

# Napp Pharmaceutical Group Pension Scheme

## Annual Engagement Policy Implementation Statement – Year to 31 December 2023

### Introduction

This statement sets out how and the extent to which, in the opinion of the Trustee of the Napp Pharmaceutical Group Pension Scheme (“the Scheme”), the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 31 December 2023. This statement has been produced in accordance with The Occupational and Personal Pension Plans (Disclosure of Information) Regulations 2018 and (Investment and Disclosure (Amendment)) Regulations 2019 alongside guidance published by the Pensions Regulator.

Please note that the Trustee does not consider the AVC section to be material, in the context of the total assets of the Scheme, so the voting rights associated with these are not considered in this disclosure.

### Investment Objectives of the Scheme

The Trustee’s objective is to invest the Scheme’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

To guide them in their strategic management of the assets and control of various risks to which the Scheme is exposed, the Trustee (in consultation with the Company) has adopted the following objectives:

- To make sure that obligations to the beneficiaries of the Scheme are met.
- To pay due regard to Napp Pharmaceutical Holdings Limited’s interests in the size and incidence of the employer’s contribution payments.

### Review of the SIP

During the year to 31 December 2023, the Trustee reviewed the Scheme’s SIP and a revised SIP was adopted in March 2023. The SIP was updated to reflect de-risking of the Scheme’s investment strategy and can be found online here: <https://napp.co.uk/wp-content/uploads/2023/04/Napp-SIP-March-2023-FINAL.pdf>

### Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustee’s policy on Environmental, Social and Governance (“ESG”) factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The Trustee keeps the policies under regular review with the SIP reviewed normally annually.

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, 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 UK Stewardship Code.

The Trustee will monitor how ESG, climate change and stewardship considerations are integrated within investment processes. The Trustee will consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's expectations. This includes the investment managers' policies on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments. Monitoring of the investment managers is undertaken on a regular basis and is documented.

The Trustee can review the decisions made by their managers, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

The Trustee is supportive of the updated UK Stewardship Code published by the Financial Reporting Council, and encourages the Scheme's equity managers who are registered with the FCA to comply with the Code. Such managers are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Member views are not currently taken into account in the selection, retention and realisation of investments.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustee recognises that when the Scheme invests in pooled funds, they have no voting rights attached to the underlying investments. The Trustee has therefore given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments. The Trustee reviews the annual stewardship report, prepared by the investment managers, to understand the actions taken in these areas. Similarly, the Scheme's voting rights are exercised by its investment manager in accordance with its own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The investment managers are expected to provide voting reports to the Trustee on request.

The Trustee is satisfied that this policy corresponds with its responsibilities to the beneficiaries of the Scheme. Should the Trustee consider that BlackRock (or Lothbury, where relevant) have failed to align their own engagement policies with those of the Trustee, the Trustee will notify the investment manager and consider disinvesting some or all of the assets held with them or seek to renegotiate commercial terms.

All engagement activity is delegated to the investment managers. See the following section below for summary details.

## Engagement

BlackRock also provided details of their approach to engagement, as set out below:

- BlackRock CEO, Larry Fink, published<sup>1</sup> his annual letter to CEOs. Following last year's letter discussing the efforts to transition to net-zero climate and how empowering clients to vote on ESG related engagements can mutually benefit stakeholders, Larry Fink's letter in 2024 noted the broad consensus that stakeholders are expecting a decarbonisation of the global economy, and the focus on engagement over divestment of oil and gas companies.
- BlackRock document their Engagement Priorities<sup>2</sup> and have highlighted the following key areas for stewardship activities:
  - o **Board quality/effectiveness:** One of BlackRock's priorities is having a board of highly qualified, engaged directors with professional characteristics relevant to a company's business who can add value and be the voice of shareholders in board discussions. Director tenure, independence, assessment and continuing development also influence board quality and effectiveness.
  - o **Strategy/purpose & financial resilience:** Long-term corporate strategy, purpose and financial resilience to understand how companies are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans to address the risks and opportunities in their business model in order to deliver long-term value for their shareholders.
  - o **Incentives aligned with financial value creation:** Ensuring executive compensation incentivizes and rewards the successful delivery of strategy goals. BlackRock looks for appropriate and transparent compensation policies, and policies which are in the financial interests of long-term stakeholders.
  - o **Climate/natural capital:** It is Blackrock's view that climate-related risks and opportunities can be a key factor in many companies' long-term prospects. Considering global ambitions to achieve a limit of 1.5°C, Blackrock looks to companies to disclose short-, medium and long-term targets, ideally science-based targets where these are available for their sector, for Scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term economic interests of their shareholders.
  - o **Company impacts on people:** Companies are better positioned to deliver long-term shareholder value when they build strong relationships throughout their value chain, including with employees, business partners (such as suppliers and distributors), clients and consumers, regulators, and the communities in which companies operate. As a long-term shareholder on behalf of their clients, Blackrock continues to find it helpful when companies disclose how they have identified the interests of these groups and taken them into consideration in business decision-making.
- BlackRock has provided the Trustee with detailed summaries of the engagement activities across the different funds used by the Scheme. The Trustee is satisfied that BlackRock are engaging proactively with firms on topics that are relevant and consistent with the Trustee's policies. This includes topics falling into each of the key areas of Environmental, Social and Governance themes, with themes including Deforestation, Biodiversity, Water & Waste, Remuneration and Diversity & Inclusion.

