

Advice on the annual Implementation Statement

Hogan Lovells UK Pension Scheme

11 June 2024

This note has been prepared for the Trustee of the Hogan Lovells UK Pension Scheme (the “Scheme”) in response to your request that we provide a draft Implementation Statement (“IS”) for the Scheme.

Background and introduction

There is a requirement for most trust-based defined benefit (“DB”) and defined contribution (“DC”) pension Schemes to produce an IS which covers the report and accounts year (which is the 12 months to 31 December 2023 for the Scheme).

The Department for Work and Pensions (“DWP”) issued [Statutory Guidance](#) in June 2022 which applies to any IS that trustees are required to prepare in respect of pension scheme year ends on or after 1 October 2022. The guidance gives an overview of the items which Trustees “must”, “should”, are “encouraged”, “could” or “may” include in their IS.

“Must” items are requirements imposed by legislation. “Should” items are expected to be followed, and if not followed, trustees should describe concisely the reasons for deviating from the guidance approach. For “Could”, “May” and “Encouraged” items, it is hoped that trustees will address them where possible but they are not expected to explain reasons if not followed. We have included all “must” and “should” items and some “could” items.

The guidance states that the Pensions Regulator is the primary audience for the IS, but it should be written in plain English as far as possible so that members could reasonably interpret and understand the disclosures. Trustees are encouraged to consider producing member-facing summary versions of the IS (with signposting to the full IS). Please let us know if you would like us to prepare a “member friendly” summary version of the IS.

The DWP has stated that it is important that trustees understand and consider financially material Environmental, Social and Governance (“ESG”) factors and stewardship approaches in their investment decisions.

For DB Schemes without a DC section (such as your Scheme), the IS should set out how, and the extent to which, the Trustee has followed the **voting and engagement policies** in the Statement of Investment Principles (“SIP”) during the Scheme Year. In addition, Trustees should seek to demonstrate they have had regard to the Statutory Guidance.

The IS is also required to include a description of the voting behaviour by, or on behalf of, Trustees (including the most significant votes cast by trustees or on their behalf) during the Scheme Year and state any use of the services of a proxy voter during that year.

The DWP’s guidance states: “*where Trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager’s voting behaviour was aligned with the Scheme’s stewardship priorities*”.

Key points

We have produced the draft IS in this note based on our understanding of the regulatory requirements and the DWP’s stewardship guidance. Ultimately it is the Trustee’s responsibility to produce a compliant IS and the Pensions Regulator can impose fines for non-compliance. **Therefore, you may wish to obtain legal advice to ensure that all requirements have been met.**

There is interest in the IS from the Pensions Regulator, policymakers, and the media; as such, **please ensure you are comfortable with the content being in the public domain.**

In the section of the IS on voting behaviour, we have included data on the Scheme’s funds that hold equities as follows:

- LGIM Low Carbon Transition Global Equity Index Fund;
- LGIM Low Carbon Transition Global Equity Index Fund – GBP Hedged;
- LGIM Diversified Fund; and
- LGIM Infrastructure Equity MFG Fund – GBP Hedged

We have also included commentary confirming that the Trustee is not aware of any voting opportunities on the following funds that don't hold listed equities:

- LGIM Emerging Market Passive Local Currency Government Bond Fund;
- LGIM Emerging Market US Currency Government Bond Fund;
- LGIM Sterling Liquidity Fund;
- BlackRock Sustainable Sterling Short Duration Credit Fund;
- BlackRock UK Property Fund;
- Columbia Threadneedle Net Zero Transition Low Duration Credit Fund;
- Columbia Threadneedle Short Profile Real Dynamic LDI Fund
- Columbia Threadneedle Real Dynamic LDI Fund; and
- Columbia Threadneedle Nominal Dynamic LDI Fund.
- LGIM Over 15 Year Gilts Index Fund
- LGIM Over 15 Year Index-Linked Gilts Index Fund

We have additionally included statistics and/or commentary on engagement activities for the Scheme's investment managers with funds which did not hold listed equities during the Scheme Year.

