Marks & Spencer Pension Scheme

# Annual Implementation Statement – year ending 31 March 2023

# Table of Contents

# Section 1: Introduction

This document is the Annual Implementation Statement ("the statement") prepared by the Trustee of the Marks & Spencer Pension Scheme ("the Scheme") covering the Scheme Year ("the year") from 1 April 2022 to 31 March 2023.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on engagement and voting as set out in the Statement of Investment Principles (the "SIP") have been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of proxy voting services during the year.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets, including but not limited to: investment managers, portfolio construction and risks.

Unless otherwise stated, this Statement will refer to wording within the SIP dated March 2022. This is an updated document from the one previously dated September 2020, with revisions made to reflect the changes in the Scheme's governance structure, which included the establishment of the Environmental, Social and Governance ("ESG") Committee in August 2021. In addition, the "Responsible Investing" Section of the SIP was also amended to reflect the ESG Committee's role and beliefs. A copy of the March 2022 SIP can be found within the Scheme's annual reports and accounts, and published online here: Statement of Investment Principles.

# Section 2: How the Trustee has adhered to policies related to voting and engagement

As set out in the Trustee's ESG Beliefs, engagement and voting are both thought to be highly influential activities and the Trustee recognises that they can lead to changes in the behaviour of companies and ultimately improve investment performance, as well as having a positive impact on the environment and society. The primary goal of the Trustee is to act in the best financial interests of its members, and the investment strategy is formulated to support its primary objective of paying member benefits as and when they fall due. Contributing towards this objective, the Trustee works in close partnerships with the Scheme's investment managers, monitoring stewardship processes closely, with the advice and expertise of third parties.

The Scheme makes use of both pooled and segregated vehicles. Investing in pooled funds allows the Scheme to benefit from economies of scale and potentially lower fees. However, this means that the investment or engagement decisions regarding the companies invested in by each fund are made at the discretion of the investment manager of the pooled fund. The Trustee is comfortable with this approach, given that ESG factors form a significant part of manager selection exercises and ongoing due diligence, particularly when considering long-term investments.

Across both pooled and segregated mandates, whilst the Trustee does not direct voting or engagement activities itself, the Trustee seeks to exert its influence as an asset owner through engaging with the managers, particularly where concerns are highlighted through the various monitoring processes. The Trustee requires the investment managers to develop and maintain appropriate voting and engagement policies, both as part of the initial selection process and ongoing where applicable.

The Trustee's policies relevant to voting and engagement as stated in the SIP are as follows:

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee, or its advisers, will engage with the manager to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

- For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may from time to time invest in certain strategies (e.g. hedge fund strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

- As the Scheme is now closed to future accrual, the Trustee increasingly holds longer dated assets that better match the liability cashflows of the Scheme. These include credit and real assets and because they are less liquid, the Trustee is very focussed on the sustainability of the assets that the Trustee's appointed investment managers invest in and the companies and other entities which they invest in or lend to.
- The Trustee believes that ESG factors, including Climate Change, are financially material considerations that will have significant influence on the future success of companies and their ability to service debt and of security of cashflows and asset values. Integration of ESG factors is fundamental to the design and implementation of the investment strategy of the Scheme.
- The Trustee has established an ESG Committee ("ESGC"), which advises the Board and the Investment Committee on ESG risks and opportunities, and recommends governance and policies to manage these. The ESGC receives input from the Investment Adviser, the Covenant Adviser, and the Scheme Legal Adviser, where appropriate.
- In appointing investment managers, the Trustee, with input from the Investment Adviser, considers in detail their experience and capabilities in managing ESG factors and sustainability in the securities or assets in which they invest, and this assessment forms a part of the regular ongoing monitoring of the investment managers.

- The Trustee believes that companies that effectively manage ESG risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and increasing their ability to recruit and retain high-quality staff.

- Therefore, the Trustee wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process and also to exercise their voting rights. To aid the Trustee in monitoring and engagement with ESG issues, the Trustee requests quarterly voting reports from equity managers, and where possible utilises detailed ESG monitoring of equity and bond mandates through the Scheme's custodian.

