

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2023

IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2023 (forming part of the Trustee's Report)

Introduction

Under regulatory requirements covering occupational pension schemes, M.R.C. Pension Trust Limited (the 'Trustee'), on behalf of the MRC Pension Scheme (the 'Scheme'), is required to publish an annual Implementation Statement stating how the policy covered in the Statement of Investment Principles (the 'SIP') regarding the exercise of the rights (including voting rights) attaching to the investments and the undertaking of engagement activities in respect of the investments has been followed.

From 1 October 2022, further Department for Work and Pensions ('DWP') guidance on the reporting of stewardship activities through Implementation Statements came into effect. This statement aims to consider this guidance and outlines the actions the Trustee has taken in 2023 to meet the DWP's updated stewardship expectations, although the Trustee recognises this is an evolving area, where best practice develops over time.

This Statement, prepared by the Trustee on behalf of the Scheme, covers the period from 1 January 2023 to 31 December 2023. The Trustee is comfortable that the policies stated within the SIP have been adhered to over the period. Please note, this Statement does not disclose stewardship in relation to the Scheme's AVC investments.

Summary of Statement of Investment Principles updates over the period

There were no changes to the SIP (dated November 2022) required over the period.

The Trustee has made informed strategic investment decisions in accordance with its rights and responsibilities to enable the achievement of the Trustee's long-term investment objectives as set out in the SIP.

The Scheme's SIP can be found [here](#).

The Trustee's Stewardship Policy

Over 2023, the Scheme updated its Stewardship Policy which now sits in a stand-alone document separate from the SIP. This Policy articulates how the Trustee practices effective stewardship through the oversight and challenge of investment managers, rather than the Trustee itself operating directly as steward of the underlying assets in which the Scheme invests.

The updated Stewardship Policy has raised the expectation for managers' stewardship activities, including outlining the significance of stewardship in the selection and monitoring of investment managers, expectations for investment managers' engagement activities, and expectations for investment managers' voting activities where relevant.

As per the DWP's suggestions, the Trustee has selected a stewardship theme which the Trustee will use to channel its stewardship efforts. The Trustee recognises there is a spectrum of sustainability-related challenges that are potentially financially material but believes it will be most effective in its oversight of investment managers by focussing on one area initially. The chosen stewardship theme is "Climate Change".

Specific actions the Trustee has taken over 2023 to implement the updated Stewardship Policy are explained in the subsequent sections of this Statement.

Significance of stewardship in appointment and monitoring of investment managers

When selecting and monitoring the Scheme's investment managers, the Trustee considers a manager's ESG and Stewardship capabilities. This information is provided by the Scheme's investment consultant and through direct conversations with investment managers.

Where the Trustee has appointed managers to manage segregated portfolios of equities or bonds, the Trustee has instructed managers not to invest in the shares of those companies whose predominant business revenues come from tobacco-related products. The Scheme receives an annual tobacco exposure report from the Scheme's investment consultant to monitor tobacco exposure within its pooled investments and assess whether this is in-line with expectations. A slight increase in exposure was identified in 2023 within the Universities Section following the disinvestment from Baillie

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Gifford Equity Mandate (which had a specific tobacco exclusion) and subsequent investment in State Street All World ESG Fund. Following this, since the start of Q3 2023, Tobacco and Thermal Coal screens now apply to all State Street pooled funds, in addition to the segregated State Street UK equity mandate in the MRC Section which already applied an exclusion.

To help in its monitoring, the Trustee also receives annual ESG analysis on its managers, such as carbon emission reporting. Through this reporting, the Trustee is able to track the carbon emission changes of each manager mandate and assess whether this is in-line with the Trustee's expectations. Where it is not, the Trustee may consider engaging with the relevant manager directly, or via the Scheme's investment consultant.

Engagement

The Trustee delegates responsibility for engaging with individual issuers to the Scheme's investment managers. The Trustee understands that engagements carried out by investment managers are likely to vary in nature by asset class. With that in mind, three examples across different asset classes are given in Appendix A.

In February 2023, the Trustee met with two of the Scheme's credit managers, Royal London Asset Management and Intermediate Capital Group, and engaged with the investment managers on the funds' performance, investment approach and ESG integration and stewardship. Overall, the Trustee was satisfied with the investment managers' activities and comfortable with their approach to ESG and stewardship.

The Trustee intends future engagements with the Scheme's investment managers as part of its manager monitoring, recognising its investment consultant also monitors the Scheme's investment managers.

Voting

The Trustee delegates responsibility for the exercise of rights (including voting rights) attaching to investments to the Scheme's investment managers. The Trustee is not aware of any material departures from the managers' stated voting policies and is comfortable voting by managers has been in line with the Trustee's policies and stewardship priority, as set out in its SIP and stewardship policy. Given the nature of these mandates and the fact that voting activities appear to be undertaken in line with the managers' voting policies, the Trustee is comfortable that the voting policies for the Scheme have been adequately followed over the period.