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<sup>1</sup> <https://www.blackrock.com/ca/investors/en/larry-fink-ceo-letter>

<sup>2</sup> <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

Lothbury provided details on the integration of sustainability risks into investment decisions of the Lothbury Property Fund:

- Sustainability Risks are integrated into investment decisions of the portfolio management team as part of the application of a risk management framework. This framework is the responsibility of the Environmental, Social and Governance (ESG) committee. The ESG committee sits quarterly and reports to the risk, compliance, audit and operations committee which in turn reports to the board of directors.
- The risk management framework identifies the transition and physical climate change risks for the fund. The annual strategy of the fund will address these risks and formulate the plan for the management of these risks. The annual strategy of the fund is approved by an independent Investment Committee.
- Within the annual strategy assets that require mitigation measures or potential disposal are identified. In terms of new acquisitions, potential assets are assessed against a number of sustainability credentials as part of the investment due diligence. Key environmental and social metrics are assessed including the Energy Performance Certificate (EPC) rating, renewable energy generation, flood risk, waste management, tenant operations, security and community.
- Lothbury Investment Management are a signatory to UNPRI and is committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.
- In practice it is noted that the Lothbury Property Trust is now winding down and the Trustee is receiving proceeds on a periodic basis as the portfolio is redeemed. As the holdings in the fund diminish, the focus on ESG risks will become less relevant.

### **Significant Vote Definition**

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

The Trustee defines a significant vote as one that is linked to the Scheme's stewardship priorities/themes. A vote could also be significant for other reasons, e.g. due to the size of holding, and in some cases, where holdings are relatively small, this criteria may be used to filter down the large number of votes reported across the different funds used. The Trustee has set out below their criteria for significant votes, reflecting the Trustee's stewardship priorities, and are satisfied that these are also captured as high areas of focus in the BlackRock Stewardship Policy:

- Environmental (**E**) – Climate Change (e.g. vote on a company's carbon disclosures)
- Social (**S**) – Human rights (e.g. worker conditions, safety and pay)
- Governance (**G**) – Corporate Governance (e.g. Board quality, diversity, remuneration and inclusion)

## Voting Activity

The Trustee has delegated their voting rights to BlackRock in their capacity as sole manager of the Scheme's voting assets (equities, including within the Dynamic Diversified Growth fund).

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS). Voting decisions are made by members of the BIS team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

Voting results, sourced from BlackRock, covering the year to 31 December 2023 are shown below. Percentages may not sum to 100% due to rounding.

Fund	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?	In what % of meetings, for which you did vote, did you vote at least once against management?
BlackRock Aquila Life UK Equity Index	14,905	96%	96%	3%	1%	21%
BlackRock Aquila Life US Equity Index	8,038	99%	97%	2%	0%	15%
BlackRock Aquila Life European Equity Index	8,824	77%	88%	11%	1%	50%
BlackRock Aquila Life Japanese Index	6,062	100%	96%	3%	0%	24%
BlackRock Aquila Life Pacific Rim Equity Index	3,107	100%	89%	10%	0%	32%
iShares Emerging Markets Index	23,247	98%	87%	12%	2%	43%
BlackRock Dynamic Diversified Growth	7,491	93%	94%	5%	1%	26%

