# Staff Pension Scheme of Nottingham Building Society

# Implementation Statement

## Purpose of this statement

This implementation statement has been produced by the Trustees of the **Staff Pension Scheme of Nottingham Building Society ("the Scheme")** to set out the following information over the year to **31 March 2023**:

- how the Trustees' policies on exercising rights (including voting rights) and engagement activities have been followed over the year; and
- the voting activity undertaken by the Scheme's investment managers on behalf of the Trustees over the year, including information regarding the most significant votes.

## How voting and engagement policies have been followed

Based on the information provided by the Scheme's investment managers, the Trustees believe that their policies on voting and engagement have been met in the following ways:

- The Scheme invests entirely in pooled funds, and as such delegates responsibility for carrying out voting and engagement activities to the Scheme's investment managers.
- When required, the Trustees obtained training on ESG considerations in order to understand fully how ESG factors (including climate change) could impact the Scheme and its investments.
- The Trustees annually review ESG ratings provided by Barnett Waddingham that assess the Scheme's investment managers against three key areas; ESG research, EGS integration and stewardship, and identify any action required as a result. This exercise was last carried out at the Trustees' meeting on 6 June 2023.
- The Trustees, with input from their investment consultant, annually receive and review (through their Implementation Statement) voting information and engagement policies from the investment managers to ensure alignment with their own policies. The Trustees believe that the voting and engagement activities undertaken by the asset managers on their behalf have been in the members' best interests.
- Baillie Gifford, Barings and Legal & General Investment Management ("LGIM") have all confirmed that they are signatories to both the Financial Reporting Council's UK Stewardship Code 2012 and UK Stewardship Code 2020.
- Having reviewed the above and the data presented below, the Trustees are comfortable the actions of their investment managers are in alignment with the Scheme's stewardship policies.

## Stewardship policy

The Trustees' Statement of Investment Principles (SIP) describes the Trustees' stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in June 2023 and has been made available online here:

[https://www.thenottingham.com/staffpensionscheme/](https://www.thenottingham.com/staffpensionscheme/)

There have been no changes to the Trustees' stewardship policy over the year to 31 March 2023. The Trustees have delegated the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities to the Scheme's investment managers.

The Trustees decided not to set stewardship priorities for the Scheme because the Scheme solely invests through pooled investment vehicles, where the Scheme's asset only represents a small proportion of the capital invested in the funds. The Trustees understand that they are constrained by the policies of the managers. Additionally, only the Baillie Gifford Multi Asset Growth Fund and the LGIM Future World Global Equity Index Fund (GBP Hedged) hold assets with voting rights attached (i.e. around 18% of the Scheme's total invested assets as at 31 March 2023). However, the Trustees take stewardship priorities, climate risk, and ESG factors into account at manager selection. In addition, the Trustees also review the stewardship and engagement activities of the investment managers annually through their Implementation Statement and through the use of ESG ratings provided by Barnett Waddingham.

**Prepared by the Trustees of the Staff Pension Scheme of Nottingham Building Society**
**September 2023**

## Voting Data

The Plan invests entirely in pooled funds and therefore the Scheme's investment managers listed below vote on behalf of the Scheme's holdings in the pooled funds:

- Baillie Gifford & Co Limited ("Baillie Gifford");
- Legal and General Investment Management ("LGIM");

This section provides a summary of the voting activity undertaken by the investment managers within the Scheme's Growth Portfolio on behalf of the Trustees over the year to 31 March 2023. Voting is not applicable to the Barings Global High Yield Credit Strategies Fund and the Liability Driven Investment ("LDI") holdings with LGIM as these funds invest only in fixed income assets, which do not have voting rights. Therefore, no voting data is presented for Barings or LGIM LDI for the purpose of this Implementation Statement.

The Baillie Gifford Multi Asset Growth Fund, which invests across a diverse range of asset classes, and the LGIM Future World Global Equity Index Fund are included below as the equity holdings of these funds carry voting rights.

| Manager | Baillie Gifford | LGIM |
|---|---|---|
| **Fund name** | Multi Asset Growth Fund | Future World Global Equity Index Fund (GBP Hedged) |
| **Structure** | Pooled | |
| **Ability to influence voting behaviour of manager** | The pooled fund structure means that there is limited scope for the Trustees to influence the managers' voting behaviour. | |
| **No. of eligible meetings** | 84 | 5,067 |
| **No. of eligible votes** | 885 | 54,368 |
| **% of resolutions voted** | 97.1% | 99.9% |
| **% of resolutions abstained** | 1.2% | 1.0% |
| **% of resolutions voted with management**[1] | 95.2% | 80.4% |
| **% of resolutions voted against management**[1] | 3.6% | 18.6% |
| **Proxy voting advisor employed**[1] | Voting is in line with their in-house policy and not with proxy voting providers' policies. | ISS's 'ProxyExchange' electronic voting platform |
| **% of resolutions voted against proxy voter recommendation** | n/a | 10.5% |

Source: Baillie Gifford, Legal & General Investment Management

Totals may not sum due to rounding.

