

# **Stewardship and Engagement**

## **Implementation Statement – 1 July 2022 to 30 June 2023**

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### *Introduction*

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On 6 June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”). The Regulations require that the Directors of the NFU Staff Pension Trust Limited (the “Trustee”), Trustee of the NFU Staff Pension Scheme (the “Scheme”) outline how the stewardship, voting and engagement policies set out in their Statement of Investment Principles (“SIP”) have been followed over the course of the year under review.

This Statement has been prepared by the Trustee with the assistance of their appointed Fiduciary Manager and is for the year ending 30 June 2023.

The Trustee’s Stewardship and Engagement policies are included in the SIP which is available on request.

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### *Last review of the key policies regarding Stewardship and Engagement*

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Policies regarding stewardship, voting and engagement were last reviewed as part of a wider review of the SIP in October 2022. The Trustee confirmed that the policies remained suitable and in the best interests of members. No material changes were made.

During the course of the year, the Trustee has received presentations from their appointed Fiduciary Manager in relation to how the votes are carried out on their behalf and more generally on how Environmental, Social and Governance (“ESG”) factors are integrated into the Fiduciary Manager’s investment philosophy and by association the underlying specialist managers used in the portfolio.

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### *Voting behaviour*

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Under the Fiduciary Management arrangement in place the Trustee has delegated proxy voting and engagement decisions to the Fiduciary Manager. The Fiduciary Manager has a robust and well-established set of guidelines to follow when voting on the Trustee’s behalf which are reviewed and updated on an annual basis. It has provided the Trustee with both a copy of the Proxy Voting Guidelines and the most recent Active Ownership Report. The Fiduciary Manager instructs Glass Lewis, a specialist proxy voting firm, to execute the votes in-line with the agreed guidelines and where Glass Lewis cannot apply this policy the votes are referred to Russell Investments Active Ownership Committee.

A total of 12,766 votes were placed on securities held in the Scheme’s Growth portfolio over the period under review. A summary of the voting activity carried out on behalf of the Trustee is set out overleaf.

## Key statistics

|   | Management Proposals | Share Holder Proposal | Total Proposals |
|---|----------------------|-----------------------|-----------------|
| With Management                         | 11,229               | 314                   | <b>11,543</b>   |
| Against Management                      | 951                  | 218                   | <b>1,169</b>    |
| Votes without Management Recommendation | 36                   | 18                    | <b>54</b>       |
| Take No Action                          | 738                  | 10                    | <b>748</b>      |
| Unvoted                                 | 0                    | 0                     | <b>0</b>        |
| <b>Totals</b>                           | <b>12,954</b>        | <b>560</b>            | <b>13,514</b>   |

The decision to “Take No Action” was driven by:

- i) Shareblocking markets: As per the Fiduciary Managers standing instructions, if a meeting belongs to a Shareblocking market such as Switzerland, then the ballots are automatically set to Take No Action.
- ii) This rule is applicable at the meeting and the ballot level as well. Sometimes if a meeting or a ballot is share-blocked then either the entire meeting or a ballot gets auto-TNA.
- iii) And lastly, for the Contested meetings, one of the two voting cards is set to “Take No Action” (the card which is not voted).

## Votes Broken Out by Category

| Topic         | Number of Votes                    |
|---------------|------------------------------------|
| Environmental | 126 (includes climate risk issues) |
| Social        | 195                                |
| Governance    | 12,445                             |

This table excludes Take No Action votes.

## Most significant votes

### Criteria adopted

The Fiduciary Manager defines significant votes as ones that meet, at least, one of the following criteria:

- Votes against management proposals where the level of dissent from shareholders is 20% or higher, in line with the UK Corporate Governance Code.
- Votes supporting shareholder proposals when management is recommending against, and the level of support is 40% or higher, suggesting that the proposal nearly passed.
- Votes that directly affect shareholder equity holding or value. For example, merger and acquisitions.

In addition, the Fiduciary will consider votes that are aligned with the Fiduciary Manager’s stewardship priorities with regards to environmental, social and governance matters, as defined by the [voting policy](#).

