Stewardship and Engagement

Implementation Statement – 1 July 2019 to 30 June 2020

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the "Regulations"). The Regulations require that the Trustees of the NFU Staff Pension Scheme (the "Trustees") outline how they have ensured compliance with the policies and objectives set out in their Statement of Investment Principles ("SIP") over the course of the year under review.

This Statement has been prepared by the Trustees and is for the year ending 30 June 2020.

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

Changes to the key policies regarding Stewardship and Engagement

The SIP has been reviewed and revised over the course of 2020 to take account of further changes which are required by the Regulations noted above. In particular, the Trustees have outlined their policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies regarding cost transparency and their policies on voting and stewardship rights.

During the course of the year, the Trustees have received presentations from their appointed Fiduciary Manager (Russell Investments) 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.

Voting behaviour

Under the Fiduciary Management arrangement in place, the Trustees provide the Fiduciary Manager with their policies with regards to voting and engagement. The Fiduciary Manager then votes on the Trustees' behalf in line with these policies. The Fiduciary Manager instructs Glass Lewis, a proxy voting firm, to execute the vote based on their instruction.

A total of **12,296** votes were placed on securities held in the Scheme's Growth portfolio (through its exposure to the Multi-Asset Growth Strategy Fund) over the period under review. A summary of the voting activity carried out on behalf of the Trustees is set out overleaf.

Key statistics

	Management Proposals	Share Holder Proposal	Total Proposals
With Management	10487	228	**10715**
Against Management	604	158	**762**
Votes without Management Proposal	43	20	**63**
Mixed/Take No Action	717	19	**736**
Unvoted	19	1	**20**
Totals	**11870**	**426**	**12296**

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. You will mostly find the Shareblocking meetings or ballots for Norway, Denmark markets.
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).

Most significant votes

Criteria adopted

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. The most significant votes in each category are defined by filtering for:

- Contentious outcome votes with voting split relatively evenly. The Fiduciary Manager defines a contentious vote as having a (~65/35 split) AND
- Issue Category (Environmental, Social or Governance) AND/OR
- Weighted holdings (typically >1% of Growth portfolio)

From this subset the votes have been sorted for the largest weight in the portfolio to get the summary of the most significant votes for ESG issues.

Environmental Votes

AGL Energy Ltd	
Shareholder Proposal Regarding Climate Change Transition Plan	
Mgmt. Rec.	Against
How the vote was cast	Against
Vote Outcome	Voted Down
Rationale	
In light of the Company's already extensive disclosure of its sustainability performance and emissions, we do not find the adoption of this proposal, as worded, to be necessary or that its adoption would necessarily benefit the Company or its shareholders. For example, the Company's carbon scenario analysis demonstrates the Company's existing commitment to reducing its emissions and closing all of its coal-fired power stations by 2048. It does not appear that the Company's current goals are out of alignment with the broader goals set forth by the Australian government nor do we have any reason to believe that the Company would not adopt more stringent emissions reductions should federal or state regulations require it to do so.	

JPMorgan Chase & Co.	
Shareholder Proposal Regarding Aligning GHG Reductions with Paris Agreement	
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down
Rationale	
Adoption of this proposal would allow shareholders to better understand the risks facing the Company and how the Company is monitoring and managing the risks associated with its lending activities, especially given the public scrutiny surrounding the Company in regard to its carbon-intensive lending portfolio. The proposal was voted down by less than 1% of the vote.	

TJX Companies, Inc.	
Shareholder Proposal Regarding Report on Chemicals	
Mgmt. Rec.	Against
How the vote was cast	Against
Vote Outcome	Voted Down
Rationale	
It appears that the Company has demonstrated some consideration of the issue of chemicals in its supply chain, as evidenced by its factory auditing processes and the education and training it provides to merchants, buying agents, vendors, and factory management regarding the handling, storage, and disposal of chemicals and hazardous materials. We do not believe that the proponent has demonstrated that the Company has mishandled this issue or that it has realistically considered the Company's business model in its request nor do we believe, given the current COVID-19 pandemic, that expending the resources required to produce the requested report would be especially beneficial to shareholders.	

Social Votes

Apple Inc	
Shareholder Proposal Regarding Freedom of Expression and Access to Information	
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down
Rationale	
The Trustees are encouraged by the company's indication that it will disclose appeals received related to government requests, to take down apps from its app store, which will help shareholders understand which requests are most controversial. Nonetheless, the Trustees believe that it would be prudent for the company to exhibit enhanced transparency around how it respects the right to free expression, especially in light of the disclosure provided by peers. Given that this is a precatory proposal, the Trustees believe that the company has the flexibility to implement its request in a manner that does not violate any laws or regulations and that does not harm shareholder interests.	

Verizon Communications Inc	
Shareholder Proposal Regarding Lobbying Report	
Mgmt. Rec.	Against
How the vote was cast	Against
Vote Outcome	Voted Down
Rationale	
The Company has met all of the legal requirements for political spending disclosure. Per Russell Investments' custom voting guidelines, if a proposal bars a company from making political contributions, we vote against. If a proposal asks for a list of company executives, directors, consultants, legal counsels, lobbyists or investment bankers that have prior government service, we vote against. If a proposal requests that the company publish in newspapers and public media any political contributions, we vote against.	

