

Otto UK Pension Scheme

Implementation Statement – Scheme year ending 05 April 2024

Why have we produced this Statement?

The Trustee of the Otto UK Pension Scheme have prepared this statement to comply with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

This statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Scheme's Statement of Investment Principles (SIP).

What is the Statement of Investment Principles (SIP)?

The SIP sets out key investment policies including the Trustee's investment objectives and investment strategy. It also explains how and why the Trustee delegates certain responsibilities to third parties and the risks the Scheme faces and the mitigated responses.

A copy of this statement has been made available on the following website:

https://epa.towerswatson.com/accounts/otto/public/fre_sip/

The Trustee last reviewed the SIP in August 2023.

What is the purpose of this Statement?

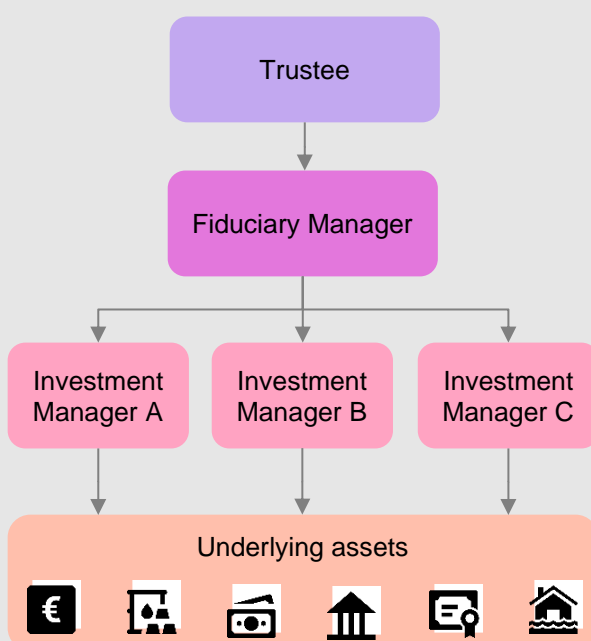
1. To explain how the Trustee's engagement policy has been applied over the year.
2. To describe how the voting rights attached to the Scheme's assets have been exercised over the year.

What changes have we made to the SIP?

The Trustee have made the following changes to the SIP over the year:

- Updated wording has been added on the Scheme's interest rate and inflation risks arising from using derivatives within the liability hedging portfolio.

How are the Scheme's investments managed?



Trustee - The Trustee's key objective is to ensure that sufficient assets are available to pay members' benefits as they fall due. The Trustee retains overall responsibility for the Scheme's investment strategy, but delegates some responsibilities to ensure they are undertaken by somebody with the appropriate skills, knowledge and resources.

Fiduciary Manager (WTW) – The Trustee employs a Fiduciary Manager to implement the Trustee's investment strategy. The Fiduciary Manager allocates the Scheme's assets between asset class and investment managers.

Investment managers – The Fiduciary Manager appoints underlying investment managers either using a pooled vehicle or a segregated mandate where these assets are held directly in the Scheme's name. The Fiduciary Manager will look for best in class specialist managers for each asset class.

Underlying assets – The investment managers pick the underlying investments for their specialist mandate eg shares in a company or government bonds.

Why does the Trustee believe voting and engagement is important?

The Trustee's view is that Environmental, Social and Governance (ESG) factors can have a significant impact on investment returns, particularly over the long-term and therefore contribute to the security of members' benefits. The Trustee further believes that voting and engagement are important tools to influence these issues.

The Trustee has appointed a Fiduciary Manager who shares this view and has embedded the consideration of ESG factors, voting and engagement in its processes.

The Trustee incorporates an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

What is the Trustee's voting and engagement policy?

When considering its policy in relation to stewardship including engagement and voting,

the Trustee expects investment managers to address broad ESG considerations, but has identified climate change as a key area of focus for the Trustee.

The day-to-day integration of ESG considerations, voting and engagement are delegated to the investment managers. The Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital.

Where ESG factors are considered to be particularly influential to outcomes, the Trustee expects the Fiduciary Manager to engage with investment managers to improve their processes.

What training have the Trustee received over the year?

To ensure the Trustee is kept up to date with best practice in ESG considerations, voting and engagement, the Trustee reviewed its policies regarding sustainable investment and the Scheme's sustainable investment characteristics in November 2023.

What are the Fiduciary Manager's policies?

Climate change and net zero pledge

The Trustee believes Climate Change is a current priority when engaging with public policy, investment managers and corporates.