To ensure a wide variety of the placed votes is reflected, the summary of the most significant votes below has been split into Environmental, Social or Corporate Governance categories. Furthermore, the votes are selected on the basis of having high weight in the Scheme. Any reference to we and/or us in the following examples refers to the Fiduciary Manager’s views and / or approach followed when voting on behalf of the Trustee.

As at 30 June, the NFU Staff Pension Scheme was 12.9% invested in the Multi Asset Growth Strategy Fund (MAGS), which in turn held 45.1% in equities. At the same date, the Scheme was 1.7% of the total MAGS Fund.

This statement does not include the fixed income funds, as the voting only covers equity engagements. **The following size of holdings are references to the approximate weight of the company as a proportion of the Multi Asset Growth Strategy Fund.**

### Environmental Votes

| <b>Berkshire Hathaway Inc.</b>   |  |
|--|--|
| <i>Shareholder Proposal Regarding Climate Report</i>   |  |
| Date   | 06/05/23   |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio)  | 0.04%  |
| Mgmt. Rec.   | Against  |
| How the vote was cast  | For  |
| Vote Outcome   | Rejected   |
| Criteria for selection as significant vote:  | Vote Against Management, Controversial Outcome, Environmental Shareholder Proposal |
| <b>Rationale</b>   |  |
| Voted to support this proposal, along with nearly 27% of the vote. The Company is exposed to material climate risks being involved in the utility and insurance sector. It currently does not provide any meaningful or comprehensive disclosure of climate-related issues at the Company level, which significantly lags peers. |  |

| <b>Amazon.com Inc.</b>  |   |
|---|---|
| <i>Shareholder Proposal Regarding Just Transition Reporting</i>   |   |
| Date  | 24/05/23  |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio)   | 0.32%   |
| Mgmt. Rec.  | Against   |
| How the vote was cast   | For   |
| Vote Outcome  | Rejected  |
| Criteria for selection as significant vote:   | Top Holding, Vote Against Management, Controversial Outcome, Environmental Shareholder Proposal |
| <b>Rationale</b>  |   |
| Voted to support this proposal, along with nearly 27% of the vote. The Company has disjointed reporting with a focus on its human rights impacts and not necessarily a just transition. Thus shareholders would benefit from a more cohesive message from the Company on how it is addressing the challenge of a just transition. The Company has faced ongoing labor challenges in the past few years and understanding how it proactively is addressing further labor challenges would benefit shareholders |   |

| <b>Exxon Mobil Corp.</b>  |          |
|---|----------|
| <i>Shareholder Proposal Regarding Methane Emission Disclosures</i>                |          |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 0.50%    |
| Date  | 31/05/23 |
| Mgmt. Rec.  | Against  |

|   |  |
|---|--|
| How the vote was cast                       | For  |
| Vote Outcome                                | Rejected   |
| Criteria for selection as significant vote: | Vote Against Management, Controversial Outcome, Environmental Shareholder Proposal |

#### Rationale

This proposal was referred to the Active Ownership Committee for further review, per our guidelines. The Committee voted to support this proposal, along with over 35% of the vote. The emitting of methane has come under tighter scrutiny by both investors and regulators placing the Company at higher risk. The proper management and containment of methane emissions is a significant issue, with legal, regulatory, financial, and environmental implications for the Company. Thus, showcasing to shareholders that the Company is mitigating fugitive methane emissions to the best possible extent and providing shareholders with enough disclosure so they can fully assess the risks is prudent.

