

Scotiabank Pension Scheme (United Kingdom and Channel Islands)

Annual Report for the year ended 31 October 2024

Appendix 1 – Engagement Policy Implementation Statement in relation to investments

Engagement Policy Implementation Statement for the Year Ended 31 October 2024

Scotiabank Pension Scheme (United Kingdom and Channel Island) (“the Scheme”)

1. INTRODUCTION

The Engagement Policy Implementation Statement (known as the Statement) presents the Trustee's assessment of their adherence to their engagement policy and their policy concerning the exercise of rights (including voting rights) attaching to the Scheme's investments throughout the one-year period ending 31 October 2024 (the “Scheme Year”). The Trustee's policies are outlined in their Statement of Investment Principles (SIP) dated May 2022. The SIP was updated in May 2022 to reflect the revised de-risking funding basis for the Scheme, from gilts +0.5% p.a. to gilts +0.25% p.a. The SIP is available on request and is also publicly available [here](#).

This Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Department for Work and Pensions.

The Trustee has appointed Mercer Limited (Mercer) as the discretionary investment manager and the Scheme's assets are invested in a diverse range of specialised pooled funds (known as the Mercer Funds). The management of each of the Mercer Fund's assets is carried out by a Mercer affiliate, namely Mercer Global Investments Europe Limited (MGIE).

The relevant Mercer affiliate is responsible for the appointment and monitoring of a suitably diversified portfolio of specialist third party investment managers for the assets of each Mercer Fund.

Under these arrangements, the Trustee acknowledges that they do not possess direct authority over the engagement or voting policies and arrangements of the Mercer Funds' managers. Mercer's publicly available Sustainability Policy outlines how it addresses sustainability risks and opportunities, incorporating Environmental, Social and Corporate Governance (ESG) factors into the decision making process. The Stewardship Policy provides further details on Mercer's beliefs and implementation of stewardship practices.

Mercer's Client Engagement Survey aims to integrate the Trustee's perspectives on specific themes by evaluating the alignment between Mercer's engagement priority areas and those of the Trustee. Additionally, the survey highlights areas of focus that hold importance to the Trustee. The Trustee regularly reviews reports from Mercer regarding the engagement and voting activities conducted within the Mercer Funds to assess the alignment of these with their own.

Section 2 of this Statement outlines the Trustee's engagement policy and evaluates the extent to which it has been followed during the Scheme Year.

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Section 3 sets out the Trustee's policy regarding the exercising of rights (including voting rights) attached to the Scheme's investments. This Section also provides detailed information on the voting activities undertaken by third-party investment managers appointed within the Mercer Funds during the Scheme Year.

Taking the analysis included in Sections 2 to 3 together, it is the Trustee's belief that their policies with regard to engagement and the exercise of rights attaching to investments has been successfully followed during the Scheme Year.

2. TRUSTEE'S POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES, INCLUDING CLIMATE CHANGE

Policy Summary

The Scheme's SIP outlines the Trustee's beliefs on ESG factors (including climate change). Further details are included in Section 10 of the SIP. The Trustee keeps the policy under regular review.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change.

Policy Updates	Climate Change Reporting and Carbon Foot-printing	Mercer Ratings
<p>The Trustee considers how sustainability (including ESG factors), climate change and stewardship are integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers within the Mercer Funds, in their monitoring process. Mercer, and MGIE, provide reporting to the Trustee on a regular basis.</p> <p>The Mercer <u>Sustainability Policy</u> is reviewed regularly. In August 2023 the governance section was updated, and the climate scenario modelling section is now detailed in the standalone Task Force</p>	<p>Mercer and the Trustee believe climate change poses a systemic risk. Mercer's global investment philosophy recognises that:</p> <ul style="list-style-type: none"> • Portfolio resilience can be enhanced by integrating financially material sustainability, transition, and socioeconomic risks into investment decision-making. • Investing to solve long-term systemic issues may provide opportunities to improve risk-adjusted returns. • Effective stewardship can improve investment outcomes. 	<p>Stewardship and active ownership form an important part of Mercer's ratings framework applied during the manager research process.</p> <p>Mercer's ratings include an assessment of the extent to which ESG factors are incorporated in a strategy's investment process as well as the manager's approach to stewardship.</p> <p>Across most asset classes, Mercer ratings are reviewed during quarterly monitoring by the portfolio management teams with a more comprehensive review performed annually. In these</p>

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on Climate Related Financial Disclosures (TCFD) report.