[1] As a percentage of the total number of resolutions voted on

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beyond the expected

## Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustees over the year to be set out. The guidance does not currently define what constitutes a "significant" vote. However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme's stewardship priorities/ themes. The Trustees have decided not to set stewardship priorities and have therefore asked the investment managers to determine what they believe to be a "significant vote". In addition, the Trustees have not communicated voting preferences to their investment managers over the period, as the Trustees are yet to develop a specific voting policy.

**Baillie Gifford** and **LGIM** have provided a selection of votes which they believe to be significant and in the interest of concise reporting, the tables below show 3 of these votes for each fund. A summary of the significant votes provided as at 31 March 2023 is set out below, but further information on other significant votes is available upon request.

### Baillie Gifford Multi Asset Growth Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | Duke Reality Corporation | Leg Immobilien SE | Galaxy Entertainment Group Ltd |
| **Date of vote** | 28 September 2022 | 19 May 2022 | 12 May 2022 |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 1.7% | 0.4% | 0.1% |
| **Summary of the resolution** | Say on Pay Frequency | Remuneration | Amendment of Share Capital |
| **How the manager voted** | Against | Against | Against |
| **Rationale for the voting decision** | Baillie Gifford opposed the advisory proposal to approve executive compensation to be paid in connection with the company merger due to concerns regarding single trigger provisions and the introduction of excise tax pross-ups in connection with severance payments | Baillie Gifford opposed the executive compensation policy as they do not believe the performance conditions are sufficiently stretching. | Baillie Gifford opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders. |

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Outcome of the vote** | Fail | Pass | Pass |
| **Implications of the outcome** | While Baillie Gifford were supportive of the proposed merger with Prologis, they were uncomfortable with the compensation arrangements planned for Duke Realty NEOs in connection with the merger and therefore opposed this resolution, which ultimately received 91.6% dissent from shareholders. They unsuccessfully attempted to engage the company on its approach to compensation at this year's AGM and will continue their efforts to do so going forward. | Following the vote decision, Baillie Gifford reached out to the company to let them know about their dissent on remuneration and to set out expectations on pay. | Baillie Gifford have opposed similar resolutions in previous years and will continue to advise the company of their concerns and seek to obtain proposals that they can support. |
| **Criteria on which the vote is considered "significant"** | This resolution is significant because it received greater than 20% opposition. | This resolution is significant because Baillie Gifford opposed remuneration. | This resolution is significant because it received greater than 20% opposition. |

## LGIM Future World Global Equity Index Fund (GBP Hedged)

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | Amazon.com, Inc. | Alphabet Inc. | Meta Platforms, Inc. |
| **Date of vote** | 25 May 2022 | 1 June 2022 | 25 May 2022 |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 1.8% | 0.9% | 0.8% |
| **Summary of the resolution** | Elect Director Daniel P. Huttenlocher | Report on Physical Risks of Climate Change | Require Independent Board Chair |
| **How the manager voted** | Against | For | For |
| **Rationale for the voting decision** | LGIM voted against the election as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings. | LGIM voted for the production of the report as LGIM expects companies to be taking sufficient action on the key issue of climate change. | LGIM voted for the shareholder resolution as LGIM expects companies to establish the role of independent Board Chair. |
| **Outcome of the vote** | 93.3% of shareholders supported the resolution. | 17.7% of shareholders supported the resolution. | 16.7% of shareholders supported the resolution. |
| **Implications of the outcome** | LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress. | | |
| **Criteria on which the vote is considered "significant"** | LGIM pre-declared its vote intention for this resolution, demonstrating its significance. | LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote. | LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). |

## Fund level engagement

The investment managers may engage with investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken by each manager during the year for the relevant funds.

Engagement activities are limited for the Scheme's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

| Manager | Baillie Gifford | Barings | LGIM |
|---|---|---|---|
| **Fund name** | Multi Asset Growth Fund | Global High Yield Credit Strategies Fund | Future World Global Equity Index Fund (GBP Hedged) |
| **No. of engagements undertaken on behalf of the holdings in this fund in the year** | 26 | 457 | 725 |
| **No. of engagements undertaken at a firm level in the year** | 666 | 741 | 1,088 |

Source: Baillie Gifford, Barings and Legal & General Investment Management

## Examples of engagement activity undertaken over the year to 31 March 2023

### Baillie Gifford Multi Asset Growth Fund

#### Rexford Industrial Realty

Baillie Gifford met with the CFO of Rexford, Laura Clark, to hear her thoughts on the current market environment and what this means for the company's strategy. The main objective of the engagement was to find out more about its decarbonisation plan, physical risk exposure and adaptation planning alongside broader sustainability discussions.

Baillie Gifford discussed the ESG management structure, which Laura leads. 18 months ago, the company created the role of Director of Sustainability, who has a dual reporting line to the CFO and the Head of Construction (reflective of the nature of the role in a property business). Rexford anticipates hiring more dedicated ESG resources as the scope of work expands, and the business grows.