- The Trustee monitors the stewardship practices of its managers to understand how they exercise their duties with regard to ownership rights (including voting rights) on the Trustee's behalf and to aid them in so doing, the Trustee seeks the advice of expertise from third parties.

- The Trustee was a signatory to the United Nations Principles of Responsible Investment ("UN PRI") over the year.

- The Scheme consolidated the equity exposure within the portfolio to Legal & General Investment Management's Future World funds and agreed it was happy to adopt the engagement policy of Legal & General Investment Management in relation to its equity holding. The ESGC reviews the voting and engagement record of Legal & General Investment Management on an annual basis.

The Trustee has been involved in extensive activities over the course of the year to 31 March 2023 in order to meet its engagement and voting policies, and, more widely, the incorporation of responsible investment factors in decision-making. These activities included (but were not limited to) the following:

- The Trustee and its committees monitored the performance of the Scheme's investment managers (and the Scheme as a whole) throughout the year. As part of this, the Scheme's custodian provided quarterly monitoring which included quantitative performance data, reviewed at quarterly meetings with the Investment Committee ("IC"), and further considered by the Trustee Executive Team ("TET").

- The ESGC met 5 times over the year ending 31 March 2023. The ESGC discussed ongoing ESG related activities, opportunities and risks within responsible investments ("RI") and had a particular focus on meeting evolving regulatory requirements, including the publication of the Scheme's first Task Force on Climate-Related Financial Disclosures ("TCFD") report. The purpose of the ESGC is to continue to maintain the Scheme's progress and position at the forefront of good practice in relation to RI.

- The Trustee produced an RI Policy at the beginning of the Scheme Year. The policy outlines the Trustee's approach to ESG Governance, its goals in relation to RI, how RI is considered within the assessment of the Scheme's new investment managers, and the ongoing monitoring of its current managers. During the year, the RI Policy was discussed by the Trustee, with the agreement that the ESG Mission statement would remain unchanged, and that the policy should be updated to include the Trustee's five ESG beliefs, which were formed across a range of topics, and incorporated the strength and conviction of each belief.

- The Trustee, with the support of the ESGC, made significant progress in relation to adoption of the TCFD recommendations. These included:

    - Agreed an ambitious net zero target of 2040 (with a 50% reduction in emissions by 2030) and agreed that this target would be published.

    - Agreed the metrics that would be measured in the Scheme's inaugural Climate Change Report, including specific consideration for the treatment of the Scheme's gilt and buy-in assets.

    - Reviewed TCFD Covenant Preparation analysis from the Covenant Adviser which highlighted the areas of potential risk to the current level of resilience that may require mitigation and concluded at the present time the risk was low.

    - With the help of advisers and lawyers, reviewed, approved and published the Scheme's first Climate Change Report. The report highlights that engagement will be a critical element in achieving the targets set out, noting that the Trustee will aim to reduce emissions through changing the behaviour of investee companies.

    - Following extreme market volatility in Q3-Q4 2022, significant changes were made to the Scheme portfolio and therefore the ESGC agreed to update the Scheme's carbon metrics and climate scenario analysis as at 31 December 2022.

    - Ahead of preparing the second Climate Change Report, the ESGC reviewed the available choices for the TCFD recommendation to include a fourth metric. Following discussion, the ESGC agreed to use the 'Binary Target Measurement' metric approach, and specifically report on the proportion of the Scheme's portfolio covered by Science-Based Targets.

- The ESGC discussed how the Trustee might look to continue evolving the Scheme's investment strategy and approach towards portfolio construction in order to take account of its ESG beliefs, goals and ultimate net-zero target. This involved informing the Scheme's investment managers of the Trustee's vision and objectives, and engagement with them in order to align priorities in this area. In addition, the ESGC continues to work with the Scheme's Investment Adviser in order to progress towards the Trustee's ESG goals.

- The ESGC discussed a thought piece on the Taskforce on Nature-related Financial Disclosures ("TNFD") reporting standards with the view to incorporate this into future reporting if regulations require the Scheme to do so, and are actively reviewing and monitoring processes in order to do this.