Similarly, the Mercer [Stewardship Policy](#) is reviewed regularly. In January 2024 the policy was updated to include nature engagement priorities, and climate and diversity, equity and inclusion (DEI) voting expectations.

The Stewardship and Sustainability Policies have also been updated with the integration of nature and biodiversity as a key investment and engagement theme. Mercer is also a member of the Task Force for Nature Related Financial Disclosures (TNFD) working group and a founding signatory of Nature Action 100.

The most recent UN Principles of Responsible Investment results (based on 2022 activity) awarded Mercer with 4 out of 5 stars for Policy Governance and Strategy. The United Nations Principles for Responsible Investment (UN PRI) is a global initiative that provides a framework for incorporating environmental, social, and governance (ESG) factors into investment practices.

The Financial Reporting Council confirmed in February 2024 that MGIE will remain a signatory to the UK Stewardship Code, based on its applications of the 12 principles, which represents best practice in stewardship.

Mercer applies each of these three lenses when considering climate change. Climate change is a widely recognised systemic risk and Mercer considers the transition to a low carbon economy and the physical damages associated with global temperature increases via our climate scenarios analysis and Analytics for Climate Transition (ACT), which considers the alignment of portfolios to the low carbon transition.

Mercer has committed to a target of net-zero absolute portfolio carbon emissions by 2050 for UK, European and Asian discretionary portfolios, and relevant multi-client, multi-asset funds domiciled in Ireland. To achieve this, Mercer also established an expectation that portfolio carbon emissions intensity would reduce by 45% from 2019 baseline levels and is on track to achieve this. Mercer’s approach to managing climate change risks is consistent with the framework recommended by the Financial Stability Board’s Task Force on Climate related Financial Disclosures (TCFD), as described in the [Mercer Investment Solutions Europe - Investment Approach to Climate Change 2023 Status Report](#).

As of 31 December 2023, Mercer’s in-scope portfolios are on track to meet their long-term net zero portfolio carbon emissions reduction targets. There has been a notable 33% carbon intensity reduction over the 4 years since 2019 baseline levels for the Model Growth Portfolio used by most of Mercer’s UK DB client base, bringing the 45% baseline-relative reduction by 2030 well within range.

reviews, Mercer seek evidence of positive momentum on managers’ ESG integration.

These ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee.

Over 2023 Mercer leveraged the Nasdaq eVestment platform to distribute its Sustainability and Stewardship Survey, to capture and assess investment managers approaches to sustainability and stewardship across asset classes and insights on their consideration of Mercer’s global engagement priorities. In 2024, a new module within MercerInsight accessing Nasdaq’s collaboration with Matter, a specialist ESG data and analytics provider, was also introduced. This provides additional information analysing holdings in a fund portfolio to score the portfolio along several ESG attributes.

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Approach to Exclusions	Sustainability-themed investments	Diversity
<p>Mercer and MGIE’s preferences are to emphasise integration and stewardship approaches, however, in a limited number of instances, exclusions of certain investments may be necessary based on Mercer’s Investment Exclusions or Sensitive Topics Frameworks. Controversial weapons and civilian firearms are excluded from all multi-client equity and fixed income funds. In addition, tobacco companies and nuclear weapons are excluded from active equity and fixed income funds. Some funds have additional exclusions as outlined on the Mercer Investment Solutions Europe - Responsible Investment website.</p> <p>In addition, Mercer and MGIE monitors for high-severity incidences of the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.</p>	<p>An allocation to Mercer’s Passive Sustainable Global Equities, is included within the Scheme’s portfolio of Growth assets, with the allocation accounting for c.5.6% of the Growth Portfolio (as at 31 October 2024).</p>	<p>Mercer and the Trustee believes that diverse teams lead to better decision-making and have therefore taken several measures to work towards reflecting this view within Mercer’s portfolio management team, the teams of the appointed managers and across portfolio holdings.</p> <p>Participation in collaborative initiatives can also support raising awareness and contributing to initiatives across the broader industry.</p> <p>Mercer is a member of The Diversity Project, which seeks to accelerate progress towards a more inclusive culture in the investment and savings profession.</p> <p>Mercer is also a member of the 30% Club – UK Investor Chapter and Irish Investor Chapter. The 30% Club is a business-led initiative that aims to increase gender diversity on corporate boards and in senior leadership positions.</p> <p>Mercer considers broader forms of diversity in decision-making, but currently reports on gender diversity. As at 31 December 2023 within the Mercer Active Fixed Income Funds, the average fund has 17% female Key Decisions Makers (KDM’s) and within the Mercer Active Equity Funds, the average is 17%. This represents an increase of 4% and 6% since 2021, for the Active Fixed Income and Active Equity Funds groups, respectively.</p>

