

SCOTTISH MILK LIMITED RETIREMENT BENEFITS PLAN

Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Stewardship policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 December 2022. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018/2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan included in the SIP are as follows:

- To make sure that we can meet our obligations to the beneficiaries of the Plan.
- To pay due regard to the Company's interests on the size and incidence of the employers' contribution payments.

In addition, the following investment objectives were agreed:

- To minimise the risk (or volatility) of the portfolio relative to the liabilities as far as practical.
- To structure the bond portfolio so that it better reflects the characteristics of the Plan's liabilities by hedging interest rate and inflation movements to help minimise the risk of an increase in the required deficit reduction contributions (above RPI) in the future.
- To ensure the investment portfolio is consistent with the long term assumptions used in determining the funding requirements of the Plan.

As a result, the growth portfolio represents 5% of the total Plan assets and the remaining assets are invested to fully hedge the interest rate and inflation sensitivities of the liabilities on the Technical Provisions basis.

Scheme's Investment Structure

The Trustees invest the main assets of the Plan in pooled fund arrangements with BlackRock Investment Management ("BlackRock").

The overall Plan's target allocation is detailed below:

Asset Class	Benchmark %	Index
50:50 Global Equities	5.0	50% FTSE All-Share Index/50% Overseas Equities*
TOTAL GROWTH	5.0	
Liability Driven Investment ("LDI")	71.0	Liability Cashflows
Corporate Bonds	24.0	iBoxx Sterling Non-Gilts Index
TOTAL MATCHING	95.0	
TOTAL	100	

The Investment Manager is regulated by the Financial Conduct Authority (FCA). As required by the Financial Services Act, we have entered into a signed Agreement with them. The Agreement provides important protections for the Plan itself, and for the Trustees. It also sets out the terms on which the assets are managed; the investment brief; guidelines and restrictions under which the Investment Manager operates.

The Trustees also operate a bank account and invest additional voluntary contributions on behalf of members in separate insurance policies.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustees' policy on Environmental, Social and Governance ("ESG") Issues as well as climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change consideration, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

Engagement

The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment manager.

The performance of the investment manager is reviewed by the Trustees on a bi-annual basis, at each Trustee meeting, this includes ratings (both general and specific to ESG) from the investment adviser and how the investment manager is delivering against their specific mandate.

A change in ESG rating (or lack of ESG rating) does not mean that the investment manager will be removed or replaced automatically but the Trustees will discuss rating changes and decide if any action should be taken.

BlackRock will be expected to report on their own ESG policies as and when requested by the Trustees.

Each year, BlackRock prioritizes working around engagement themes to encourage sound governance practices and deliver sustainable long-term financial performance for clients:

- **Board Quality and Effectiveness** - Quality leadership is essential to performance. Board composition, effectiveness, diversity and accountability remain top priorities.
- **Climate and Natural Capital** - Climate action plans with targets advance the transition to a low carbon economy. Managing natural capital dependencies and impacts through sustainable business practices.
- **Strategy Purpose and Financial Resilience** - A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience.
- **Incentives Aligned with Value Creation** - Appropriate incentives reward executives for delivering sustainable long-term value creation.
- **Human Capital** - Sustainable business practices create enduring value for all key stakeholders.

BlackRock's approach emphasizes direct dialogue with companies. Engagements include multiple company meetings during the year with the same company, where BlackRock's views and methods of evaluating actions on relevant ESG issues over time are explained.

Voting Activity

The Trustees have delegated their voting rights to the investment manager, BlackRock.

The investment manager is expected to provide voting summary reporting on a regular basis, at least annually.

When the investment manager presents to the Trustees, the Trustees or investment consultant, Mercer, may ask the investment manager to highlight key voting activity. The Trustees do not use the direct services of a proxy voter.

Over the last 12 months, BlackRock's key voting process is detailed below as follows:

“BlackRock’s proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas (“AMRS”), Asia-Pacific (“APAC”), and Europe, Middle East and Africa (“EMEA”) - located in seven offices around the world.

The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock’s Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines.

While we subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into our vote analysis process, and we do not blindly follow their recommendations on how to vote. We primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial.

Other sources of information we use include the company’s own reporting (such as the proxy statement and the website), our engagement and voting history with the company, and the views of our active investors, public information and ESG research.”

Over the year to 31 March 2022, the voting activity on behalf of the Trustees was as follows:

- There have been 3,109 votable meetings over the year, of which the investment manager has voted in 2,994 (96.3%) of these meetings on behalf of the Trustees. In these meetings, there were a total of 39,234 votable proposals.
- The investment manager participated in the vote for 36,645 of the total votable proposals (93.4%). In votes where the investment manager participated, they voted with management in 91.0% of proposals and against management in 7.7% of proposals.
- BlackRock undertook 29 significant votes over the period predominately over the energy sector. Each significant vote detail is publicly shared in the manager’s website. These were in relation to Energy (8), Industrials (4), Materials (4), Financials (3), Communication Services (3), Health Care (2), Utilities (2), Consumer Discretionary (1), Consumer Staples (1) and Information Technology (1) sectors.
- In addition, BlackRock conducted 2,967 company engagements with 1,877 individual companies.

The following tables set out a summary of the key voting activity over the financial year, and details on the voting processes and beliefs of BlackRock:

Fund	Votes cast		
	Votes in total	Votes against management endorsement	Abstentions
BlackRock Aquila Life (50:50) Global Equity Fund S1 Acc	36,645	2,681	389

Fund	Proxy voter used?	Most significant votes (description)	Significant vote examples
BlackRock Aquila Life (50:50) Global Equity Fund S1 Acc	<p>Proxy research firms help BlackRock to deploy its resources to greatest effect in meeting client expectations</p> <ul style="list-style-type: none"> •BlackRock sees its investment stewardship program, including proxy voting, as part of its fiduciary duty to enhance the value of clients' assets, speaking as a shareholder on their behalf to ensure that companies are well led and well managed •BlackRock uses proxy research firms in its voting process, primarily to synthesise information and analysis into a concise, easily reviewable format so that analysts can readily identify and prioritise those companies where BlackRock's own additional research and engagement would be beneficial •BlackRock does not follow any single proxy research firm's voting recommendations and in most markets, but subscribes two research providers and uses several other inputs, including a company's own disclosures, in voting and engagement analysis •BlackRock also works with proxy research firms, which apply its proxy voting guidelines to filter out routine or non-contentious proposals and refer any meetings where additional research and possibly engagement might be required to inform voting decisions •The proxy voting operating environment is complex and BlackRock works with proxy research firms to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting 	<p>BlackRock Investment Stewardship prioritizes its work around themes that will encourage sound governance practices and deliver sustainable long-term financial performance. These themes shape Global Principles, market-specific Voting Guidelines and Engagement Priorities, which form the benchmark against which BlackRock looks at the sustainable long-term financial performance of investee companies.</p> <p>BlackRock periodically publishes "vote bulletins" setting out detailed explanations of key votes relating to governance, strategic and sustainability issues that are considered, based on Global Principles and Engagement Priorities, material to a company's sustainable long-term financial performance. These bulletins are intended to explain vote decisions, including the analysis underpinning it and relevant engagement history when applicable, where the issues involved are likely to be high-profile and therefore of interest to clients and other stakeholders, and potentially represent a material risk to the investment undertaken on behalf of clients.</p>	<p>BlackRock has provided a number of examples. These were predominantly where they had voted against election of a director or changes remuneration benefits.</p> <p>For example, regarding AGL Energy Limited, on 22/09/2021, BlackRock voted against approving a conditional spill resolution, as this operation was thought to be against the best interest of shareholders.</p>