Charles Schwab Corp.	
Shareholder Proposal Regarding Diversity and Pay Data Reporting	
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down
Rationale	
This proposal was voted on manually by Russell Investments' Proxy Voting Committee. The committee voted to support the proposal in accordance with GL's and our internal proxy analyst's recommendation. The Company's existing disclosure is limited, lagging peers. The requested disclosure may be especially pertinent for the company given that diversity and inclusion are financially material issues for companies in the SASB-defined sector. Not only can inequitable compensation cause workplace dissatisfaction, lost productivity and high turnover, but it can also result in expensive and time-consuming lawsuits. Given that shareholders would benefit both from higher granularity of the currently disclosed workforce demographic data as well as inclusion of pay data, the recommendation is to support the proposal.	

Governance Votes

AT&T, Inc.	
Shareholder Proposal Regarding Independent Chair	
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down
Rationale	
Per Russell Investments' custom voting guidelines, we vote for proposals that would require the positions of chairman and CEO to be held by different persons. We believe adopting a policy requiring such an independent chair may serve to protect shareholder interests and that it would ensure independent oversight of the Company. Accordingly, we believe adopting the requested policy may serve to protect shareholder interests and that it would ensure independent oversight of the Company.	

Verizon Communications Inc	
Shareholder Proposal Regarding Right to Call Special Meetings	
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Passed
Rationale	
Per Russell Investments' custom voting guidelines, we vote for proposals that improve shareholder ability to call special meetings. In this case, GL recommended supporting the proposal based in their belief that a 10% threshold for calling a special meeting is appropriate given the Company's size and shareholder base.	

Paladin Energy Ltd	
Remuneration Report	
Mgmt. Rec.	For
How the vote was cast	Against
Vote Outcome	Passed
Rationale	
Grants of options or equity are not linked to performance of the company in any way or hurdles applying to incentives have not been disclosed.	

Engagement Activities

Engagement with a U.S. based energy provider

Topic: Action against overboarding

Overview of Engagement: The Fiduciary Manager maintains that best practice is for directors to limit their board membership to five or fewer publicly traded companies. The Fiduciary Manager reviewed the slate of directors up for re-election and determined that one director had relevant industry experience, but too many other board positions to be able to allocate an appropriate amount of time to this company. The Fiduciary Manager voted on behalf of the Trustees against the director. Following the annual general meeting, the Fiduciary Manager scheduled a discussion with the management team to communicate the Trustees vote decision, and the company noted that other investors had also communicated their concerns.

Outcome: The Trustees communicated that they will continue to vote against directors that are "over-boarded". The Trustees will monitor to see whether the company responds to shareholder concerns and takes action on this issue and follow up as needed.

Engagement with an Australian utility company

Topic: Climate transition risk and transparency

Overview of Engagement: In 2019 an Australian utility company received shareholder proposals regarding transition planning for climate change and expenditures on pollution controls. Within sectors that have relatively high carbon emissions such as utilities, it is important to understand the company's plans and context for future operations; simply voting in line with shareholder proponents on sensitive and important topics such as climate change is not necessarily in the best interests of shareholders or constructive for the future of the company.

Although the Trustees voted against both shareholder resolutions, engaging with the company provided comfort that climate-related issues are being addressed, and it provided the Trustees with catalysts and milestones to monitor to ensure that the transition to a cleaner and loweremission future is on track. It was noted during the engagement with the company that climate-related disclosure could be improved to give shareholders a better understanding of the plans and risks around the business' transition. The company committed to doing so through more comprehensive 2020 Task Force on Climate-related Financial Disclosures ("TCFD") reporting.

The Fiduciary Manager has increased its focus within climate transition planning on water usage. Whilst this was not a specific aspect of the shareholder resolutions put forward to this company, the Trustees believe it is an important consideration. It was noted that water is a significant issue to manage on an ongoing basis as power plants rely on water to operate, and whilst the Trustees see no risks specifically from water usage at this time, it is an area that requires continued attention and warrants further disclosure to shareholders in the future.

Outcome: This engagement gave the Trustees two key watch points for the Company in 2020 to assess their transition away from a high carbon footprint. The Trustees will monitor the company's TCFD reporting and additional disclosures on water in next year's reporting.

Engagement with a North American power producer and supplier

Topic: Review of cyber security policies

Overview: The Trustees view cyber security as a material risk for this industry and, as such, the Fiduciary Manager reached out to the company on behalf of the Trustees for a review of its cyber security policies and practices. Information gathered by the Fiduciary Managers Engagement Sub-Committee included details about executive attention and resource staffing. Specifically, the Trustees learned that members of the company's security team are involved in a utilities industry group headed by the Federal Bureau of Investigation and aimed at energy grid protection. Two members of the board are designated as "steeped" in cyber security issues. Finally, the Compensation Committee has worked to ensure that their compensation packages are high enough to attract the right level of talent in this area.

Outcome: The Trustees were reassured that their cyber security efforts remain appropriately resourced; this outreach helps to outline the benchmark for other companies in the industry.

Industry Participation

The Fiduciary Manager is a signatory to the UK Stewardship code and UN Principles for Responsible Investment ("UN PRI"). As a globally recognised proponent of responsible investment, the UN-supported Principles for Responsible Investing ("Principles or PRI") 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.

The current UN PRI scorecard scored by the Fiduciary Manager as A+ or A in all categorises. The average Median score across various categories was 'B'.

Compliance with the policy over the period

As a holder of assets with attached voting rights, the Trustees are 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 Trustees have 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 course of 2020, the Trustees are pleased to report that they have, in their opinion, adhered to the policies set out in their SIP.

The Trustees are pleased with the progress the investment managers have made over the year in this area and are continuing to work with them to develop their policies in the future.