Engagement

Engagement is an important aspect of Mercer’s stewardship activities on behalf of the Trustee. [The 2024 Stewardship Report](#) highlights the engagement objectives which have been set, examples of engagement and the escalation process. Mercer also participates in collaborative initiatives related to stewardship.

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Mercer conducts an annual Global Manager Engagement Survey on sustainability and stewardship topics. The survey was distributed to over 200 managers appointed by the Mercer Funds. The survey aims to gather information on managers' broad approach to stewardship as part of their investment integration. It also seeks insights and examples of voting and engagement activities. The results from the survey serve as an important source of information for tracking and measuring the managers' stewardship efforts, assessing effectiveness, and identifying potential areas for improvement.

3. TRUSTEE'S POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO SCHEME INVESTMENTS

Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the third-party investment managers appointed by Mercer on the Trustee's behalf.

This is because any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third-party investment managers appointed by MGIE. In delegating these rights, MGIE accepts that managers are typically best placed to exercise voting rights and prioritise particular engagement topics by security, given they are expected to have detailed knowledge of both the governance and the operations of the companies and issuers they invest in. However, Mercer has a pivotal role in monitoring their stewardship activities and promoting more effective stewardship practices, including ensuring attention is given to more strategic themes and topics. As such, proxy voting responsibility is given to listed equity investment managers with an expectation that all shares are to be voted in a timely manner and a manner deemed most likely to protect and enhance long-term value. Mercer and MGIE carefully evaluates each sub-investment manager's capability in ESG engagement and proxy voting, as part of the selection process to ensure it is representing Mercer's commitment to good governance, integration of sustainability considerations. Managers are expected to take account of current best practice such as the UK Stewardship Code, to which Mercer is a signatory. As such the Trustee does not use the direct services of a proxy voter.

Voting: As part of the monitoring of managers' approaches to voting, MGIE assesses how managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers vote in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Set out below is a summary of the voting activity for a range of Mercer Funds in which the Scheme's assets are invested in for the year ending 30 September 2024. This may include information in relation to funds that the Scheme's assets were no longer invested in at the year end. The statistics are drawn from the Glass Lewis system (via the custodian of the Mercer Funds). Glass Lewis is a leading provider of governance and proxy voting services. Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

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Fund	Total Proposals		Vote Decision					For/Against Mgmt		Meetings	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Other	For	Against	No.	Against
Mercer Multi-Asset Credit Fund ⁽¹⁾	48	35	73%	0%	4%	23%	0%	66%	34%	7	14%
MGI Emerging Markets Equity Fund	3,889	3,621	82%	11%	6%	1%	0%	85%	15%	378	46%
MGI Global Equity Fund	7,886	7,644	87%	9%	0%	3%	0%	91%	9%	543	43%
Mercer Global Small Cap Equity Fund	7,923	7,795	90%	8%	0%	1%	0%	92%	8%	697	40%
Mercer Passive Global REITS UCITS CCF	2,980	2,873	77%	19%	0%	3%	0%	78%	22%	312	69%
Mercer Passive Sustainable Global Equity UCITS CCF	16,745	16,223	77%	20%	1%	3%	0%	78%	22%	1130	81%

⁽¹⁾ Voting Activity figures for the Mercer Multi-Asset Credit fund relate to a small number of equity holdings within the fund’s underlying segregated mandates. Please note this does not include voting activity from any underlying pooled strategies within the fund over the period

