

Appendix 3

THE CHURCH OF SCOTLAND PENSIONS SCHEME FOR STAFF IMPLEMENTATION STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2024

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustees of The Church of Scotland Pension Scheme for Staff (“the Scheme”) have followed their policy in relation to the exercising of rights (including voting rights) attached to the Scheme’s investments, and engagement activities during the year ended 31 December 2024 (“the reporting year”). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Purchase of a bulk annuity policy

The Trustees received formal advice on the strategic decision to buy-in the Scheme’s liabilities during the reporting period. In December 2024, the Trustees purchased a bulk annuity policy with Just Insure Inc (“Just”), insuring all accrued member liabilities. The residual assets are held in the LGIM Sterling Liquidity Fund and are to be used for ongoing cashflow requirements.

As the Scheme has completed a “buy-in”, many of the Trustees’ previous investment responsibilities are less relevant. However, the Trustees are required to ensure there is appropriate ongoing investment governance until the point at which the Scheme is wound up. This governance responsibility includes maintaining the Statement of Investment Principles document as well as producing an annual Implementation Statement. The Trustees must also continue to monitor the Scheme’s surplus assets and ensure that any expenses can be met from the residual assets.

The Trustees’ updated policy

The Trustees believe that there can be financially material risks relating to ESG issues. The Trustees delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s investment managers. As the Scheme has now purchased a bulk annuity policy, LGIM is the sole investment manager remaining.

The Trustees require the Scheme’s investment manager to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

It should be noted that the invested assets are now held in cash and short-term liquidity funds, which means that we do not expect that the Trustees will have any voting rights over these going forward. Prior to the purchase of the bulk annuity policy, the Trustees delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the investment managers and encouraged them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees periodically met with their investment managers to discuss the engagement which has taken place. The Trustees also expected their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees then discussed the findings with the investment adviser, in the context of their own preferences, where relevant. This included considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager’s compliance with best practice stewardship standards.

Manager selection exercises

One of the main ways in which this policy is expressed is via manager selection exercises: the Trustees seek advice from their Investment Advisor on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. During the reporting period, the Trustees completed the ESG beliefs survey conducted by XPS Investment, capturing the views of the board as a whole.

No manager selection exercises occurred over the reporting period. There was an insurer selection exercise during the year and the Trustees received Section 36 advice on the appointment of the chosen insurer. During this selection exercise, the Trustees were content with the extent to which Just considered ESG and will continue to monitor the insurer on this criteria.

Holding sustainable multi-asset funds throughout the Scheme year was in line with the Trustees’ policy, as noted in the Statement of Investment Principles, to consider investing in sustainable approaches as the sector evolves and more funds become available. All of the multi-asset funds held during the reporting period are considered to be sustainable by XPS Investment, although they were sold by the year end to facilitate the purchase of the bulk annuity policy.

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Ongoing governance

The Trustees, with the assistance of their Investment Advisor, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this statement. Furthermore, the Trustees have set XPS the objective of supporting the Trustees with respect to Responsible Investment (RI) and Stewardship matters, and ensuring the Trustees’ policy is reviewed regularly. The Trustees do not engage directly with the underlying assets in the bulk annuity contract. Therefore, the day-to-day decision making and ESG integration decisions are delegated to Just.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on factors including developments within the industry. While the Trustees have not yet introduced specific stewardship priorities, if the Scheme were to invest in assets with voting rights attached in the future, the Trustees would monitor the results of votes deemed significant by managers to be the most significant. This would help the Trustees determine whether specific priorities should be introduced and communicated to the managers.

Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree. The Trustees have delegated responsibilities for exercising voting rights to the insurer and the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Voting activity

The main asset class where the investment managers will have voting rights is equities. Prior to full disinvestment in December 2024, the Trustees held units in the Baillie Gifford Defensive Growth Fund and the Alliance Bernstein Sustainable All Market Portfolio. Therefore, a summary of the voting behaviour and most significant votes cast by each of the relevant investment manager organisations is shown below.

The Trustees have confirmed this approach to be appropriate for the Scheme’s investments. The information below is the investment managers’ activity in relation to voting.

This voting information has been provided by the investment managers. The Trustees consider votes to be significant on the basis they are linked to key ESG issues including, but not limited to: climate change; natural capital; executive remuneration; governance; independence; modern slavery or other factors such as the size of the holding.

Where the manager has provided a selection of significant votes, the Trustees have reviewed the rationale for significant votes provided by the managers and are comfortable with the rationale provided, and that it is consistent with their policy. The Trustees, with the help of XPS, have considered the information the investment managers have been able to provide on significant voting, and have deemed the below information as most relevant.

Disclaimer: Neither XPS nor the Trustees have vetted these votes. These summaries have been provided by the investment managers and any reference to “our”, “we” etc. is from the investment manager’s perspective.

Baillie Gifford Diversified Growth Fund

Baillie Gifford
Investment Manager Client Consultation Policy on Voting
All voting decisions are made by our ESG team in conjunction with investment managers. We do not regularly engage with clients prior to submitting votes, however if a segregated client has a specific view on a vote then we will engage with them on this. If a vote is particularly contentious, we may reach out to clients prior to voting to advise them of this or request them to recall any stock on loan.