The Scheme's Stewardship Policy offers a definition of what the Trustee deems to be a significant vote. A significant vote is described as meeting some or all of the following criteria, in addition to being climate change-related:

- *Votes relating to an issuer to which the Scheme has a large £ exposure;*
- *Votes which may be inconsistent between investment managers (while recognising manager views may differ, votes in opposite directions may neutralise our voting influence); and*
- *Votes identified due to potential controversy, which may be driven by the size and public significance of a company, the nature of the resolution, and the weight of shareholder vote against management recommendation.*

Voting statistics for each of the Scheme's relevant managers, as well as a selection of significant votes cast on behalf of the Scheme over the period are shown in Appendix B.

Looking ahead

It is the Trustee's belief that the policies set out in the SIP regarding the exercise of rights attaching to investments and the undertaking of engagement activities in respect of the investments have been followed over 2023.

During 2024, the Trustee plans to continue to monitor the Scheme's managers from both a performance and stewardship perspective.

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Appendix A

The Trustee expects the nature of engagement to vary between asset classes. The Trustee also believes engagement can take place across the Scheme's investments and is not restricted to equity investments. With this in mind, below are three examples of engagement within the fixed interest, equity and property asset classes.

RLAM – Direct Engagement

Company: Electricite de France

Focus of the engagement: Commitment to Net Zero by 2050 and new emissions targets.

Details of the engagement: As part of the CA100+ collaborative engagement, RLAM met with Electricite de France's Chief Sustainability Officer and the team to discuss engagement priorities, including improving their scope 1 and 3 emissions targets, and improving offsetting, residual emissions, just transition and CAPEX disclosures.

Outcome of the engagement: Following this engagement, Electricite de France agreed to set new targets to reduce its scope 1 emissions from electricity generation by 80% in 2035, using 2017 levels as a baseline. Progress towards this has been made already, with scope 1 emissions lowered by 50% between 2017 and 2022. Electricite de France also clarified its Net Zero by 2050 target and confirmed this includes scope 3 emissions, which make up almost 80% of current emissions. This process entails reducing emissions by at least 90%, with the remaining 10% abated through quality carbon removal projects after 2030.

Ninety One – Direct Engagement

Company: NextEra Energy

Focus of the engagement: Ninety One carried out a joint engagement alongside a significant US based asset owner on Scope 3 emissions reporting and SBTi targets.

Details of the engagement: Following discussions, Ninety One met with NextEra's CEO to further engage on supply chain decarbonisation given the extent of these emissions which were not captured by NextEra's Net Zero targets. Ninety One highlighted the need explicitly to cover NextEra's extensive supply chain and discussed the importance of decarbonising upstream emissions as part of wider Scope 3 emissions, largely emanating from the use of steel. Ninety One emphasised to NextEra the opportunity to use the company's purchasing budget to drive acceleration to green steel, which is both useful in decarbonising our energy system and less energy intensive in production. The conversation focussed on pathways available to NextEra to decarbonise their steel supply chain.

Outcome of the engagement: NextEra understands targeting green steel would lead to further demand for hydrogen which could in turn be a key growth driver for NextEra. However, there is recognition that steel remains a hard-to-abate sector and that clarity on green hydrogen regulation from the US government will be a key determinant for NextEra's supply chain decarbonisation strategy. Green steel is a real opportunity for supply chain decarbonisation if US regulations allow. Ninety One will continue to engage with NextEra on decarbonisation of their supply chain and embedding of Scope 3 emissions targets into their Net Zero strategy as the regulatory landscape becomes clearer.

Nuveen – Collaborative Engagement

Topic: Specific net zero carbon goals across operational activities and investments.

Details of the engagement: Nuveen signed the Better Buildings Partnership (BBP) Climate Change Commitment in 2019 and published a pathway to achieve net zero carbon (NZC) by 2040. The BBP Climate Commitment acknowledges the transformation that is required across the real estate sector to deliver net zero buildings by 2050.

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The commitment requires signatories to publish net zero carbon pathways and delivery plans, disclose the energy performance of their assets and develop comprehensive climate resilience strategies. It has an overarching objective of delivering net zero buildings by 2050, incorporating both direct and indirect investments, operational and embodied carbon and Scope 1, 2 and 3 emissions.

Outcome of the engagement: Since becoming a BBP signatory, Nuveen has been actively participating in BBP's monthly forums and roundtable sessions across a range of ESG issues to stimulate discussion with industry peer groups to identify common sustainability challenges and new opportunities. In addition, Nuveen has successfully made a public commitment to reduce the energy intensity of its global equity portfolio by 30% by the year 2025, based on a 2015 baseline. Nuveen is also committed to transition its global real estate portfolio to Net Zero Carbon by 2040 and future-proof its investments through the active integration of ESG.

Appendix B

Summary of voting over the period

The managers in the below table provided details of their voting behaviour and significant votes over the period, in line with the Pensions and Lifetime Savings Association's Vote Reporting Template. Their responses are summarised in the table below. The information is sourced directly from the managers unless otherwise stated and corresponds to the MRC Section and the Universities Section, respectively.