- There are a number of limited circumstances where voting rights may not be exercised relating to, for example, conflicts of interest, share-blocking markets, power of attorney (POA) markets etc.
- “Eligible Proposals” reflect all proposals of which managers were eligible to vote on over the period.
- “Proposals Voted On” reflect the proposals managers have voted on over the period (including votes For and Against, and any frequency votes encompassed in the “Other” category”).
- Vote Decision may not sum to 100 due to rounding.
- “No Action” reflects instances where managers have not actioned a vote. MGIE may follow up with managers to understand the reasoning behind these decisions, and to assess the systems managers have in place to ensure voting rights are being used meaningfully.
- “Other” refers to proposals in which the decision is frequency related (e.g. 1 year or 3-year votes regarding the frequency of future say-on-pay). “Meetings No.” refers to the number of meetings the managers were eligible to vote at
- “Meetings Against” refers to the no. of meetings where the managers voted at least once against management, reported as a % of the total eligible meetings

Significant Votes: Mercer has based its definition of significant votes in line with the requirements of the Shareholder Rights Directive (SRD) II and on Mercer’s Global Engagement Priority themes. The most significant proposals reported below relate to the three companies with the largest weight in each fund (relative to other companies in the full list of significant proposals), while considering Mercer’s Global Engagement Priority Themes.

The Trustee has delegated authority to Mercer as discretionary investment manager and this extends to Mercer’s approach on Stewardship, including voting rights. The Trustee receive regular reporting on ESG metrics and have access to Mercer’s Stewardship policy. As such, we are comfortable that the wording is sufficient and the Trustee are satisfied with Mercer’s approach to ESG issues, including our definition of a significant vote.

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The Trustee agrees with Mercer’s definition of a significant vote. The significant votes below were assessed on the following criteria:

1. The proposal topic relates to an Engagement Priority (climate change, human/labour rights, and diversity). This is classified in the “Proposal Description” column below, referenced as Environmental, Social, and Governance respectively.
2. The proposal proponent is a Shareholder (as opposed to management);
3. Size of holding (e.g. top 10 holdings within the fund); and
4. Industry controversial / topical proposals.

Most Significant Votes

Fund	Company (Holding Weight)	Meeting Date - Proposal Text (Significance Category)	Manager Vote Decision (Communication of vote against management - Rationale if available)	Proposal Outcome (Next steps if available)
Mercer Passive Sustainable Global Equity UCITS CCF	Apple Inc (5.5%)	28/02/2024: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report (Social)	For (No - A vote in favour was applied as the manager expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.)	31% Support Proposal did not pass. (The Manager will continue to vote on this issue in line with its published diversity policy)
		28/02/2024: Shareholder Proposal Regarding Congruency Report on Privacy and Human Rights Policies (Social)	Against (N/A – The manager believed that a vote against this policy was warranted, as the company appears to provide shareholders with sufficient disclosure to assess its management of risks related to its operations in high-risk markets and to have policies and oversight mechanisms in place that seem to address human rights concerns raised by the proponent.)	2% Support Proposal did not pass. (None to report)

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		28/02/2024: Shareholder Proposal Regarding Equal Employment Opportunities (EEO) Policy Risk Report (Social)	Against <i>(N/A - The manager believed that a vote against this policy was warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.)</i>	1% Support Proposal did not pass. <i>(None to report)</i>
	Microsoft Corporation (7.7%)	07/12/2023: Shareholder Proposal Regarding Equal Employment Opportunities (EEO) Policy Risk Report (Social)	Against <i>(No - The manager believed that a vote against this policy was warranted, as the company appears to be taking appropriate steps to protect itself against risks related to discrimination based on political ideology or viewpoint.)</i>	1% Support Proposal did not pass. <i>(The manager will continue to engage with the company and monitor their position on this issue)</i>