Baillie Gifford addressed its environmental management as a material issue for the real estate sector. Rexford discussed its progress towards setting science-based targets, GHG emissions disclosures and cooperation with its tenant base, which is required to quantify and address scope 3 emissions. Given Rexford's total portfolio exposure to California, the need to further understand physical climate risk exposure and adaptation planning was an important priority for Baillie Gifford. The incorporation of this into Rexford's TCFD reporting provides valuable transparency. Its tenants are not heavy water users, which is scarce in its region of operation. The deployment of 'cool roofs' passively reduces ambient temperatures and the need for air conditioning to offset the impact of increasing temperatures.

This engagement helped Baillie Gifford to communicate and assess priority sustainability topics. The discussion enhanced their knowledge and added context to Rexford's reporting. Baillie Gifford were encouraged to hear spot-check audits have been conducted to help monitor compliance with its supply chain code. As management found areas for improvement following this, Baillie Gifford are keen to continue the conversation to ensure these gaps are fully addressed. Baillie Gifford updated the milestone and priority engagement tracker. In the next meeting, Baillie Gifford will ask about further progress to SBTI target setting (Science Based Target Setting) and improvements to supplier code compliance.

## LGIM

### Capricorn

LGIM conduct all engagements at a firm level, and an example of this over the year is provided below.

Capricorn is a UK-based oil and gas exploration and production company, and in 2022 the actions of Capricorn's board in seeking to merge with other energy companies raised some concerns about the company's governance and decision-making process, given the potential negative impact such decisions would have on its shareholders. As a smaller-scale oil and gas company, Capricorn's climate credentials had been reasonable and until the surprising announcements by the board and its subsequent actions, no material governance concerns had previously been raised. The first proposed merger with Tullow Oil, an Africa-based oil company, was announced in June 2022. LGIM's Investment Stewardship and Climate Solutions teams spoke directly with Capricorn's management team and directors to voice their concerns about the proposed transaction, as it didn't seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. LGIM asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason.

The second merger proposal with NewMed, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first and we met again with Capricorn to voice our concerns. We are not the only shareholder to have questioned the Capricorn board's actions, and one of its largest shareholders, Palliser Capital, became more vocal about its objections to the proposed NewMed deal, which has also begun to attract attention and criticism in the press. As a result of these unpopular proposals, Palliser Capital called for an Extraordinary General Meeting to be held in January 2023, for shareholders to vote on a complete overhaul of the board while requesting the deposition of seven directors, including the CEO, and the appointment of six new members instead. LGIM declared its support for the restructure of the board as they believe that there had been a substantial breakdown in relations between the board and its shareholders, to such an extent that a change was warranted.

The company announced the resignation of the seven directors who were proposed to be removed, and in the shareholder EGM held on 1 February 2023, all six directors proposed by Palliser Capital were elected by an overwhelming majority of 99.2% of the votes cast. The newly constituted board conducted a comprehensive strategic review of Capricorn's business and potential directions for the future, with a priority given to the NewMed transaction. Following the strategic review, and given shareholders' views, the board and NewMed agreed to terminate the business combination.

The overall engagement demonstrates how LGIM's Investment Stewardship, Investment and Climate Solutions teams work together in pushing for a better financial and environmental outcome for stakeholders, and the outcome of the vote demonstrates the power of combined shareholder action.

## Barings Global High Yield Credit Strategies Fund

### Ineos

Barings holds an existing investment in a global commodity chemicals producer. The company has a history of making dividends to fund other investment projects and business ventures within the wider group. It became evident to Barings via news articles that the principal shareholder of the company had registered his interest in a bid for a Premier League Football club with a high anticipated valuation.

During a virtual small group meeting with the CFO and wider senior management team, Barings requested further disclosure on the likelihood of the business increasing the size of their future dividends to fund any potential bid. Barings also expressed that such a transaction could be viewed negatively by the market and lead to downward pressure on the secondary pricing of debt instruments in the existing capital structure.

The company indicated that there will be no future dividends from the group to fund the potential football club bid, which Barings viewed positively and decided to take no further actions in relation to changing the existing Barings ESG rating or fund positioning.

### Wintershall Dea

Barings held an investment in an oil and gas company with material exposure to Russia and partially owned by individuals who were sanctioned by the EU on the back of the Ukrainian war. Barings Global High Yield team moved the investment to 'Hold' preventing further investment whilst it engaged with the company to obtain additional disclosure. This included requesting details on the ownership structure and the potential financial impact from ceasing operations in the region. The shareholdings from the sanctioned individuals were frozen indefinitely and owners cannot receive dividends or any other financial benefit from the company. Barings had multiple calls and meetings with senior management to ask for further information. In 2023, the company announced it would fully exit its Russia operations and disclosed that the negative financial impact is expected to be offset by compensation from investment guarantees. Management also reaffirmed their intention to maintain a conservative financial policy to support their strong credit ratings profile.

Barings viewed the company's exit and the improved disclosure as a positive thereby minimising potential governance risk. Barings' investment committee revisited the situation and was comfortable returning the company's debt to a 'Buy' to allow further investment.