Next steps

We propose that you review the IS and include it within your Report & Accounts ending 31 December 2023 to comply with the relevant regulations. The Report & Accounts need to be finalised within seven months of the end of the Scheme Year, ie by 31 July 2024.

You are required to publish your IS on a website for public access as soon as reasonably practicable after the Report & Accounts are signed off. We expect you will use the same location for the IS as last year. It remains very important that the website is readily and publicly available. A web address for the location of the published materials must be included in members' Annual Benefit Statements.

Please let us know if you have any questions.

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Implementation Statement, covering the Scheme Year from 1 January 2023 to 31 December 2023 (the “Scheme Year”)

The Trustee of the Hogan Lovells UK Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the [guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions \(“DWP’s guidance”\) in June 2022.](#)

1. Introduction

The voting and engagement policies in the SIP were reviewed and updated in August 2023. The voting and engagement policies were updated to reflect the DWP’s new guidance on Reporting on Stewardship and other topics through the SIP and Implementation Statement which expects trustees to take a more active role in relation to monitoring and engaging with investment managers on stewardship. The policies were also updated to reflect the Trustee’s beliefs around ESG matters and their financially material implications, and the formal adoption of the Trustee’s stewardship priorities which were agreed in January 2023.

Further detail and the reasons for these changes are set out in Section 2. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year, by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

2. Voting and engagement

During the Scheme Year, in December 2023 the Trustee received from its investment advisor an assessment of the responsible investment practices of the Blackrock Sustainable Sterling Short Dated Credit Fund and the CT Net Zero Transition Low Duration Credit Fund, following the transfer of assets between these two funds in October 2023.

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. These policies are:

- [LGIM - UK Corporate governance and responsible investment policy](#)
- [Columbia Threadneedle Investments - Responsible Investment Policy](#)
- [BlackRock - Investment stewardship global principles](#)

However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with managers and escalating as necessary as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

The Trustee considers how environmental, social, governance (“ESG”) and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate

skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

During the Scheme Year, in December 2023 the Trustee received from its investment advisor a fund level responsible investment assessment of the CT Net Zero Transition Low Duration Credit Fund which it invested in during the Scheme Year.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. The Trustee agreed stewardship priorities for the Scheme in January 2023, which were:

- *Carbon emissions and related climate issues;*
- *Corporate activity to the detriment of biodiversity;*
- *Labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery, which are considered a governance priority; and*
- *Suitable executive remuneration structures, aligning board interests with those of stakeholders.*

These priorities were selected because the Trustee recognises the importance of being a responsible owner of capital. It believes it is important that there is engagement on ESG matters with investments held on behalf of the Scheme. The Trustee believes that engagement should be prioritised where there is likely a material financial risk or opportunity. The SIP was updated during the Scheme Year to reflect the adoption of these stewardship priorities.

The Trustee communicated these priorities to its managers in August 2023 (excluding BlackRock, as the Trustee has instructed a full divestment of its holdings with BlackRock). The Trustee's wider ESG beliefs were also communicated to the managers along with the stewardship priorities.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

In selecting investments, the Trustee believes that ESG matters can be financially material. In particular, the Trustee believes that:

- Given global commitments to transition to a low carbon economy, as well as the risks that actions taken to limit global warming are too little too late (and result in future temperatures increasing beyond 2 degrees above preindustrial levels), both transition and physical risks may have a detrimental impact on future returns and are risks that need to be managed;
- Environmental risks extend beyond carbon management and that companies having a negative impact in other areas (eg biodiversity loss, water pollution, etc) may also underperform as a result of reputational risk, consumer behaviour and government action;
- There is sufficient evidence of a link between strong governance practices and a company's ability to create sustainable value, that governance factors should be taken into consideration in investing and engagement activities; and

- The link between a company's behaviours in relation to social factors and its financial performance may be more difficult to evidence, but even so failures of social responsibilities can lead to financial detriment, eg through lower productivity of a dissatisfied workforce, labour strikes, reputational issues and penalties from negative impact on local communities or failings within the supply chain to meet standards on such matters as modern slavery.

