic impact on the planet, people and global GDP. This is unfortunately further substantiated through the recent study published in the Lancet at the beginning of 2022 by the Global Research on Anti-Microbial resistance (GRAM) project: Global burden of bacterial antimicrobial resistance in 2019 through a systematic analysis.

While LGIM notes the company’s past efforts to reduce the use of antibiotics in its supply chain for chicken, beef and pork, LGIM believes that AMR remains a financially material issue for the company and other stakeholders and believes that concerted action is needed sooner rather than later. By supporting this proposal, LGIM wanted to signal to the company’s board of directors the importance of this topic and the need for action.

While LGIM’s vote on this topic was not specifically related to one of the Trustee’s engagement themes, it was aligned with the Trustee’s broader policy on managing financially material ESG risks.

Next steps

LGIM will continue to engage with McDonalds corporation on this issue. LGIM will publicly advocate its position on this issue and monitor company and market-level progress.

<u>Exxon Mobil Corporation</u>

Voting topic	Climate change
NGUKPS engagement theme	Climate Change Resilience
Summary of the Resolution	Resolution 6: Set GHG Emissions Reduction targets Consistent With Paris Agreement Goal
Date	25/05/2022
Management Recommendation	Against
How the vote was cast	For
Communication to company ahead of the vote	Yes
Vote Outcome	27.1% of the votes were in favour of the resolution
Reason for being a significant vote	Setting an appropriate GHG emissions reduction target is key to both the climate resilience of the company itself, but also to the wider global goal to achieve net zero emissions by 2050, given the role that fossil fuel companies have to play in this transition. This vote is an escalation of LGIM's climate-related engagement activity and their public call for high quality and credible transition plans.
Size of holding (in % of equity allocation)	0.87%

Rationale

LGIM voted 'For' this proposal, as the company did not already have any targets for the reduction of emissions associated with the company's sold products and did not have sufficiently ambitious interim reduction targets for operational emissions.

LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 degrees Celsius. This includes the disclosure of scope 1, 2 and material scope 3 greenhouse gas emissions and short-, medium- and long-term greenhouse gas emissions reduction targets consistent with the 1.5 degrees Celsius goal.

LGIM's vote was aligned with the Trustee's own stewardship policy on Climate Change Resilience.

Next steps

LGIM will continue to engage with Exxon Mobil Corporation under its Climate Impact Pledge. LGIM's engagement process aims to better understand and challenge Exxon on its approach to the energy transition, focusing on financially material issues such as disclosure requirements, the potential costs to retire assets that are not aligned with a transition to net zero, and other decarbonisation levers. LGIM will also be engaging with proxy advisers and fellow investors to better understand their voting rationale, given that the overall resolution did not pass. Ultimately LGIM would consider divesting from Exxon Mobil at the end of its engagement process.

LGIM will publicly advocate its position on this issue and monitor company and market-level progress. As a large investor, LGIM believes it has a responsibility to urge companies to achieve their climate goals by escalating their engagement, in collaboration with their peers and key industry bodies.

The following section outlines key **engagement** activities of LGIM on the Trustee's behalf over the year:

<u>Goldman Sachs</u>

Engagement Topic	Climate Change
NGUKPS Key Engagement Theme	Climate Change Resilience
Rationale	Banks play a prominent role in financing the global transition to net zero. Accordingly, the financial sector is included as one of LGIM's "climate critical" sectors under its Climate Impact Pledge.
Actions	LGIM pre declared its voting intentions ahead of the Goldman Sachs AGM in 2023, confirming its intended support for shareholder proposals requesting a time bound fossil fuel phase out, and requesting reporting on absolute greenhouse gas emissions reduction targets.

Outcome and next steps

As an investor advocating for a just and orderly energy transition, which satisfies all aspects of the current energy crisis (energy security, affordability, and sustainability), LGIM continues to emphasise that the boards of financial institutions need to closely consider their strategies and risk appetites towards fossil fuels into the near future. Following LGIM's pre declaration, it has spoken with Goldman Sachs to discuss its voting intentions on these and other resolutions at Goldman Sachs' 2023 AGM.

LGIM’s engagement activity was in line with the Trustee’s own stewardship policy on Climate Change Resilience.