### Social Votes

#### Amazon.com Inc.

##### *Shareholder Proposal Regarding Report on Working Conditions*

|   |   |
|---|---|
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 2.04%   |
| Date  | 24/05/23  |
| Mgmt. Rec.  | Against   |
| How the vote was cast   | For   |
| Vote Outcome  | Rejected  |
| Criteria for selection as significant vote:                                       | Vote Against Management, Controversial Outcome, Social Shareholder Proposal |

#### Rationale

Voted in support of the proposal, along with ~35% of the vote. The proposal asks the Company to commission an independent audit and report of the working conditions and treatment that Amazon warehouse workers face, including the impact of its policies, management, performance metrics, and targets. Given the extremely high-profile nature of the reports and allegations concerning the Company's working conditions, it appears that the Company's current efforts are not enough to stop continued high rates of worker injuries. Since the Company's policies and procedures evidence non-effectiveness, the proponents request for an independent audit report seems not only reasonable but certainly in the best interests of shareholders.

#### International Business Machines Corp.

##### *Shareholder Proposal Regarding Lobbying Report*

|   |   |
|---|---|
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 0.02%   |
| Date  | 25/04/23  |
| Mgmt. Rec.  | Against   |
| How the vote was cast   | For   |
| Vote Outcome  | Rejected  |
| Criteria for selection as significant vote:                                       | Vote Against Management, Controversial Outcome, Social Shareholder Proposal |

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**Rationale**

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This proposal was referred to the Active Ownership Committee for further review, per our guidelines. The Committee voted to support this proposal, along with over 45% of the vote. While we acknowledge that The Company provides exceptionally robust disclosures concerning its policies concerning electioneering expenditures, it provides little information concerning its indirect lobbying payments through trade associations. Increasing these disclosures would bring the Company in line with peers.

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**Microsoft Corporation**

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*Shareholder Proposal Regarding Report on Tax Transparency*

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|   |       |
|---|-------|
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 3.21% |
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|      |          |
|------|----------|
| Date | 13/12/22 |
|------|----------|

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|            |         |
|------------|---------|
| Mgmt. Rec. | Against |
|------------|---------|

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|                       |     |
|-----------------------|-----|
| How the vote was cast | For |
|-----------------------|-----|

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|              |          |
|--------------|----------|
| Vote Outcome | Rejected |
|--------------|----------|

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|   |  |
|---|--|
| Criteria for selection as significant vote: | Top Holding, Vote Against Management, Controversial Outcome, Social Shareholder Proposal |
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**Rationale**

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Though this proposal was rejected by ~76% of shareholders, Russell Investments voted for the proposal. Controversies around tax avoidance pose a large reputational risk for companies. Since the company will be required to disclose most of the information requested by this proposal in be in alignment with recent EU regulations, this requested disclosure would not be a significant burden to the company and would benefit shareholders.

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**Governance Votes**

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**Southwest Airlines Co**

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*Shareholder Proposal Regarding Shareholder Ability to Remove Directors*

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|   |       |
|---|-------|
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 0.17% |
|---|-------|

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|      |          |
|------|----------|
| Date | 17/05/23 |
|------|----------|

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|            |         |
|------------|---------|
| Mgmt. Rec. | Against |
|------------|---------|

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|                       |     |
|-----------------------|-----|
| How the vote was cast | For |
|-----------------------|-----|

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|              |        |
|--------------|--------|
| Vote Outcome | Passed |
|--------------|--------|

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|   |   |
|---|---|
| Criteria for selection as significant vote: | Vote Against Management, Controversial Outcome, Governance Shareholder Proposal |
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**Rationale**

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We believe, on the Trustee's behalf, that shareholders should be able to remove directors for any reason if they do not believe the director should serve as a director of the Company, and that the Company's existing policy requiring "cause" to remove a director creates a nearly insurmountable standard since under most legal definitions, "cause" is a very high burden. Furthermore, this same proposal received ~47% support from shareholders at the 2022 AGM, and there has been no clear response or engagement from the company to address shareholder concerns.

The proposal passed with over 52% support.

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**Becton, Dickinson And Co.**

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*Shareholder Proposal Regarding Severance Approval Policy*

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Approximate size of fund's holding as at the date of the vote (as % of portfolio) 0.18%

Date 24/01/23

Mgmt. Rec. Against

How the vote was cast For

Vote Outcome Passed

Criteria for selection as significant vote: Top Holding, Controversial Outcome, Governance Shareholder Proposal

**Rationale**

We believe, on the Trustee's behalf, that in most cases, shareholders should have the ability to ratify company severance packages. Russell Investments, along with over 60% of shareholders, supported this proposal. Our guidelines functioned as intended and the rationale was sound.