As a consequence, the Scheme should invest in strategies where the Investment Manager takes such matters into consideration, either through their engagement strategy or, in the case of active fund management, additionally through their stock selection.

The Scheme's equity holdings are invested using a "climate-tilted" approach whereby the manager aims to reduce the carbon exposure of the market capitalisation index through a set of pre-defined rules. This is in keeping with the Trustee's policy that long-term environmental, social and economic sustainability is a factor that the Trustee should consider in making investment decisions.

The Trustee invested in a new pooled fund, the Columbia Threadneedle Net Zero Transition Low Duration Credit Fund (formerly the Global Low Duration Credit Fund) on in October 2023. The Trustee received information from LCP on how the Fund integrates ESG considerations into its investment process. including a separate paper comparing the responsible investment approach of the CT Net Zero Transition Low Duration Credit Fund to the previous short-dated credit fund the Scheme invested in. Following the Scheme Year end, in February 2024 CT changed the investment policy of the Fund to place more importance on environmental and / or social characteristics as part of the Portfolio Manager's investment decision making process.

In particular, the Fund now implements Net Zero elements with assets being managed under a Net Zero Framework, with CT aiming to meet the framework by adhering to the targets of Net Zero alignment, climate change stewardship and the reduction in greenhouse gas emissions aligned to a Net Zero pathway.

3. Description of voting behaviour during the Scheme Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. However, the Trustee monitors managers' voting and engagement behaviour on an annual basis and challenges managers where their activity has not been in line with the Trustee's expectations.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Scheme's funds that hold equities as follows:

- LGIM Low Carbon Transition Global Equity Index Fund;
- LGIM Low Carbon Transition Global Equity Index Fund – GBP Hedged;
- LGIM Diversified Fund; and
- LGIM Infrastructure Equity MFG Fund – GBP Hedged

In addition to the above, the Trustee contacted the Scheme's asset managers that do not hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the Scheme Year. None of the other funds that the Scheme invested in over the Scheme Year held any assets with voting opportunities.

We have also included engagement statistics and/or commentary for the Scheme's investment managers for several funds which did not hold listed equities during the Scheme Year.

9.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place. The Trustee reviewed these policies over the Scheme Year, focusing on the elements which relate to its stewardship priorities, and is comfortable that the policies are aligned with the Trustee's views. Overall, the Trustee is comfortable that the investment managers' voting behaviour was aligned with the Scheme's policies during the Scheme Year.

LGIM

LGIM's voting and engagement activities are driven by its ESG professionals and its assessment of the requirements in these areas, aiming to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account feedback from clients. Every year, LGIM holds a stakeholder roundtable event

where clients and other stakeholders are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as it continues to develop its voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

All decisions 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 companies.

The Investment Stewardship team use third parties to augment their own research and proprietary ESG assessment tools when making specific voting decisions.

To ensure its proxy provider votes in accordance with their position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what it considers to be minimum best practice standards. LGIM retains the ability in all markets to override any vote decisions. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report). LGIM has strict monitoring controls to ensure its votes are executed in accordance with its voting policies by its proxy voting service providers. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform of rejected votes which require further action.

9.2 Summary of voting behaviour

A summary of voting behaviour over the Scheme Year is provided in the table below.