- The ESGC considered analysis which reviewed the Scheme's investment managers' commitments to Net Zero, United Nations Sustainable Development Goals ("UN SDGs"), UN PRI and exclusions. They concluded that the majority of the managers consider ESG information while making investment decisions and are signatories to industry initiatives, while others have good engagement and are striving to add these factors to their decision-making process.

- The ESGC reviewed the Scheme's investment managers' ESG capabilities to measure and manage risks, concluding that the review provided opportunity to identify managers seen to be lacking in their abilities, and providing scope for the ESGC to engage further with these managers.

- The Investment Committee agreed that any new investments to the portfolio would be made with consideration of the manager's emissions targets, engagement policies and ability to demonstrate unusual resilience to wider climate transition.

- The ESGC reviewed a draft Exclusions Policy for the Scheme's investments and decided that whilst a material Scheme-wide exclusions policy may not be appropriate, the ability to exclude provides the Scheme with a means to support a manager's engagement activity or attempt to correct manager behaviour where deemed subpar in ESG matters. As part of drafting the policy, the ESGC collected information on how an exclusions framework could be implemented for the Scheme with companies that were in serious repeat breach of UN Global Compact, controversial weapons and thermal coal being possible grounds for exclusion.

- The Trustee expects the Scheme's investment managers to carry out engagement on its behalf, in line with the Trustee's approach to engagement as set out in their ESG beliefs. The Trustee's engagement priorities are set out below.

More widely, in line with the Trustee's fiduciary duty to meet member benefit payments as they fall due, the Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objectives over an appropriate time horizon.

At present, the Trustee does not explicitly take account of non-financial matters in the Scheme's investment strategy but may consider reflecting specific non-financial considerations in future. The Trustee is working to provide more regular updates on the topic of RI to the Scheme's members. The Trustee also recognises that, with ever increasing focus on RI, a number of non-financial considerations may materialise into financial considerations which may affect the Scheme and its underlying companies in meeting financial obligations in future.

### *Engagement and Governance Priorities*

- The Trustee's preferred approach is to drive change through engagement with the Scheme's underlying investments as opposed to applying negative screens. The Trustee expects managers to engage for long-term value over short-term improvements, however, the Trustee identified circumstances where an exclusionary approach may be appropriate, for example:

  - Where, despite repeated attempts at engagement, a company shows no indication that it will seek to improve its practices;

  - Where investment in an entity is seen to be significantly detrimental to matters relating to ESG considerations, including where there is significant unmitigated climate/transition risk;

  - Where there are significant failings within a company, including material or repeated breaches of the voluntary UN Global Compact initiative;

  - Where political risks cause a related investment risk and/or there are sanctions applied.

- The Trustee has agreed that fund managers should be able to evidence that, where relevant, they have engaged with their investments on these matters. The governance priorities, upon which the Trustee believes that engagement should be focused, include:

  - Carbon emissions and related climate issues, as the Trustee believes that such issues will have a significant financially material impact on the Scheme, and that engagement should be used to support the transition to a low-carbon economy

- Corporate activity to the detriment of biodiversity
- Labour standards, and in particular, Diversity, Equity and Inclusion (“DEI”) and modern slavery
- Corporate governance and appropriate executive remuneration structures, aligning board interests with those of stakeholders

***Voting and engagement case studies:***

As highlighted above, the Trustee considers engagement as a key aspect of ongoing Scheme management, and an important responsibility of both the Trustee and its investment managers, expected to provide long-term value to the Scheme. The Trustee expects the Scheme's investment managers to act as responsible stewards of capital as applicable to their mandates, through engagement undertaken.

As part of the ongoing monitoring and reviewing of the Scheme's investment managers, the Trustee has explored the approach to voting and engagement carried out across the portfolio. The Trustee has picked out key case studies related to the voting and engagement activities of three of the Scheme's key investment managers, AXA, BlackRock and LGIM, as highlighted below. The Trustee considered these areas of activity as significant as they closely align with the Trustee's investment beliefs (including ESG beliefs), policies, and Mission statement in relation to RI. Furthermore, the Trustee itself has also undertaken a number of engagement activities over the year. A key example of one of these is included in the table below.