Tesco	
Engagement Topic	Human Capital
NGUKPS Key Engagement Theme	Human Capital
Rationale	Tesco remains the only listed food retailer to not be paying the real living wage, LGIM has engaged with Tesco on multiple occasions on this topic. As Tesco raised wages twice in 2022 for inner/outer London-based employees, LGIM decided in 2022 not to escalate via a shareholder resolution for Tesco’s 2023 AGM, but LGIM reserves the right to escalate a shareholder resolution on the real living wage in Tesco’s 2024 AGM, if LGIM does not feel that sufficient progress has been made by this point
Actions	In 2022, LGIM introduced a new expectation in its published guidelines relating to income inequality. Under this policy, LGIM will vote against the annual report of those companies that fail to disclose their living wage strategy by 2025. LGIM, together with other long-term investors, published an investor statement on the UK cost of living crisis. In the statement, it sets out a list of actions for companies to address the impact of the cost of living crisis on their employees. The actions include prioritising support for their lowest paid employees by either increasing pay to match the real living wage or making one off cost of living payments.

Outcome and next steps

LGIM continues to engage actively with Tesco on this topic and met with them again in Q1 2023, discussing not only the living wage but also executive remuneration, and other governance topics such as board composition and succession planning.

LGIM’s engagement activity was in line with the Trustee’s own stewardship policy on Human Capital.

The following section outlines key **engagement** activities of AXA on the Trustee’s behalf over the year:

Unilever Plc	
Engagement Topic	Resources & Ecosystems
NGUKPS Key Engagement Theme	Natural Capital
Rationale	AXA has engaged individually with Unilever as part of its growing efforts to dialogue with companies on biodiversity, especially those in sectors with the largest negative impacts based on Iceberg Data Lab. AXA’s aim was, firstly, for Unilever to detail the goals, metrics, and approaches of the biodiversity pillar of its strategy, and secondly, to publish high quality disclosures on its KPIs, particularly for its new ones on deforestation.
Actions	From AXA’s discussion, it thinks that biodiversity metrics may be in a transition phase. Unilever’s current priority is delivering on its 2023 deforestation objective. AXA pushed Unilever to provide clear disclosure and transparency on how it defines and monitors this metric as well as on attainment. However, AXA was told that a complete metric that could conform to AXA’s expectations would only be available in 2024, with an interim metric to be disclosed in 2023. AXA discussed its sustainable sourcing goal and discovered that this may also evolve because Unilever’s internal standards and vision for its supply chain risk management have evolved in recent years; notably with the introduction of a regenerative agriculture paper which is currently more aspirational than operational.

Outcome and next steps

AXA found this first engagement to be adequate as a first step in pushing Unilever to deliver on robust biodiversity targets and policies. Unilever appeared open to investor feedback and, given the stage it is in vis-à-vis its biodiversity strategy, AXA sees real opportunities to challenge Unilever by using disclosure as a platform to engage. AXA will follow-up after the publication of Unilever's annual report in 2023 to ensure the biodiversity targets and metrics and its reporting remain credible and robust. In particular, the intermediate metrics for deforestation are still accorded sufficient transparency and do not become permanent metrics, and that there continues to be progress on sustainable sourcing and the uptake of regenerative agriculture.

AXA's engagement activity was in line with the Trustee's own stewardship policy on Natural Capital.

JPMorgan Chase & Co	
Engagement Topic	Climate Change, Corporate Governance
NGUKPS Key Engagement Theme	Climate Change Resilience
Rationale	AXA had discussions with JPMorgan's ESG-focused investor relations team to get additional information around governance and oversight of climate risks, and to push it to reduce its financing of fossil fuels and to set additional sector targets for emissions reduction.
Actions	Overall, AXA believes the engagement was 'mixed' in terms of JPMorgan's addressing its concerns. AXA has confidence that the internal structure at JP Morgan demonstrates good involvement of management (and the Board) and that the 'culture' of the firm is motivated to make progress on emissions. However, AXA had hoped that JPMorgan would explain that there is an inherent 'enforcement' of emissions requirements, which was not the case. AXA was disappointed at the explanation of JP Morgan's proxy response to the International Energy Agency ("IEA") – JPMorgan seemed to repeat its view that its efforts already comply with the IEA's existing guidance but that the IEA was now significantly raising the bar for net zero management. From AXA's point of view, the IEA request appeared to be mild and not obtrusive to the business, so it did not agree with JP Morgan's response

Outcome and next steps

Following the meeting, AXA maintains the 'Orange' rating for JP Morgan. It was agreed to maintain the interaction with JP Morgan on a regular basis, with another meeting next year, and to confer with JPMorgan via email with any outstanding questions or comments.

AXA's engagement activity was in line with the Trustee's own stewardship policy on Climate Change Resilience.