

The Drax 2019 Defined Benefit Pension
Scheme

**Annual Implementation
Statement – Scheme year
ending 31 March 2024**

Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Drax 2019 Defined Benefit Pension Scheme (“the Scheme”) covering the scheme year (“the year”) to 31 March 2024

The purpose of this statement is to:

- Set out how, and the extent to which, in the opinion of the trustees, the Scheme’s engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year;
- Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of services of a proxy voter during that year.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some responsibilities. In particular, the Trustee, during the Scheme financial year, has appointed a Fiduciary Manager, Towers Watson Limited, to manage the Scheme’s DB assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following website: www.drax.com/about-us/corporate-governance/compliance-and-policies/pension-scheme-statement/

Review of, and adherence to, the Statement of Investment Principles

The SIP in place during the Scheme year is dated November 2022, and no revisions were made during the Scheme year. As a result of the Fiduciary Management appointment in late 2023, and the expectation that the transition to the new target fiduciary portfolio will take place during the first half of 2024, a revised SIP will be issued once the transition activity has completed to reflect the new target strategy and portfolio. The revised SIP falls outside of the Scheme financial year relevant to this report, so will be picked up in future iterations.

Acknowledging the ongoing material changes to the investment strategy and governance arrangements through the Fiduciary Management appointment, the Trustee believes the policies and principles outlined in the SIP have been adhered to during the Scheme year.

The Trustee will continue to monitor the investment managers’ stewardship practices on an ongoing basis.

Voting and engagement

As set out above, since the appointment of the Fiduciary manager in 2023, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee’s agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act.

The Fiduciary Manager is therefore responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance (“ESG”) factors are allowed for in the portfolio. The Fiduciary Manager engages with managers to improve their practices and may terminate a manager’s appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the year.

Given the transition to the target Fiduciary portfolio was in progress over the Scheme year end, the Scheme is in a state of transit as at the year end, whereby the Fiduciary Manager is realigning the portfolio to reflect the new target strategy, which includes the addition of new mandates that are aligned with the Trustee's ESG beliefs, including voting and engagement policies.

The Trustee's view is that ESG factors can have a significant impact on investment returns, particularly over the long-term. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of its members. The Trustee has appointed a Fiduciary Manager who shares this view and has embedded the consideration of ESG factors in its processes. The Trustee should incorporate an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

The Fiduciary Manager produce detailed reports on the SI characteristics of the highest-rated managers (such as those included in the Scheme's portfolio) on an annual basis. These reports form part of the Trustee's ongoing portfolio monitoring.

Company level engagement and rights attached to investments (including voting):

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager, and in turn to the Scheme's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including consideration of all relevant matters, voting and engagement) are delegated to the Scheme's investment managers.

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example private credit whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Scheme's investments with Equity investments as there is a right to vote as an ultimate owner of a stock. The Trustee has endeavoured to select "significant" votes which align with the Trustee's identified priorities for voting and engagement – human and labour rights, and climate – where the data has allowed. Information on the voting and engagement activities of the managers (based on their responses) is provided in the table below.

The Scheme's equity holdings are invested via:

Cardano – Diversified Growth Fund: an active diversified growth fund that includes some equities

Voting Statistics

Manager and strategy	Voteable meetings	% of resolutions voted on	% of votes with management	% of votes against management	% of meetings abstained from
Cardano	16897	99%	82%	15%	1%

Significant Votes (from the underlying equity funds within the Cardano DGF portfolio)

Cardano Global Sustainable Equity	Company	Nordea Bank Abp
	Summary	Shareholder Proposal Regarding Aligning Business Strategy to the Paris Agreement
	Vote Cast	For

	Rationale for voting decision	The manager voted for as Cardano see banks and the financial sector as having a key role in the transition and supporting a resolution which encourages the company to align its business strategy to the Paris Agreement is important to achieve this Cardano will continue to support shareholder resolutions on the topic
	Criteria for why it was 'significant' vote	Climate related
	Outcome of vote	Majority voted against

Egerton Capital	Company	Canadian National Railway
	Summary	Shareholder proposal to accept Canadian National Railway's climate action plan
	Vote Cast	For
	Rationale for voting decision	Not provided
	Criteria for why it was 'significant' vote	Climate
	Outcome of vote	For

Kadensa	Company	Microsoft Corporation
	Summary	Report on risks of operating in countries with significant human rights concerns
	Vote Cast	For (in line with Proxy adviser)
	Rationale for voting decision	Not provided
	Criteria for why it was 'significant' vote	Human rights
	Outcome of vote	Against

MI Metropolis	Company	Berkshire Hathaway
	Summary	Report on physical and transitional climate-related risks and opportunities
	Vote Cast	For
	Rationale for voting decision	The issue was deemed important to the manager with the belief that shareholders would benefit from receiving more information
	Criteria for why it was 'significant' vote	Climate related
	Outcome of vote	Against

Conclusion

The Trustee considers that all SIP policies and principles in relation to voting and engagement were adhered to over the year.