*Voting statistics cover period 1 January 2023 to 31 December 2023. Note that the Scheme invests in both the GBP and GBP currency hedged versions of the overseas developed equity funds.*

*Figures may not total 100% due to rounding or a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.*

BlackRock has provided details on a large number of votes that it considered significant. Having reviewed the data, the Trustee has set out what it considers to be the most significant votes, in the context of its own criteria. This includes taking a pragmatic approach and applying a size of holding criteria to help condense the very large number of votes into an appropriate subset of most significant votes for reporting in this statement. Given the requirement to include information on significant votes is relatively new, over time the Trustee expect that disclosure and detail around significant voting will evolve, and the Trustee will look to emerging best practice to help guide the format of this report in future years.

## Most Significant Votes

Fund	Company	Rationale for the voting decision	Outcome
BlackRock Aquila Life UK Equity Index	Shell <sup>i</sup>	<b>Environmental:</b> Vote <b>for</b> the Shell Energy Transition Progress. BlackRock voted for the management proposal to recognise the delivery to date against the company's Energy Transition Strategy. The current aim is to reduce their scope 1 and 2 emissions by 50% by 2030 compared to 2016 levels on a net basis. By 2022, Shell had reported a 30% reduction in operational emissions, and Shell had continued to increase its spending on low and zero carbon energy. BlackRock believe that Shell continue to provide a clear assessment of their plans to manager climate-related risk and opportunities, and have shown delivery against their plans which resulted in BlackRock voting for the proposal.	For
BlackRock Aquila Life Japanese Index	Dentsu Group, Inc. <sup>ii</sup>	<b>Governance:</b> Vote <b>against</b> the election of Keiichi Sagawa as a non-executive director of the board. BlackRock voted against the election of a director given concerns over the individual's business relationships between the company and his previous employer which BlackRock believe has the potential to undermine his independence. BlackRock recognise the experience of Mr Sagawa and his capabilities, but recent allegations of corruption against a former employee highlighted to BlackRock the need of robust board oversight, and ensuring directors are (and are seen to be), fully independent of management.	Against
BlackRock Aquila Life US Equity Index	YUM! Brands, Inc. <sup>iii</sup>	<b>Environmental:</b> Vote <b>against</b> a shareholder proposal, which requested Yum! to issue a report detailing the company's efforts to reduce plastic use. BlackRock believes Yum!'s existing disclosures on plastic use, in particular their new packaging policy and reduction goals are comprehensive and sufficient for investors.	Against
BlackRock Aquila Life US Equity Index	ExxonMobil Corporation <sup>iv</sup>	<b>Environmental:</b> Vote <b>against</b> a shareholder proposal for the company to issue a report analyzing the reliability of its methane emission disclosures. BlackRock voted against these additional disclosures feeling that the company has provided sufficient disclosures on both their approach to methane emissions abatement as well as how they are working to accurately measure and monitor methane emissions. BlackRock believe the current disclosures are enough for investors to have sufficient information to understand the company's approach. Such disclosures already include technologies for direct measurement of methane emissions, and Exxon having a number of leak detection programs in place.	Against
BlackRock Aquila Life US Equity Index	Dollar Tree, Inc. <sup>v</sup>	<b>Governance:</b> Vote <b>against</b> the election of director Cheryl W. Grise. BlackRock did not support the management recommendation to support the election of a director who is the chair of the compensation committee. This was due to a misalignment between the company's compensation practices and the shareholder's long-term financial interests. As a result of this BlackRock did not support the election of any members of the compensation committee. BlackRock believe executive compensation plans need to be well structured to attract, reward and retain high caliber individuals.	Against

Prepared by the Trustee of the Napp Pharmaceutical Group Pension Scheme in June 2024.

<sup>i</sup> Further information on BlackRock's voting at this meeting can be found here: <https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-shell-may-2023.pdf>

<sup>ii</sup> Further information on BlackRock's voting at this meeting can be found here: <https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-dentsu-march-2023.pdf>

<sup>iii</sup> Further information on BlackRock's voting at this meeting can be found here: <https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-yum-may-2023.pdf>

<sup>iv</sup> Further information on BlackRock's voting at this meeting can be found here: <https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-exxon-may-2023.pdf>

<sup>v</sup> Further information on BlackRock's voting at this meeting can be found here: <https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-dollar-tree-june-2023.pdf>