The Fiduciary Manager has committed to targeting net zero greenhouse gas emissions by 2050 at the latest, with a 50% reduction by 2030, in the portfolios that it manages including the Scheme's.

Public policy and corporate engagement

The Fiduciary Manager partners with EOS at Federated Hermes, whose services include public policy engagement, and corporate voting and engagement on behalf of its clients (including the Trustee).

Some highlights from 2023 include:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives.
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations on 128,101 resolutions, with 22,716 against management.
- Active participation in a range of global stewardship initiatives.

Industry collaboration initiatives

The Fiduciary Manager engages in several industry initiatives including:

- Signatory of the UK Stewardship Code
- Co-founder of the Net Zero Investment Consultants Initiative
- Member of Net Zero Asset Managers Initiative
- Signatory of the Principles for Responsible Investment (PRI)
- Member of the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC)
- Co-founder of the Investment Consultants Sustainability Working Group
- Founding member of The Diversity Project
- Supporter of the Transition Pathway Initiative

How does the Fiduciary Manager assess the investment managers?

Investment manager appointment - The Fiduciary Manager considers the investment managers' policies and activities in relation to ESG factors and stewardship (which includes voting and engagement) at the appointment of a new manager. In 2023 the Fiduciary manager conducted engagements with over 150 managers on sustainability and stewardship. In 2022 it also introduced engagement priorities on climate, modern slavery and engagement reporting for all our asset managers.

Investment manager monitoring - The Fiduciary Manager produces detailed reports on the investment managers' ESG integration and stewardship capabilities on an annual basis. These reports form part of the Trustee's portfolio

monitoring. We have provided the Fiduciary Manager's ratings of the equity managers' ESG integration and stewardship capabilities in the later pages. This covers both Grattan's standalone equity investment and the equity investments with the Towers Watson Partners Fund which both sections hold.

Investment manager termination - The Fiduciary Manager engages with investment managers to improve their practices and increases the bar by which they are assessed as best practice evolves. The Fiduciary Manager may terminate an investment manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no investment managers were terminated on these grounds during the year.

Example of engagement carried out over the year

Multi Asset manager

Environment - Climate issue

Issue: Given their strategy, the manager's portfolio is heavily weighted towards high emitters. The Fiduciary Manager wanted to explore ways the manager could bring down the emissions of the portfolio over time, whilst still recognising the challenges from their opportunity set.

The Fiduciary Manager engaged with the portfolio managers and ESG team within the strategy, including outlining their view that as distressed names are a part of this opportunity set, the manager was in a privileged position to negotiate better ESG policies and approaches with their borrowers moving forward as part of workout situations.

Outcome: The manager took feedback on board positively and as one example, has negotiated with a company to develop a plan to shut down a part of its coal fired plants in the coming years, managing risk for investors in the company given regulations in the country.

The manager is looking for opportunities to enhance the ESG policies and approaches with borrowers. We are continue to

engage with the manager on its reporting and ESG integration.

Infrastructure manager

Environment - Climate issue

Issue: Awareness of emissions as a result of this Energy from Waste business and keen to reduce and abate this where possible in the coming years.

Outcome: Following ongoing questioning of management's plans in this area, vocally supportive at annual investor meetings of the manager's management team efforts to introduce a carbon capture and storage (CCS) operation into the manager's facility.

The manager has partnered with industrial entities to develop a CCS solution, and is bidding for government funding support.

Infrastructure manager

Environment - Climate issue

Issue: Global Real Estate Sustainability Benchmark score for fund not provided due to concerns over peer group size and lack of consistency as infra-assessment not tailored towards renewable generating assets.

No Carbon reduction policy in place at firm and fund level setting carbon targets at group level, where Task Force on Climate-Related Financial Disclosures consider both firm and portfolio emissions together.

Outcome: Currently exploring biodiversity related actions for the Fund.

Currently also pushing the underlying operations and maintenance providers to see how they can reduce carbon (eg converting the vehicles to electric vehicles).

What are the voting statistics we provide?

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example bonds do not have voting rights attached. Therefore, voting information was only requested from the Scheme's equity investment managers.

Responses received are provided in the following pages. The Trustee used the following criteria to determine the most significant votes:

- Trustee stewardship priorities (climate change)
- Financial outcome for members, including size of holding
- High profile vote

The Scheme is invested in both active (trying to outperform the market) and passive (aiming to perform in line with the market) equity funds. The Trustee has decided not to publicly disclose active investment manager names as the Trustee believes this could impact the investment manager's ability to generate the best investment outcome.