| |
|---|
| **AXA Investment Management: Biodiversity Footprint Measurement**<br><br>Over 2022, AXA have continued to reaffirm their commitment to biodiversity protection through a series of actions. AXA partnered with Iceberg Data Lab to develop biodiversity-specific data, which led to publication of biodiversity metrics within their 2022 TCFD report. Over the year, AXA began engaging with their investee companies within sectors identified to have potentially significant impacts on biodiversity.<br><br>AXA engaged with the French building and engineering group, Vinci, in order to gain an understanding of Vinci's recently announced "zero net loss of biodiversity" ambition, and to establish a concrete and unified action plan to cover all of the company's material business activities.<br><br>Whilst the definition of a robust "net zero biodiversity loss" goal, and the roadmap to lead to it remain under development, there has been significant momentum on the topic, with key performance indicators and internal developments underway. AXA intend to continue their dialogue with Vinci as its ambitious roadmap takes form. |
| **AXA Investment Management: Home Depot Engagement Progress**<br><br>AXA contacted Home Depot as part of a broad engagement programme, and explained that they expect the company to implement two shareholder resolutions adopted at the AGM:<br><br>• Production of a racial equity report |

- A report on Efforts to Eliminate Deforestation in Supply Chain

The company responded to their request by referencing a Press Release published on September 15th announcing that they will prepare racial equity and deforestation assessments. Both of these assessments will be conducted by expert third-party firms and will expand on the information previously shared in the company's latest ESG report.

Though this work is in an early stage, the company expressed that they look forward to sharing more on both of these assessments as they progress, with the plan to provide the results of these assessments by the end of 2023.

**BlackRock Investment Stewardship (BIS): Engagement with Barclays**

BIS has engaged regularly with Barclays over the last several years to discuss a range of corporate governance and sustainable business matters. In order to assess the company's strategies to navigate the energy transition, BlackRock voted in Barclays' May 2022 annual general meeting on climate risk, approving Barclays' climate strategy, targets and progress.

BIS supported this proposal in recognition of the company's disclosed plan to manage climate-related risks and opportunities and the company's progress against this plan.

Barclays has made notable progress in developing their net zero roadmap. In particular, the bank has in the past year added medium-term targets to 2030 for financed emissions which reference the International Energy Agency's (IEA)Net Zero 2050 scenario that "achieves net zero emissions by 2050 and models emissions consistent with limiting the global temperature rise to 1.5°C with a 50% probability."

BIS supported this proposal in recognition of the company's disclosed climate strategy which includes meaningful short-, medium-, and long-term emissions reduction targets, the company's progress against the commitment laid out in 2020, and the additional enhancements envisioned in their progress report.

**M&S Pension Scheme Trustee Engagement: Ground Rents manager**

In August 2022, following some slight concerns around the ESG credentials for the Scheme's Ground Rents manager, both on a firm and at a fund level, the Trustee made the decision to engage with the investment manager to discuss their approach to RI.

This engagement resulted in a presentation by the manager to the Scheme's Investment Management Committee ("IMC"). Within this presentation, the IMC were provided with the opportunity to learn more about, and ask questions on, the investment manager's investment and fund strategies, including their holistic approach to sustainability. Following the discussion with the IMC, the TET made the decision to hold a further meeting with the manager's CIO, who is Head of ESG at the manager. The meeting covered the firm's approach to ESG at both company and mandate level. The TET noted the difficulties of integrating ESG factors into the manager's ground rents investment strategy due to the nature of the leases involved and complications in formulating an ESG strategy, given RI is a relatively new area for many asset managers. The TET recognised progress made by the manager, including recent employment of dedicated ESG resource, consideration of ESG within the investment management process and plans to introduce a Net Zero target when there is improved understanding of the area and better data available to inform an appropriate target. There remained room for improvement and the TET decided to arrange a follow up meeting with the manager in the future to check on progress towards management consistent with the Scheme's Responsible Investment philosophy.

The ESGC, with support from the Scheme's Investment Adviser, carried out further assessment of the manager's ability to measure and manage risks in relation to ESG during Q4 2022, within the Trustee's investment manager sustainable investment annual review. Despite the lack of Net Zero Target set at the time of the review, the manager was certified as carbon neutral at a Firm level, which provided comfort to the ESGC. In addition, the review highlighted the manager's desire to progress within the area of RI, via a number of actions, in particular, by partnering with their tenants and encouraging Net Zero strategies, as well as working with a consultant to produce their first TCFD report.