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**Meta Platforms Inc**

*Shareholder Proposal Regarding Recapitalization*

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Approximate size of fund's holding as at the date of the vote (as % of portfolio) 0.16%

Date 31/05/23

Mgmt. Rec. Against

How the vote was cast For

Vote Outcome Rejected

Criteria for selection as significant vote: Vote Against Management, Controversial Outcome, Governance Shareholder Proposal

**Rationale**

We believe, on the Trustee's behalf, that the "one-share, one-vote" principle represents best practice, and as a result we will not support the introduction of multiple-class capital structures or the creation of shares with voting rights disparity and will support proposals calling for recapitalization plans which align with the "one-share, one-vote" principle. Public shareholders would have the opportunity to be much better represented if the outcome of matters up for a vote was not largely determined by the controlling shareholder.

Though rejected, the proposal was supported by ~28% of shareholders.

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*Engagement Activities*

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Not all investments have voting rights attached to them, however asset owners can engage with the issuers of equity and debt to influence positive change. The Trustee is supportive of engagement with investee companies in this way and has delegated this activity to the Fiduciary Manager.

The Fiduciary Manager aims to engage with companies on overall business strategy, capital allocation, and ESG practices while encouraging appropriate levels of risk mitigation. The

Fiduciary Manager's [engagement policy](#) is available here and examples of engagement activity are provided below.

Any reference to we, our and/or us in the following examples refers to the Fiduciary Manager's policy, views and activity.

### **Direct-Company Engagement with a North American Mining Company**

**Engagement Action:** Russell Investments engaged with a mining company domiciled in Canada. The dialogue was focused on the company's efforts around climate change adaptation, ESG accountability, and natural resource management.

**Engagement Objective:** Mining operations are energy-intensive and generate significant direct greenhouse gas (GHG) emissions. Regulatory efforts to reduce GHG emissions in response to the risks posed by climate change may result in additional regulatory compliance costs and risks for the company due to climate change mitigation policies. The primary objective of this discussion was to encourage the company to further disclose its strategy to achieve net zero by 2050 and improve their approach to biodiversity impact.

**Engagement Summary:** Russell Investments identified that, whilst disclosure provided by the company is in line with The Task Force on Climate-Related Financial Disclosures ('TCFD'), the level of detail provided was limited from a strategic perspective. The company intends to reduce its reliance on fossil fuels. Natural gas and solar energy will be the main alternatives, and we have requested the company provide a higher level of detail in terms of percentage each alternative fuel will represent.

The company is taking a more conservative approach than peers as they believe that the technology they require to reach net zero will not be available until post 2030.

**Engagement Outcome:** Russell Investments will continue to engage with the company during 2023 to ensure the company shows progress in disclosure, particularly its net zero roadmap and biodiversity impact.

### **Collaborative Engagement on Board Composition and Accountability with a US-based food products supplier**

**Engagement Action:** As part of a collaborative engagement with one of our sub-advisor partners, Russell Investments engaged with large US producer of processed food products.

**Engagement Objective:** Russell Investments maintains responsibility for proxy voting related to investment holdings. In line with our proxy voting guidelines, we were set to vote against the three directors due to the company's lack of responsiveness to shareholder proposals. The company has a dual class share structure and a significant proportion of shareholders have expressed their concerns with this practice at the 2021 Annual General Meeting and in other forums.

**Engagement Summary:** Russell Investments conveyed our preference for a 'one-share-one-vote' capital structure. Furthermore, we encouraged the company to better respond to shareholder dissent through disclosures and outreach. The Company met with shareholders and understands the preference to remove dual-class shares structure but noted it is unwilling to change the structure in the short term.

