

BIG THINKING FOR SMALL SCHEMES

Implementation Statement

Scholastic Limited Pension and Assurance Scheme

31 March 2021



1. Introduction

Under regulatory requirements, trustees are required to prepare and review an implementation statement outlining their approach and stewardship dealing with certain specific matters with regards to their Environmental, Social and Governance (ESG) principles outlined in their latest Statement of Investment Principles (SIP).

This Statement sets out the principles governing decisions about the ESG aspect of investment of the assets of Scholastic Limited Pension and Assurance Scheme (the Scheme). In preparing it, the Trustees obtained written reporting on these matters from Barker Tatham Investment Consultants Limited as the Scheme's investment consultants.

2. ESG Principles

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. It acknowledges that it cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustee also acknowledges that where index tracking pooled vehicles are employed ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have material impacts on both the investment risk and return of its investments and good stewardship of the Scheme's investments is an important factor in helping to create and preserve capital. In particular, long-term sustainability issues, particularly climate change, present both risks and opportunities and that these will require ongoing consideration.

The Trustees have delegated the day to day investment of Scheme assets to their three fund managers - Insight, LGIM and AberdeenStandard. The Trustees have an expectation that these managers will evaluate ESG factors, where possible, including climate change considerations and exercising voting rights and stewardship obligations in line with the prevailing best practice.

The Trustees do not, at present, take into account the views of members.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees' views that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

Further information on the Trustees' policies can be found in the latest SIP dated October 2020.

In the Trustees' opinion, their policies, as recorded in the SIP, have been followed over the 12 -month period to 31 March 2021.

The following pages illustrate how the Trustees, through their fund managers, have followed their stewardship and engagement policies.

3. Investments Attitudes to ESG

Fund Manager/Fund	ESG Description
<p>LGIM</p> <p>Global Equity Fixed Weights 50:50 GBP Hedged Index Fund</p> <p>World Emerging Market Equity Index Fund</p> <p>Dynamic Diversified Fund</p>	<ul style="list-style-type: none"> <p>Fund Manager Overview</p> <p>LGIM’s goal is to protect and enhance the investment returns generated by their clients’ assets whilst aiming to have a long-standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which they invest.</p> <p>LGIM has publicly committed to the following three goals as part of their five-year strategic plan:</p> <ul style="list-style-type: none"> • Influencing the transition to a low-carbon economy • Making society more resilient with our financial solutions • Creating new investments for the future economy <p>Further information on how they can receive these goals is publicly available on the parent company Legal & General Group plc’s reporting on corporate responsibility.</p> <p>ESG Integration</p> <p>LGIM uses a bottom-up and a top-down approach to monitoring and analysis as well as using ESG information that comes out from engagement meetings with companies. LGIM’s ESG scoring tool assesses companies in 17 different sectors on their disclosure, policies and processes for managing ESG risks. LGIM has set up three long-term thematic working groups (demographics, energy and technology) that undertake top-down research and analysis of macroeconomic issues, related to responsible investment and ESG. The direct engagement with companies is a way LGIM seek to identify ESG risks and opportunities. LGIM have an escalation policy to tackle difficult and inter-connected ESG issues that materially impact the value of assets.</p> <p>LGIM has an Active ESG View tool that forms an essential component of the overall active research process. The tool brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. ESG risks vary across sectors and therefore the proprietary tool LGIM has developed evaluates sector specific ESG factors, spanning 64 specific sectors and sub-sectors. LGIM incorporates a qualitative approach on top of this as data alone may not tell the full story.</p> <p>Active Ownership (1 year to 31 March 2021)</p> <p>LGIM reports annually on their active ownership to 31 March, and provides quarterly reporting on their proxy voting. LGIM’s Corporate Governance team casts proxy votes in a manner consistent with the</p>

interests of all clients. They direct the vote of a significant proportion of a companies' shares by exercising the shareholder rights of almost all clients. LGIM acknowledges that the Scheme, in giving LGIM their mandate, requires LGIM to vote with the shares on the behalf of the Scheme. LGIM therefore aims to minimise abstaining from voting, only doing so if it is technically not possible to cast a vote in any other way.