# Section 3: Voting information

***Commentary on voting principles***

The Scheme is invested in a diverse range of asset classes. However, this section focuses on the equity investments which have voting rights attached. Over the course of the year, the Scheme held equities in the following standalone equity funds:

- **LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund (Passive):** Global equity index fund that employs an index tracking strategy, aiming to replicate the performance of its benchmark. *(held part year only)*
- **LGIM Future World Global Equity Index Fund (Passive):** Global equity index fund which includes considerations of climate change and sustainable investment factors through allocation weightings and exclusions. *(held part year only)*
- **LGIM Future World Emerging Markets Equity Index Fund:** Emerging market equity fund that employs an index tracking strategy, aiming to provide exposure to emerging equity markets while reflecting significant environmental, social and corporate governance issues.

The Trustee's policy is to delegate exercise of ownership rights (including voting rights) to the Scheme's investment managers. The Trustee monitors the stewardship practices of its managers to understand how they exercise these duties on its behalf and to aid them in doing so, the Trustee seeks the advice of expertise from third parties.

The Scheme's investment managers have their own policies which determine their approach to voting and the principles they follow when voting on investors' behalf. The Trustee is not aware of any material changes to these policies over the past 12 months. The Scheme's current equity manager, LGIM, have their own voting policy, as summarised in the table below:

| Manager | Policy |
|---|---|
| **LGIM** | LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all clients. The manager's voting policies are reviewed annually and take into account feedback from their clients.<br>All decisions made when making a voting decision are made by LGIM's Investment Stewardship team and in accordance with their 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 that the 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.<br>LGIM's Stewardship team exercises voting rights globally, across LGIM's active and index funds. LGIM publish further information on their vote disclosure website, which can be found at the link here: LGIM Voting Policies |

The Trustee, via its Investment Adviser, has assessed LGIM's voting policies as part of its overall assessment of the investment manager's capabilities. The Trustee has considered the policies to be appropriate, and consistent with the Trustee's own policies and objectives, therefore ultimately in the best financial interests of the members.

As part of the Trustee's ongoing engagement with and monitoring of the Scheme's investment managers, the Trustee has set out below the voting activities of the Scheme's equity investment manager, LGIM, over the year including detail of the manager's use of proxy voting.

The Trustee expects investment managers to act as responsible stewards of capital as applicable to their mandates. The Trustee considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis through meetings with the managers. The Trustee 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.

## MARKS AND SPENCER PENSION SCHEME

### *The use of proxy voting by the Scheme's equity manager*

The Trustee believes that the voting practices demonstrated by the Scheme's equity manager are a key part of manager engagement, which may add value to the Scheme's assets over the relevant time period. The Scheme's investment manager uses a voting proxy adviser which aids in their decision-making when voting. Details are summarised in the table below:

| Manager | Use of proxy adviser services: |
|---|---|
| **LGIM** | LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. The Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that are received from ISS for UK companies when making specific voting decisions.<br><br>To ensure LGIM's proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit.<br><br>LGIM is also an active member of the IIGCC Proxy Advisor Working Group, and have engaged with ISS both independently, and collaboratively with the Group, which included contributing to the consultation process for the ISS Benchmark Policy changes for 2023, ensuring their views were taken into account in the development of voting policies.<br><br>Ultimately, LGIM retain the ability to override any vote decisions, which are based on their custom voting policy. The manager has strict monitoring controls to ensure that votes are fully and effectively executed in accordance with their voting policy by their service provider. |

### *Voting activity over the Scheme Year*

The below table sets out the voting activity of the Scheme's equity investment manager LGIM, on behalf of the Trustee, over the year. The data provided is, to the best of our knowledge, complete. Whilst data provided by LGIM covers the respective portfolios as a whole, in future years we will seek information in more granular detail, in particular around the categorisation of votes into different topics.