MRC Section:

Holding	Number of resolutions eligible to vote	% of resolutions voted	% of resolutions voted against management	Proxy adviser*	% of resolutions voted contrary to the recommendation of the proxy adviser
Ninety One Global Environment Fund	431	100.0%	8.8%	ISS	3.5%
First Sentier Asia Pacific Select Strategy	443	100.0%	4.3%	Glass Lewis	12.4%
Invesco Global Equity Income Strategy	720	98.1%	4.4%	ISS / Glass Lewis	3.8%
Morgan Stanley Offshore Emerging Markets Equity Fund	1,225	100.0%	10.2%	ISS	4.2%
State Street FTSE All Share Ex Tobacco	10,011	99.6%	6.4%	ISS	5.9%

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State Street North America (100%					
Hedged) ESG Screened Index Equity Sub-Fund	8,987	99.0%	11.6%	ISS	11.3%
State Street Japan (100% Hedged) ESG Screened Index Equity Sub-Fund	6,050	100.0 %	7.3%	ISS	6.2%
State Street Europe ex UK (100% Hedged) ESG Screened Index Equity Sub-Fund	9,060	97.6%	11.7%	ISS	7.3%

Universities Section:

Holding	Number of resolutions eligible to vote	% of resolution s voted	% of resolutions voted against management	Proxy adviser*	% of resolutions voted contrary to the recommendation of the proxy adviser
State Street All World ESG Screened Index Equity Sub- Fund	63,679	95.6%	15.6%	ISS	8.5%

*Managers employ proxy advisers to recommend ways in which to vote on particular resolutions.

Significant votes

The following tables provide a significant vote example for each relevant manager. In practice, the managers vote on a wider range of topics than the examples listed below. The Trustee has asked managers to provide examples that are in line with the Trustee's definition of what constitutes a significant vote as outlined in the Stewardship Policy.

	Ninety One	First Sentier	Invesco
Company name	Schneider Electric S.A.	AIA Group Limited	Canadian Pacific Kansas City Limited
Date of vote	04/05/2023	10/05/2023	15/06/2023
Size of holding at date of vote	5.04%	3.29%	1.31%

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Summary of the resolution	Approve Company's Climate Transition Plan	Adoption of Amended restricted Share Unit Scheme	Report on Climate Transition Plan
Manager's vote	For	Against	For
If a vote against management, was this intent communicated ahead of the vote?	N/A	No	N/A
Outcome of the vote	Pass	Pass	Pass
Rationale for the voting decision	Voted for as the company has set targets by 2030 and 2050 to achieve Net-Zero on a 1.5C trajectory validated by SBTi with intermediary checkpoints and as the disclosure framework and content are in line with market practices.	Voted against amendment to incentives. Despite some positive changes being made, such as extending the vesting period. Overall, the investment manager was not comfortable with the changes in vesting conditions.	This was the company's first Say-on-Climate Resolution. Over the last 2 years they have set SBTi targets and made progress towards their 2021 Climate Strategy.
Implications of the outcome	Going forward, Ninety One will monitor the progress of Schneider's execution of their net zero transition plan. The company has set 2025, 2030, 2040 and 2050 goals with a clear plan to achieve their targets at every stage and have committed to disclosing their progress against the targets on an annual basis.	Unable to provide owing to the sensitive nature of renumeration discussions.	There was subsequent engagement by the ESG team to discuss their alignment with the 1.5-degree ambition and how they plan to achieve net zero by 2050. In addition the methodology around how they set their targets and monitor for progress was discussed in further detail.
How does this vote relate to the Scheme's stewardship policy?	Related to the Trustee's stewardship priority of Climate Change.	Relatively large holding whereby First Sentier voted against management.	Related to the Trustee's stewardship priority of Climate Change.

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	Morgan Stanley	State Street
Company name	China Mengniu Dairy Company Limited	BP Plc
Date of vote	06/06/2023	27/04/2023
Size of holding at date of vote	0.72%	3.41%
Summary of the resolution	Election of the director	Approve shareholder resolution on Climate Change targets
Manager's vote	Against	Against
If a vote against management, was this intent communicated ahead of the vote?	No	No
Outcome of the vote	Pass	Did not pass
Rationale for the voting decision	<p>Voted against the election due to the company's high exposure to GHG emissions and lack of public commitment to emissions reduction.</p> <p><i>The Trustee understands that in this instance, voting against the election of the director is intended to be a form of escalation against a director who they deem responsible for the Company's stance on climate change, as discussed above.</i></p>	<p>Voted against the proposal as BP has already adopted Scope 3 targets and provided disclosure in line with expectations.</p>
Implications of the outcome	MSIM to continue to engage on the topic.	Where appropriate State Street will contact the company to explain their voting rationale and conduct further engagement.
How does this vote relate to the Scheme's stewardship policy?	Related to the Scheme's stewardship priority of Climate Change.	Related to the Scheme's stewardship priority of Climate Change.