LGIM's voting decisions are made internally within the corporate governance team, and independently from the investment teams. LGIM have in place supplementary regional policies setting out their voting approaches publicly on their website however various other factors may also help them form a view on voting matters. These consist of; previous engagement, third party research (e.g. ESG reports, broker research), company performance and LGIM's in-house views with respect to their investment teams.

The following paragraphs relate to the active ownership or approaches to ESG specific to the LGIM funds in which the Scheme is currently invested:

Global Equity Fixed Weights 50:50 GBP Hedged Index Fund

Over the 12 months to end March 2021, LGIM were eligible to vote at 3,641 meetings and on 44,680 resolutions over the 12-month period. LGIM voted on 99.97% of resolutions. 83.56% of votes were votes for management, 16.29% were votes against and 0.15% were votes abstained from.

World Emerging Market Equity Index Fund

Over the 12 months to end March 2021, LGIM were eligible to vote at 3,998 meetings and on 36,036 resolutions over the 12-month period. LGIM voted on 99.89% of resolutions. 85.23% of votes were votes for management, 13.40% were votes against and 1.38% were votes abstained from.

Dynamic Diversified Fund

Over the 12 months to end March 2021, LGIM were eligible to vote at 7,887 meetings and on 83,262 resolutions over the 12-months period. LGIM voted on 99.90% of resolutions. 84.09% of votes were for managements, 15.24% were votes against and 0.68% were votes abstained from.

A case study by LGIM looks at the company Cardinal Health in which in November 2020, paid out an above target bonus to the CEO who was head of pharma globally during the worst years of the opioid crisis. LGIM voted against the resolution to signal their concern over the bonus payment to the CEO in the same year that the company recorded a total pre-tax charge of \$5.63bn for expected opioid settlement.

A further case study by LGIM looks at the company Barclays in which at the end of March 2020, issued a statement, outlining the

	<p>ambitious target of aligning the entire business to the goals of the Paris Agreement through plans to shrink its carbon footprint to net zero by 2050. LGIM endorsed this proposal, which was voted on by shareholders at the 2020 AGM on 7th May alongside a shareholder resolution on the same topic.</p> <ul style="list-style-type: none"> • References LGIM aims to implement best practice reporting to stakeholders including an: <ul style="list-style-type: none"> ○ Annual Active Ownership report ○ Quarterly ESG Impact Report ○ Public monthly voting reports
<p>Insight</p> <p>Enhanced Selection LDI Longer Nominal Fund</p> <p>Enhanced Selection LDI Longer Real Fund</p> <p>LDI GBP Liquidity Plus Holding Fund</p>	<ul style="list-style-type: none"> • Fund Manager Overview For Insight, responsible investment is about value. They believe all risks, including environmental, social and governance (ESG) risks, can affect the value of an investment. Insight believe that investing responsibly means managing risk. This includes risks to the wider market, as well as the specific underlying risks that determine whether an investment is fair value. They aim to systematically consider ESG issues within their research processes – and if they identify material ESG risks, they engage to better understand the issues. They also seek to understand and act on wider issues to support our clients’ best interests. Insight was a founding signatory to the UN-supported Principles for Responsible Investment (PRI) in 2006, the world’s leading proponent of responsible investment. Signatories to the PRI include investment managers and asset owners with trillions of dollars of assets under management. In 2020, they were awarded A+ ratings across the relevant categories in the PRI survey, including corporate and sovereign debt. • ESG Integration Insight’s proprietary models continually evolve to help address the gaps in third-party ESG data. They guide their engagement with companies and governments to better understand the ESG risks they face and how those risks are managed. They aim to take a proactive role in ensuring the long-term sustainability and resilience of markets. They have helped to drive change on significant regulatory and market issues to protect their clients’ long-term interests, as well as those of wider society. Insight generate prime corporate ESG ratings are based on separate environmental, social and governance ratings, which in turn rest on 33 separate scores for a wide range of key ESG issues. The ratings are generated using inputs from numerous ESG data providers, adjusted for quality and relevance by Insight’s credit and

data experts, who also weight them according to their significance for different sectors. Prime corporate ESG ratings were created to generate ESG ratings that we believe more accurately and reliably reflect the risks that corporates face. They aim to help Insight's analysts and portfolio managers consider material ESG risks, informing their decision-making and engagement, and to enable portfolios for clients requesting specific sustainability criteria. Insight conducted 1,210 engagements of which 90% included discussions about ESG issues, which is up from the 82% of engagements from the previous year. This was the case across all industry sectors at Insight.