| Fund | Voting activity |
|---|---|
| **LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund:** (data covers full year) | **Number of meetings at which the manager was eligible to vote:** 3,407<br>**Number of resolutions on which manager was eligible to vote:** 39,878<br>**Percentage of eligible votes cast:** 100%<br>**Percentage of votes with management:** 79%<br>**Percentage of votes against management:** 20%<br>**Percentage of votes abstained from:** 1%<br>**Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser:** 13% |
| **LGIM Future World Global Equity Index Fund** (data covers full year) | **Number of meetings at which the manager was eligible to vote:** 5,067<br>**Number of resolutions on which manager was eligible to vote:** 54,368<br>**Percentage of eligible votes cast:** 100%<br>**Percentage of votes with management:** 80%<br>**Percentage of votes against management:** 19%<br>**Percentage of votes abstained from:** 1%<br>**Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser:** 10% |

## MARKS AND SPENCER PENSION SCHEME

| Fund | Voting activity |
|---|---|
| **LGIM Future World Emerging Markets Equity Index** (data covers full year) | **Number of meetings at which the manager was eligible to vote:** 3,037<br>**Number of resolutions on which manager was eligible to vote:** 26,163<br>**Percentage of eligible votes cast:** 100%<br>**Percentage of votes with management:** 80%<br>**Percentage of votes against management:** 18%<br>**Percentage of votes abstained from:** 2%<br>**Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser:** 7% |

### *Significant Voting*

As highlighted in the previous section, the Trustee recognises that some votes will be more significant than others, based on various considerations determined by the Trustee. These include:

- A matter relating to assets of significant importance to the Scheme's investment strategy.
- Shareholder resolutions on climate related policies and activities that would result in significant detriment to the climate or significant biodiversity loss.
- Company proposals that would be at odds with the expectations of the appropriate stewardship and governance compliance frameworks in relevant markets. This includes, but is not limited to, matters of excessive or inappropriate executive remuneration; issues relating to board make up (including DEI, lack of term limits, and lack of chair independence) and ineffective audits.

LGIM's own criteria for defining significant votes has evolved from previously providing what the manager deemed as "material votes" to now take into account the guidance provided by the Pensions & Lifetime Savings Association (PLSA). This includes, but is not limited to:

- The inclusion of high profile votes, with such a degree of controversy that there is high client and/or public scrutiny;
- Votes with significant client interest;
- Sanction votes as a result of direct or collaborative engagement;
- Votes linked to an LGIM engagement campaign, in line with LGIM's Investment Stewardship's 5-year ESG priority engagement fees.

The following table outlines a selection of most significant votes cast by the Scheme's investment managers on the Trustee's behalf over the year. LGIM have provided detailed voting data, which spanned the whole year, containing a large number of votes (over 500 in some cases) for the funds in which the Scheme is invested.

Where LGIM have voted against company management, LGIM publicly communicates its vote instructions with the rationale for all votes applicable in these circumstances. It is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics. With regards to the next steps following each of the votes outlined within the table below, LGIM confirmed that they will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress against each of the resolutions outlined.

Based on the information provided by the manager, the Trustee has applied its significant voting policy, outlined above, to filter what it deems most significant, and therefore included in the table below. For funds which were only invested for part of the year, significant votes were selected based on the relevant periods over which the Scheme had holdings within those funds.

| Most significant votes cast | Coverage |
| --- | --- |
| **Company Name:** Exxon Mobil Corporation<br><br>**Date of vote:** 25 May 2022<br><br>**Size of the fund's holding at date of vote:** 1.4%<br><br>**Why most significant:** LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder. The Trustee also view this vote as significant as it related to climate related policies that could result in significant detriment to the climate.<br><br>**Resolution Summary:** Set GHG Emission Reduction Targets Consistent with the Paris Agreement Goal.<br><br>**How LGIM Voted:** For the resolution<br><br>**Rationale:** A vote For a Shareholder Resolution is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal.<br><br>**Outcome:** 27.1% votes were "For" the resolution. | LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund |
| **Company Name:** Alphabet Inc<br><br>**Date of vote:** 1 June 2022<br><br>**Size of the fund's holding at date of vote:** 0.9% | LGIM Future World Global Equity Index Fund |