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Investment Manager Process to determine how to Vote					
Thoughtful voting of our clients' holdings is an integral part of our commitment to stewardship. We believe that voting should be investment led, because how we vote is an important part of the long-term investment process, which is why our strong preference is to be given this responsibility by our clients. The ability to vote our clients' shares also strengthens our position when engaging with investee companies. Our ESG team oversees our voting analysis and execution in conjunction with our investment managers. Unlike many of our peers, we do not outsource any part of the responsibility for voting to third-party suppliers. We utilise research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with our ESG Principles and Guidelines and we endeavour to vote every one of our clients' holdings in all markets.					
How does this manager determine what constitutes a 'Significant' Vote?					
Baillie Gifford's holding had a material impact on the outcome of the meeting Management resolutions that receive 20 per cent or more opposition in the prior year Egregious remuneration Controversial equity issuance Shareholder resolutions that received 20 per cent or more support from shareholders in the prior year Where there has been a significant audit failing Mergers and acquisitions Where we have opposed the financial statements/annual report Where we have opposed the election of directors and executives Where we identify material 'E' 'S' or 'G' issues that result in Baillie Gifford opposing management					
Does the manager utilise a Proxy Voting System? If so, please detail					
Whilst we are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), we do not delegate or outsource any of our stewardship activities or follow or rely upon their recommendations when deciding how to vote on our clients' shares. All client voting decisions are made in-house. We vote in line with our in-house policy and not with the proxy voting providers' policies. We also have specialist proxy advisors in the Chinese and Indian markets to provide us with more nuanced market specific information.					
Voting information					
Baillie Gifford - Defensive Growth Fund					
The manager voted on 97.0% of resolutions out of 531 eligible votes.					
The manager voted against management on 2.3% of the resolutions which they voted.					
Top 5 Significant Votes during the Period					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
BROOKFIELD RENEWABLE CORPORATION	03/12/2024	1.2%	Articles of Association	For	Pass
Why the vote was deemed significant: This resolution is significant because it received greater than 20 per cent opposition. Where voted against the company, was this communicated: N/A Rationale: We supported the creation of a new corporation as we were supportive of the company's rationale that this will benefit the company's tax arrangements. Implication: We are aware that at least one proxy advisor raised concerns with the proposed changes because it could be viewed as a step away from what is considered best practice in Canada. However, we were supportive as the changes being made are consistent with local laws and because on the whole the organisational structure remains unchanged.					

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Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
JLEN ENVIRONMENTAL ASSETS GROUP LIMITED	13/09/2024	1.4%	Other	Against	Fail
Why the vote was deemed significant: This resolution is significant because it received greater than 20 per cent opposition. Where voted against the company, was this communicated: No Rationale: We opposed a resolution concerning the discontinuation of the company in line with the board's recommendation. At present, we believe value is most likely to be generated through a continuation of the company. Implication: A resolution concerning the discontinuation of the company received 93 per cent opposition. We were comfortable opposing this resolution, in line with the board's recommendation, because we believe value is most likely to be generated through a continuation of the company.					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
BLACKSTONE SECURED LENDING FUND (BXSL)	12/09/2024	0.5%	Elect Director(s)	For	Pass
Why the vote was deemed significant: This resolution is significant because it received greater than 20 per cent opposition. Where voted against the company, was this communicated: n/a Rationale: We supported the election of all directors as we are comfortable with the current composition of the board. Implication: One director received 44 per cent opposition. We believe this is, at least in part, because one proxy advisor recommended that shareholders vote against the director due to the ongoing classified board structure. We are currently comfortable with the company having this provision in place and, as such were happy to support all director elections. We will, however, continue to monitor and assess the company's governance.					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
ARES CAPITAL CORPORATION	08/08/2024	1.2%	Amendment of Share Capital	For	Pass
Why the vote was deemed significant: This resolution is significant because it received greater than 20 per cent opposition. Where voted against the company, was this communicated: n/a Rationale: We supported the request for authority to issue shares below net asset value. Implication: We are comfortable to support this request as we understand the circumstances in which the company has used this authority in the past, and the conditions which must be met in order for the company to use this authority. We are satisfied that this flexibility is useful for the company and would be used responsibly.					

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Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
REXFORD INDUSTRIAL REALTY, INC.	11/06/2024	0.6%	Remuneration	Against	Pass
Why the vote was deemed significant: This resolution is significant because we opposed remuneration. Where voted against the company, was this communicated: No Rationale: We opposed the executive compensation as we do not believe the performance conditions are sufficiently stretching. Implication: We continued to oppose the executive compensation report as we do not believe the performance conditions are sufficiently stretching. We once again communicated our reservations over the inclusion of a relative total shareholder return metric which allows for vesting below median in the executive pay plan. In line with previous correspondence, we encouraged the company to adopt more stretching targets going forward.					