The Trustee has also included the Fiduciary Managers assessment of the investment managers ESG integration and stewardship (including voting and engagement) capabilities.

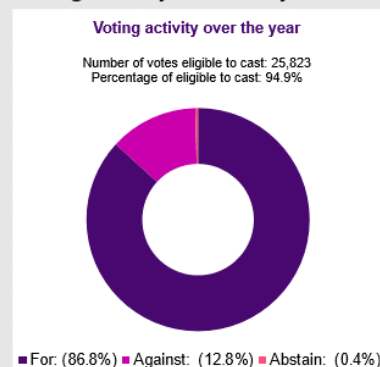
In conclusion...

...The Trustee is satisfied that over the year, all SIP policies and principles were adhered and in particular, those relating to voting and engagement.

Freemans and Grattan Sections

Towers Watson Investment Management – Towers Watson Partners Fund

Voting activity over the year



Significant vote

Company: Berkshire Hathaway

% Fund: 0.3%

Vote topic: Climate risk disclosure

Issue: The manager voted in support of audit committee responsibility for climate risk disclosure believing the significance of leadership on this issue overridden the minor cost and inconvenience of compliance

Voting instruction: For management resolution

Outcome: Failed the resolution

Why a significant vote? The reluctance of Warren Buffett to be more assertive on this topic is a significant challenge to climate risk transparency and more broadly to Environmental stewardship

Next steps: The manager wrote to the CEO expressing their view on climate risk transparency and encouraged the company to take a lead than wait for policy guidance. The manager will vote for similar proposals in the future

Significant vote

Company: TotalEnergies SE

% Fund: 0.2%

Vote topic: Approve the company's sustainable development and energy transition plan

Issue: The manager assessed the current targets as reasonable in the context of a global energy transition

Voting instruction: Against management resolution

Outcome: Passed the resolution

Why a significant vote? Climate Change, which includes engaging with companies on the quality of their disclosures, the credibility of their emission reduction plans, and the progress thereof, is one of the manager's key identified engagement priorities.

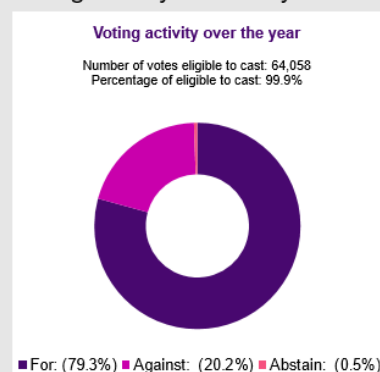
Next steps: They will continue to engage with company behind-the-scenes. However, if the manager is not able to achieve the desired results on important issues, they will use other public means available, else reassess their investment case and take the appropriate investment action in their portfolios

Voting policy: As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. The manager expects all of their underlying managers who hold equities over a reasonable timeframe to vote all shares they hold. The manager has appointed EOS at Federated Hermes (EOS) to provide voting recommendations to enhance engagement and achieve responsible ownership. EOS also carries out public policy engagement and advocacy on behalf of all of their clients. In addition, EOS is expanding the remit of engagement activity they perform on the manager's behalf beyond public equity markets, which will enhance stewardship practices over time.

Grattan Section

Legal and General Investment Management – All World Equity Index Fund

Voting activity over the year



Significant vote

Company: Shell Plc

% Fund: 0.3%

Vote topic: Report on the approval of Shell energy transition progress

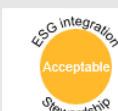
Issue: Concerns on the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations

Voting instruction: Against management resolution

Outcome: Passed the resolution

Why a significant vote? LGIM is publicly supportive of climate related votes. They expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario

Next steps: LGIM continues to undertake extensive engagement with Shell on its climate transition plans



Fiduciary Manager's assessment

Significant vote

Company: JP Morgan Chase & Co.

% Fund: 0.6%

Vote topic: Report on climate transition plan describing efforts to align financing activities with greenhouse gases targets

Issue: Additional disclosures on financing activities

Voting instruction: For the resolution (against management recommendation)

Outcome: Failed the resolution

Why a significant vote? LGIM continues to consider that decarbonization of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met

Next steps: LGIM will continue to engage with the company and monitor progress

Voting policy: All decisions are made by LGIM's Investment Stewardship team and in accordance with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures their stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.