More information can be found in Insight's Responsible Investment Annual Report 2021.

- **Active Ownership – (1 year to 31 December 2020)**

To help clients stay abreast of relevant developments, Insight publishes regular market insights, views from industry experts and reports detailing their efforts and the difference they make. Insight report quarterly on their active ownership. They have provided quarterly policy level engagements spreadsheets on their LDI Engagement from Quarter 3 2020 last year when these requirements were introduced. Insight carry out engagements with some themes outlined below:

- Development of Green Gilt Market
- RPI reform
- LIBOR Transition
- Bank capital rules
- Integration of ESG factors into credit risk assessments

Enhanced Selection LDI Longer Nominal and Real Funds

Insight aims to embed ESG where appropriate. LGIM considers how ESG is incorporated in their choice of counterparties, which they use by reviewing quantitative and qualitative factors as well as overall governance.

An example of Insight's engagement activity would be with Credit Suisse (CS):

Credit Suisse is a highly rated financial institution with solid credit quality from its core units. Despite an overall improvement in ESG rating, the rating assigned to Governance remained a concern. This was primarily driven by several controversies and lack of mitigants to stop them reoccurring. Insight scored CS poorly from a financial system instability perspective.

Insight engaged with the company and, together with pressure from other investors have seen CS improve its governance structure, most notably:

- Accounting practices have become less aggressive.
- The CEO Tidjane Thiam was forced to resign, highlighting increased levels of accountability for senior management. He had been unable to stop the spying practices in Zurich.

	<p>Although there is no easily quantifiable and definitive “improved financial outcome”, this improvement reduces the risks within CS as a counterparty to the Fund and therefore helps to maintain an important issuer as a potential investment.</p> <ul style="list-style-type: none"> • References More information can be found in the following documents: <ul style="list-style-type: none"> ○ https://www.insightinvestment.com/investing-responsibly/ ○ https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/uk-aus-proxy-voting-policy.pdf ○ Responsible Investment Annual Report 2021 ○ Quarterly Policy Level Engagements Sheets
<p>Aberdeen Standard</p>	
<p>Long Lease Property Fund</p>	<ul style="list-style-type: none"> • Fund Manager Overview Aberdeen Standard Investments (ASI) believe environmental, social and governance (ESG) considerations have been an integral part of their decision-making process for almost 30 years. At Aberdeen Standard they state their vision is to make a difference for their clients, society and the wider world. It is about aiming to achieve their clients’ goals whilst doing the right thing. They centre their approach to responsible investing on the following principles. <ol style="list-style-type: none"> 1. Their investment process: they integrate and appraise environmental, social and governance factors in their investment process, with the aim of generating the best long-term outcomes for clients. 2. Their investment activity: they actively take steps as active owners to deliver long-term, sustainable value consistent with their clients’ objectives. 3. Their client journey: they clearly define how they act in clients’ interests in delivering stewardship and ESG (environmental, social and governance) principles). They transparently report on actions to meet those interests. 4. Their corporate influence: they actively advance policy, regulation and industry standards as they seek to deliver a better future for clients, the environment and society. <p>Client feedback helps to shape their views and approach.</p> • ESG Integration ESG considerations are central to the way Aberdeen Standard invest. They believe ESG factors are financially material and can meaningfully affect an asset’s performance. An asset’s ability to sustainably generate returns for investors depends on the management of its impact on the environment, its consideration of

the interests of society and stakeholders, and on the way in which it is governed.