**Engagement Outcome:** We voted against the re-election of two directors for their lack of response in implementing the shareholder proposal, and continued refusal to restructure the share classes. Russell Investments will continue to engage with the company on its ESG transparency and progress in disclosures in other areas.

### **Direct-Company Engagement on ESG Disclosures with a European Global Defense Company**

**Engagement Action:** Russell Investments engaged with a UK-based Aerospace and Defence company with high ESG exposure to product governance risks in its operations as well as moderate risk from Scope 3 carbon emissions.

**Engagement Objective:** The engagement has been ongoing since 2021 with previous engagement calls covering ESG disclosures as it related to human capital and diversity and inclusion. Russell Investments objective for 2022 was to encourage the company to keep engaging with external stakeholders to influence the external perception of the defense industry. Furthermore, we have focused our discussion to assess and monitor the company's decarbonisation strategy.

**Engagement Summary:**

The Company has continued engagement with the press to work toward a more positive perception of the defense sector. Regarding ESG strategy, the Company engaged with internal and external stakeholders from a materiality perspective and the outcome shows the company is focused on the right ESG-related issues. The targets and commitments set before the pandemic remained unchanged, and they're on track to achieve them. The decarbonisation strategy doesn't require high Capex and it is not fully reliant on technology for Scope 1 and 2. Technology more relevant for management of Scope 3 emissions. The company will consider disclosing a decarbonisation roadmap in the next report.

**Engagement Outcome:** The company exhibits very strong governance practices. We are broadly satisfied with the response to the issues raised. Where they don't have a response or strategy in place, they have taken action - This has been already reflected in their improved disclosures i.e. human capital metrics. Russell Investments will follow up with the company on the decarbonisation strategy, with the main topics of discussion being scope 3, waste and water in 2023.

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### Industry Participation

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The Trustee encourages the Scheme's Fiduciary Manager to leverage its position through collaborative efforts and partnerships with other industry participants. To this end, the Fiduciary Manager is a signatory to the **UK Stewardship Code 2020** and **Principles for Responsible Investment ("PRI")** and a member of **Climate Action 100+** and the **Net Zero Asset Managers Initiative**.

The **UK Stewardship Code 2020**, comprising a set of 'apply and explain' Principles, sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fiduciary Manager's Stewardship Code Report for 2022 can be found [here](#).

**PRI** is a globally recognised proponent of responsible investment, which provides resources and best practices for investors incorporating ESG factors into their investment and ownership decisions. As a signatory to the PRI since 2009, the Fiduciary Manager has a long-standing relationship with the organisation and has completed the annual PRI assessment every year since 2013. The Principles are a set of global best practices that provide a framework for integrating ESG issues into financial analysis, investment decision-making and ownership practices. The Fiduciary Manager is actively involved with the PRI, attending annual conferences and global seminars, and engaging on discussions of interest.

**Climate Action 100+** is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The Fiduciary Manager joined the Climate Action 100+ initiative in early 2020 and has directly engaged with a select number of companies on climate transition through the regional entities over the period.

In 2021, the Fiduciary Manager joined the **Net Zero Asset Managers Initiative**, a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. The Fiduciary Manager has committed to a range of actions that are the key components required to accelerate the transition to net zero and achieve emissions reductions in the real economy: Engaging with clients, setting targets for assets managed in line with net zero pathways, corporate engagement and stewardship, and policy advocacy.

Additionally, the Fiduciary Manager's latest investment stewardship report for the year ending 2022 can be found [here](#).



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*Compliance with the policy over the period*

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As a holder of assets with attached voting rights, the Trustee is able to exercise these voting rights on behalf of members of the Scheme and believe the best approach is to delegate the execution of their policy to the Fiduciary Manager. The Trustee has received information on the voting activity that has been carried out on their behalf on an annual basis and are comfortable with the decisions taken.

Over the period, the Trustee is pleased to report that they have, in their opinion, adhered to the policies set out in their SIP.

The Trustee is pleased with the progress the Fiduciary Manager has made over the year in this area and will continue to work with them to develop their policies in the future.