	Fund 1	Fund 2	Fund 3	Fund 4
Manager name	LGIM	LGIM	LGIM	LGIM
Fund name	Low Carbon Transition Global Equity Index Fund	Low Carbon Transition Global Equity Index Fund – GBP Hedged	Diversified Fund	Infrastructure Equity MFG Fund – GBP Hedged
Total size of fund at end of the Scheme Year	£4,038m	£1,306m	£11,284m	£1,276m
Value of Scheme assets at end of the Scheme Year (£ / % of total assets)	£11.0m / 12.4%	£15.6m / 17.7%	£6.1m / 7.0%	£8.1m / 9.2%
Number of equity holdings at end of the Scheme Year	2,837	6,908	86	
Number of meetings eligible to vote	4,687	9,077	92	
Number of resolutions eligible to vote	47,232	94,290	1,239	
% of resolutions voted	99.9%	99.8%	100.0%	
Of the resolutions on which voted, % voted with management	79.2%	76.4%	74.2%	
Of the resolutions on which voted, % voted against management	20.5%	23.4%	25.8%	
Of the resolutions on which voted, % abstained from voting	0.4%	0.3%	0.0%	
Of the meetings in which the manager voted, % with at	65.6%	75.4%	84.8%	

least one vote against management			
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	11.9%	14.6%	21.2%
Totals may not sum due to rounding.			

9.3 Most significant votes

Commentary on the most significant votes over the Scheme Year, from the Scheme's asset managers who hold listed equities, is set out below.

The Trustee did not inform its managers which votes it considered to be most significant in advance of those votes, determining that this was not practical to do over the Scheme Year. The Trustee will consider the practicalities of informing managers ahead of the vote.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria¹ for creating this shortlist. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to incorporate:

- Votes that align with the Trustee's stewardship priorities;
- Potential material impact on future company performance;
- Potential impact on stewardship outcomes;
- Any matter where they relate to one of the Scheme's 10 largest holdings;
- Shareholder resolutions on climate related policies and activities that would result in biodiversity loss; and
- Company proposals that would be at odds with the expectations of the UK Corporate Governance code (to the extent that compliance would be reasonable in the market in question). This would include, 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.

The Trustee has reported on two of these significant votes per fund only as the most significant votes. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee.

LGIM

LGIM indicated that next steps in all cases is to continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Low Carbon Transition Global Equity Index Fund and Low Carbon Transition Global Equity Index Fund – GBP Hedged

- **Amazon.com, Inc, May 2023**
- **Summary of resolution:** Resolution to report on median and adjusted gender/racial pay gaps.
- **Relevant stewardship priority:** Labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery.

¹ [Vote reporting template for pension scheme implementation statement – Guidance for Trustees \(plsa.co.uk\)](https://plsa.co.uk/guidance-for-trustees). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.

- **Approx size of the holding at the date of the vote:** 1.8%
- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes and potential material impact on future company performance. LGIM's decision on how to vote and its rationale has implications for diversity and inclusion, a stewardship priority set by the Trustee. Further, LGIM considers diversity and inclusion policies as issues that represent a material risk to companies.
- **Company management recommendation:** Against **Fund manager vote:** For
- **Rationale:** LGIM voted in favour of the resolution as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated pay gap. LGIM stated that this is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue for LGIM, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps:** Against. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.
- **JPMorgan Chase & Co., May 2023**
- **Summary of resolution:** Resolution to report on climate transition plan describing efforts to align financing activities with greenhouse gas targets.
- **Relevant stewardship priority:** Carbon emissions and related climate issues.
- **Approx size of the holding at the date of the vote:** 0.7%
- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes. LGIM's decision on how to vote and its rationale has implications for climate carbon emissions and climate related issues, a stewardship priority set by the Trustee. Further, LGIM considered this vote significant as it pre-declared its intention to support the resolution and the vote relates to one of LGIM's key stewardship themes. LGIM continues to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met.
- **Company management recommendation:** Against **Fund manager vote:** For
- **Rationale:** LGIM voted in favour of the resolution as LGIM generally supports resolutions that seek additional disclosures on how investee companies aim to manage their financing activities in line with their published targets. LGIM believes that detailed information on how a company intends to achieve the 2030 targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. LGIM's view is that the onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps:** Against. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.