They believe that a thorough understanding of ESG factors allows them to make better investment decisions, leading to better outcomes for their clients. This begins with rigorous research. They undertake thorough due diligence before investing, considering material ESG risks and opportunities alongside other financial metrics. They seek to understand whether such risks are being adequately managed, and whether the market has understood and priced them accordingly.

ESG is integrated through:

- Implementation – Taking into account investor preferences and excluding companies with controversial exposures.
- Asset Allocation – Asset allocation decisions and ESG are closely linked, as changes associated with ESG issues shape the way they allocate capital.
- Risk Management- Scenario analysis also allows us to work with clients on risk-mitigation strategies.
- Stewardship – Being committed to always acting in the best interests of clients. They believe in active, constructive engagement. For both active and passive strategies, they vote all shares globally wherever they have voting authority.

Aberdeen Standard has an approach to climate-change which is built around six areas of focus:

- Research and Data – Provide high-quality climate change insights and thematic research across asset classes and regions.
- Investment Integration - Understand the potential financial impacts of climate-change risks and opportunities across regions and sectors, integrate these into investment decisions and understand the implications to their portfolios.
- Client Solutions - Understand client needs in relation to climate change and low-carbon product demand.
- Investee Engagement & Voting - Better understand investee exposure and management of climate change risks and opportunities. Influence investee companies on management of climate risks and opportunities via engagement and voting.
- Collaboration & Influence - Collaborate with climate-change-related industry associations and participate in relevant initiatives.
- Disclosure - Disclose climate-change-related data using the TCFD reporting framework across the four pillars: governance, strategy, risk management, metrics & targets.

- **Active Ownership (1 year to 31 March 2021)**

AberdeenStandard reports proxy voting activity on a quarterly basis. As shareholders, Aberdeen Standard votes in a considered manner and work with companies to drive positive change. They also

engage with policymakers on ESG and stewardship matters. ASI maintain close contact with the companies in which they invest, generally meeting representatives of investee companies at least once a year. They recognise the importance of effective communication and value having a focused dialogue with directors and senior executives about issues such as corporate strategy and performance, risk management, corporate governance and relations with stakeholders. Their activities include a regular engagement programme to discuss a range of relevant ESG issues, such as:

- board balance and composition
- remuneration policies
- audit and risk issues
- environmental and social issues.

ASI takes part in voting issues across the globe for all investments where they have voting rights. The exceptions are when they are otherwise instructed by the beneficial owner or where, for practical reasons such as share-blocking, this is not appropriate.

The active ownership details below apply to the funds which the Scheme is invested in:

Long Lease Property Fund

AberdeenStandard uses material ESG indicators in their approach in the Long Lease Property Fund. These indicators fall into the following categories: environment and climate change, demographics, governance and engagement and technology and infrastructure. ASI consider ESG as a component of all decision making. They:

- set objectives with a high focus on carbon and energy reduction, occupier engagement and occupier quality.
- have an ESG section in the Investment Committee paper which has to be filled and aligned with the Fund ESG strategy.
- have Long Lease Asset Management Plans. ESG actions at the asset level which require capital expenditures are included in the asset management plans.
- have an ESG database Envizi implemented across UK and Europe which is a database for all ESG actions to be held and tracked going forward.

Further information on the objectives and ESG metrics can be found in the ASI Long Lease Property Managed Pension Fund Presentation.

A case study by AberdeenStandard looks at Petra Diamonds where the company is facing serious allegations relating to human-rights abuses at their Williamson mine. AberdeenStandard have engaged with the company and expressed their concerns. Aberdeen Standard asked what strategies the company has in place to ensure that the needs of local communities and affected stakeholders are met throughout its operations, and what it was doing to address the allegations linked to the Williamson mine. In addition to their

engagement, they have also sent a formal letter to the company's chairman, expressing these and other expectations.

- **References**

- Aberdeen Standard Brochure ESG Q4 2020
- ASI Long Lease Property Managed Pension Fund Presentation
- ASI Listed Company Stewardship Guidelines
- Responsible Investing page on the Aberdeen Standard website
- ASI Position Statement - Climate change