Fund	Company <i>(Holding Weight)</i>	Meeting Date - Proposal Text <i>(Significance Category)</i>	Manager Vote Decision <i>(Communication of vote against management - Rationale if available)</i>	Proposal Outcome <i>(Next steps if available)</i>
Mercer Passive Sustainable Global Equity UCITS CCF	Microsoft Corporation (7.7%)	07/12/2023: Shareholder Proposal Regarding Report on Climate Risk in Employee Retirement Options (Environmental)	Against <i>(No – The manager voted against this proposal because the company’s retirement plan is managed by a third-party fiduciary and employees are offered a self-directed option.)</i>	9% Support Proposal did not pass. <i>(The manager will continue to engage with the company and monitor their position on this issue)</i>
		07/12/2023: Shareholder Proposal Regarding Report on Median Compensation and Benefits Related to Reproductive and Gender Dysphoria Care (Social)	Against <i>(No - The manager voted against this proposal as the company appears to provide sufficient information for investors to be able to determine how the company is managing pay equity and health and wellness benefits related risks.)</i>	1% Support Proposal did not pass. <i>(This has not been a topic of direct engagement for the manager)</i>

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MGI Global Equity Fund	Apple Inc (3.1%)	28/02/2024: Shareholder Proposal Regarding Equal Employment Opportunities (EEO) Policy Risk Report (Social)	Against (N/A - The manager believed that a vote against this policy was warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.)	1% Support Proposal did not pass. (None to report)
		28/02/2024: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report (Social)	For (No - The manager voted in favour of this proposal, as the manager believes that median pay gap statistics would allow shareholders to better compare and measure the progress of the company's diversity and inclusion initiatives.)	31% Support Proposal did not pass. (None to report)

Fund	Company (Holding Weight)	Meeting Date - Proposal Text (Significance Category)	Manager Vote Decision (Communication of vote against management - Rationale if available)	Proposal Outcome (Next steps if available)
MGI Global Equity Fund	Meta Platforms Inc (2.9%)	29/05/2024: Shareholder Proposal Regarding Report on Human Rights Risks in Non-U.S. Markets (Social)	Against (No – The manager believes that a vote against this proposal was warranted as the company has sufficient measures to evaluate and manage human rights risks related to content moderation in non-U.S. markets.)	6% Support Proposal did not pass. (N/A)
		29/05/2024: Shareholder Proposal Regarding Human Rights Impact Assessment of AI Used in Targeted Advertising (Social)	For (No - The manager voted in favour of this proposal, as an independent Human Rights Impact Assessment would help shareholders better assess Meta's management of risks related	14% Support Proposal did not pass. (N/A)

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		<i>to its targeted advertising policies and practices.)</i>	
	29/05/2024: Shareholder Proposal Regarding Lobbying Activity Alignment with Net Zero Emissions Commitment (Environmental)	For <i>(No - The manager voted in favour of this proposal as the believed that shareholders would benefit from greater transparency of the company's direct and indirect climate lobbying, and how the company would plan to mitigate any risks that might be identified.)</i>	8% Support Proposal did not pass. <i>(None to report)</i>
Microsoft Corporation (3.4%)	07/12/2023: Shareholder Proposal Regarding Equal Employment Opportunities (EEO) Policy Risk Report (Social)	Against <i>(No - The manager believes that a vote against this proposal was warranted, as the company appears to be taking appropriate steps to protect itself against risks related to discrimination based on political ideology or viewpoint.)</i>	1% Support Proposal did not pass. <i>(None to report)</i>
	07/12/2023: Shareholder Proposal Regarding Report on Median Compensation and Benefits Related to Reproductive and Gender Dysphoria Care (Social)	Against <i>(No - The manager believes that a vote against this proposal was warranted, as the company appears to provide sufficient information for investors to be able to determine how the company is managing pay equity and health and wellness benefits related risks.)</i>	1% Support Proposal did not pass. <i>(N/A)</i>
	07/12/2023: Shareholder Proposal Regarding Report on Climate Risk in Employee Retirement Options (Environmental)	Against <i>(No - The manager believes that a vote against this proposal was warranted as the company's retirement plan is managed by a management-level committee and employees who are looking for more climate-risk-free investments are offered a self-directed option.)</i>	9% Support Proposal did not pass. <i>(None to report)</i>

Note – The following funds held by the Scheme, namely the Mercer Global Small Cap Equity Fund, Mercer Passive Global REITS UCITS CCF, and MGI Emerging Markets Equity Fund do not have any votes deemed to be significant based on the definition of significant votes.