Diversified Fund

- **Shell Plc, May 2023**
- **Summary of resolution:** Resolution to approve the progress of Shell's energy transition strategy.
- **Relevant stewardship priority:** Carbon emissions and related climate issues.
- **Approx size of the holding at the date of the vote:** 0.3%
- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes. LGIM's decision on how to vote and its rationale has implications for carbon emissions and related climate issues, a stewardship priority set by the Trustee. Further, LGIM considers this vote significant given the high profile of such votes and the vote relates to one of LGIM's key stewardship themes. LGIM is publicly supportive of so called 'Say on Climate' votes and expects transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario.
- **Company management recommendation:** For **Fund manager vote:** Against

- **Rationale:** LGIM voted against the resolution, though not without reservations. LGIM acknowledges the substantial progress made by the company in meeting its 2021 climate commitments and welcomes the company's leadership in pursuing low carbon products. However, LGIM remains concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; LGIM believes both of these are key areas to demonstrate alignment with the 1.5°C trajectory.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote and next steps:** For. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.
- **American Tower Corporation, May 2023**
- **Summary of resolution:** Resolution to elect Robert D. Hormats as Director.
- **Relevant stewardship priority:** Labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery.
- **Approx size of the holding at the date of the vote:** 0.2%
- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes and potential material impact on future company performance. LGIM's decision on how to vote and its rationale has implications for diversity and inclusion, a stewardship priority set by the Trustee. Further, LGIM considers diversity and inclusion policies as issues that represent a material risk to companies.
- **Company management recommendation:** For **Fund manager vote:** Against
- **Rationale:** LGIM voted against the resolution due to the lack of gender diversity at executive officer level. LGIM expects executive officers to include at least 1 female.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote and next steps:** For. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.

Infrastructure Equity MFG Fund – GBP Hedged

- **Crown Castle Inc., May 2023**
- **Summary of resolution:** Resolution to elect P. Robert Bartolo as Director.
- **Relevant stewardship priority:** Carbon emissions and related climate issues.
- **Approx size of the holding at the date of the vote:** 1.7%
- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes. LGIM's decision on how to vote and its rationale has implications for carbon emissions and related climate issues, a stewardship priority set by the Trustee. Further, LGIM considers this vote significant as it is applied under LGIM's Climate Impact Pledge, LGIM's flagship engagement program targeting companies in climate-critical sectors.
- **Company management recommendation:** For **Fund manager vote:** Against
- **Rationale:** LGIM voted against the resolution under its Climate Impact Pledge, as LGIM deemed the company to not meet minimum standards with regard to climate risk management.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote and next steps:** For. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.
- **American Water Works Company, Inc., May 2023**
- **Summary of resolution:** Resolution to oversee and report a racial equity audit.
- **Relevant stewardship priority:** Labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery.
- **Approx size of the holding at the date of the vote:** 1.4%

- **Why this vote is considered to be most significant:** Potential impact on stewardship outcomes and potential material impact on future company performance. LGIM's decision on how to vote and its rationale has implications for diversity and inclusion, a stewardship priority set by the Trustee. Further, LGIM considers diversity and inclusion policies as issues that represent a material risk to companies.
- **Company management recommendation:** Against **Fund manager vote:** For
- **Rationale:** LGIM voted for the resolution as LGIM supports proposals related to diversity and inclusion policies, as it considers these issues to be a material risk to companies.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote and next steps:** Against. The Trustee does not intend to escalate this with the manager and views the vote as in alignment with the Trustee's stewardship priorities.

9.4 Votes in relation to assets other than listed equity

The Trustee is not aware of any voting opportunities available to the Scheme's asset managers who do not hold listed equities.

9.5 Manager engagement examples

For the Scheme's investment managers with funds which did not hold listed equities during the Scheme Year (excluding government bond funds), we have included engagement examples and/or data below.

BlackRock

BlackRock did not provide engagement information for the BlackRock UK Property Fund, confirming that this is not something they are able to provide.