| Most significant votes cast | Coverage |
|---|---|
| **Why most significant:** LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote. This is also a significant vote under the Trustees own policy.<br>**Resolution Summary:** Report on Physical Risks of Climate Change<br>**How LGIM Voted:** For the resolution<br>**Rationale:** A vote in favour of this Shareholder Resolution was applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.<br>**Outcome:** 17.7% votes were "For" the resolution. | |
| **Company Name:** NVIDIA Corporation<br>**Date of vote:** 02 June 2022<br>**Size of the fund's holding at date of vote:** 1.2%<br>**Why most significant:** LGIM views diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.<br>**Resolution:** Elect Director Harvey C. Jones<br>**How LGIM voted:** Against the resolution<br>**Summary:** A vote against management was applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. LGIM are targeting the largest companies as they believe that these should demonstrate leadership on this critical issue. In addition, in line with the Trustee's policy on chair independence, LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.<br>**Vote outcome:** 83.8% votes were "For" the resolution. | LGIM Future World Global Equity Index Fund |
| **Company Name:** Meituan<br>**Date of vote:** 18 May 2022 | LGIM Future World Emerging |

| Most significant votes cast | Coverage |
|---|---|
| **Size of the fund's holding at date of vote:** 0.8%<br><br>**Why most significant:** LGIM views diversity as a financially material issue for thier clients, with implications for the assets managed on their behalf. LGIM also considers this vote material as it is in application of an escalation of their vote policy on the topic of the combination of board chair and CEO. This is aligned with Trustee definition of a significant vote.<br><br>**Resolution:** Elect Wang Xing as Director<br><br>**How LGIM voted:** Against the resolution<br><br>**Summary:** A vote against management was applied as LGIM expects a company to have at least one female on the board. In addition, LGIM expects the role of board chair and CEO to be separate as the roles are substantially different and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board. A vote against Xing Wang and Rongjun Mu was warranted given that their failure to ensure the company's compliance with relevant rules and regulations raise serious concerns on their ability to fulfil fiduciary duties to the company.<br><br>**Vote outcome:** 91.8% votes were "For" the resolution. | Markets Equity Index Fund |
| **Company Name:** Pinduoduo Inc.<br><br>**Date of vote:** 8 February 2023<br><br>**Size of the fund's holding at date of vote:** 0.4%<br><br>**Why most significant:** LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage on their behalf. Diversity, Equity and Inclusion is also a Trustee priority.<br><br>**Resolution:** Elect Director George Yong-Boon Yeo<br><br>**How LGIM voted:** Against the resolution<br><br>**Summary:** A vote against management was applied as LGIM expects companies to elect an independent lead director where there is a combined Board Chair and CEO. In addition, LGIM expects a company to have at least one-third women on the board.<br><br>**Vote outcome:** 85.3% votes were "For" the resolution. | LGIM Future World Emerging Markets Equity Index Fund |

| Most significant votes cast | Coverage |
|---|---|
| **Company Name:** Royal Dutch Shell Plc<br>**Date of vote:** 24 May 2022<br>**Size of the fund's holding at date of vote:** 1.3%<br>**Why most significant:** LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote. The Trustee agrees with this.<br>**Resolution:** Approve the Shell Energy Transition Progress Update<br>**How LGIM voted:** Against the resolution<br>**Summary:** A vote against was applied, though LGIM had reservations. They acknowledge the substantial progress made by the company in strengthening its operational emissions targets by 2030, as well as the additional clarity around the level of investments in low carbon projects, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remained concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.<br>**Vote outcome:** 80% votes were "For" the resolution. | LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund |

# Section 4: Conclusion

As highlighted throughout this statement, the Trustee has undertaken a large number of activities over the year in order to build on its approach towards engagement, and is proud of the progress made thus far. The Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the year, going above and beyond in a number of areas, and strives to further improve practice in the future.

Following monitoring of the Scheme's investment managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that its managers are acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis in order to ensure that the Scheme's investment strategy and Trustee decision-making consistently aligns with the Trustee's investment beliefs, and contributes towards achieving the Trustee's Mission statement to provide long-term value and security to the Scheme's members.