Alliance Bernstein Sustainable All Market Portfolio

Alliance Bernstein
Investment Manager Client Consultation Policy on Voting
Upon client's request, we can share our vote intentions based on AB's Proxy Voting and Governance Policy under non-disclosure agreement.
Investment Manager Process to determine how to Vote
The members of the Responsible Investing Team responsible for proxy voting apply AB's Proxy Voting and Governance Policy. Votes of our significant holdings are consulted with covering investment analysts.
How does this manager determine what constitutes a 'Significant' Vote?
AB considers all votes to be significant
Does the manager utilise a Proxy Voting System? If so, please detail
We use Institutional Shareholder Services' online voting platform to execute votes electronically. We also use their benchmark research as a screening tool before implementing our own Proxy Voting and Governance Policy.
Alliance Bernstein
Investment Manager Client Consultation Policy on Voting
Upon request, we can share our vote intentions based on AB's Proxy Voting and Governance Policy under non-disclosure agreement.
Investment Manager Process to determine how to Vote
The members of the Responsible Investing Team responsible for proxy voting apply AB's Proxy Voting and Governance Policy. Votes of our significant holdings are consulted with covering investment analysts.
How does this manager determine what constitutes a 'Significant' Vote?
AB considers all votes to be significant.

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Does the manager utilise a Proxy Voting System? If so, please detail					
We use Institutional Shareholder Services' online voting platform to execute votes electronically. We also use their benchmark research as a screening tool before implementing our own Proxy Voting and Governance Policy.					
Voting information					
Alliance Bernstein - Sustainable All Market Portfolio					
The manager voted on 100% of resolutions out of 1,826 eligible votes.					
The manager voted against management on 5% of the resolutions which they voted.					
Top 5 Significant Votes during the Period					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
The Procter & Gamble Company	08/10/2024	0.7%	Report on Median Gender/Racial Pay Gap	For	Fail
Why the vote was deemed significant: This is an example of AB voting against management on a social shareholder proposal. Where voted against the company, was this communicated: No Rationale: The proposal appears value additive by allowing shareholders to assess the Company's approach to talent management more comprehensively. Importantly, this proposal is slightly different than pay gap proposals we have seen in the past, and includes a request for adjusted pay gap information, in addition to median. Implication: AB may continue to support proposals that call for the company to enhance its gender/racial pay gap reporting, if the information benefits shareholders.					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
Oracle Corporation	14/11/2024	0.6%	Report on Climate Risk in Retirement Plan Options	Against	Fail

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This is an example of AB voting against management on an environmental shareholder proposal.

Where voted against the company, was this communicated:

No

Rationale:

Based on our shareholder proposal assessment framework, this proposal does not appear to add value to shareholders. The company's 401(k) plan offers a range of investment options, including those focused on ESG factors, and it does not appear like additional disclosure in this area is warranted.

Implication:

AB will continue to oppose proposals of this nature as they seek to micromanage the company and do not appear to add value to shareholders.

Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
Microsoft Corporation	10/12/2024	2.4%	Report on AI Data Sourcing Accountability	For	Fail

Why the vote was deemed significant:

This is an example of AB voting against management on a social share shareholder proposal.

Where voted against the company, was this communicated:

No

Rationale:

This proposal appears to add value to shareholders by increasing transparency and mitigating some reputational and regulatory risks that are associated with AI data sourcing. While the company does publish an AI transparency report, it includes limited information about data sourcing accountability and additional information would be value additive.

Implication:

AB will continue to evaluate AI-related proposals on a case by case basis, depending on value to shareholders, materiality of the issue, and the company's current practices and disclosures. We will also continue to engage with the company on its use and reporting of AI.

Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
NVIDIA Corporation	26/06/2024	1.1%	Adopt Simple Majority Vote	For	Pass

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Why the vote was deemed significant:

This is an example of AB voting against management on a governance shareholder proposal.

Where voted against the company, was this communicated:

No

Rationale:

Absent the presence of a significant or controlling shareholder, Alliance Bernstein is generally supportive of reducing supermajority vote requirements.

Implication:

AB will continue to encourage shareholder friendly governance practices at the company, and will vote in favour of proposals that enhance shareholder rights.

Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
CenterPoint Energy, Inc.	26/04/2024	0.3%	Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal	Against	Fail

Why the vote was deemed significant:

This is an example of AB voting with management on an environmental shareholder proposal.

Where voted against the company, was this communicated:

No

Rationale:

The proponent requests that the company adopt interim and long-term reduction targets across its full range of value chain emissions in alignment with the Paris Agreement’s 1.5°C goal requiring Net Zero emissions by 2050. The company has committed to achieving Net-Zero Scope 1 and 2 emissions by 2035 and (as the board points out) SBTi standards for upstream Scope 3 emissions are not yet developed. CNP’s goal to reduce downstream Scope 3 emissions by 20-30% by 2035 is aligned with peers, and its current disclosures are in-line with TCFD.

Implication:

AB will continue to evaluate these proposals on a case-by-case basis depending on the prescriptiveness of the ask, the materiality of the issue, and the company's current practices and disclosures.

Signed by:

Stuart Stephen - Chair of Trustees

Date:

15 May 2025