For the BlackRock Sustainable Sterling Short Duration Credit Fund, BlackRock did not provide specific engagement cases. Given the Scheme fully disinvested from this fund in October 2023, this is not of concern going forward. BlackRock did provide engagement statistics in relation to the Sustainable Sterling Short Duration Credit Fund and we have shown a range of these below which relate to the Trustee's stewardship priorities. Please note that the statistics shown cover the period from the start of the Scheme Year to 13 October 2023 (date of full redemption from the fund). Percentages shown below reflect the proportion of total engagements that related to each topic or theme of engagement. Some of the engagements below relate to more than one theme.

- Total company engagements from 1 January 2023 to 13 October 2023: 87
- Number of individual companies engaged with: 39
- Engagement themes: Governance (29 engagements), Social (32 engagements), Environmental (45 engagements)
- Number of biodiversity engagements (6 / 7%)
- Number of climate risk management engagements (45 / 52%)
- Number of remuneration engagements (28 / 32%)
- Number of diversity and inclusion engagements (6 / 7%)
- Number of human capital management engagements (17 / 20%)

Columbia Threadneedle

Columbia Threadneedle identifies specific objectives for its engagement with investee companies, and records specific outcomes as 'milestones' which it reports to clients. Each milestone is rated on a three-star scale to the extent to which Columbia Threadneedle asset it to protect and enhance investor value. The three-star scale is as follows:

Three-star rating: Highest potential impact on investor value

Two-star rating: Medium potential impact

One-star rating: Lower potential impact, that nevertheless will contribute to investor value

LDI Counterparty engagement

Columbia Threadneedle provided the following commentary upon request for engagement examples relating to the LDI funds in which the Scheme was invested over the Scheme Year ending 31 December 2023:

'LDI portfolios are very different to traditional equity or bond portfolios so our engagement program primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (both in terms of companies to whom we have the greatest exposure and to companies whom we feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones'.

Columbia Threadneedle informed us that they had carried out 15 total engagements with LDI counterparties over the year ending 31 December 2023.

Over the year to 31 December 2023, Columbia Threadneedle recorded two milestones with LDI counterparties.

1. Barclays PLC – H2 2023 – one star rating

Barclays updated their fossil fuel financing policy. They will no longer provide financing to oil sands exploration and production companies, or financing focused on the construction of new oil sands exploration assets, production and processing infrastructure or oil sand pipelines. Columbia Threadneedle have engaged numerous times with Barclays on their management of climate risks. While Columbia Threadneedle view this as an important part of Barclays' management of climate risks, their fossil fuel financing policy remains looser compared to other UK peers, and will likely continue to create reputational risks.

2. Citigroup Inc – H2 2023 – one star rating

Citigroup enhanced its climate risk management practices. This included a second year publication of a TCFD report, the publication of 2030 targets for four additional loan portfolios, and – among others – expanded climate activities around the firm including the expansion of capacity on their climate risk team. Columbia Threadneedle see clear movement in Citigroup's practices. As Columbia Threadneedle view Citigroup as lagging the other leading banks in the US and Europe, they will continue with further engagement.

Net Zero Transition Low Duration Credit Fund

The Scheme invested in the Columbia Threadneedle Net Zero Transition Low Duration Credit Fund (formerly Global Low Duration Credit Fund) on 18 October 2023. Columbia Threadneedle was unable to provide engagement information for the specific period in which the Scheme was invested in the fund over the Scheme year, and therefore we have included information provided for the period 1 July 2023 to 31 December 2023.

Columbia Threadneedle informed us that they had carried out 63 total engagements related to the fund over the six months to 31 December 2023.

Over the six months to 31 December 2023, Columbia Threadneedle recorded 16 milestones with issuers in the Fund. We have selected two milestones for inclusion that relate to the Trustee's stewardship priorities.

1. Apple Inc – H2 2023 – three star rating

- Apple conducted its first civil rights audit assessing the company's initiatives to address not only racial equity and opportunity, but also civil rights more broadly, with respect to gender, age, ethnicity, sexual orientation, disability, and other dimensions of identity. This covered all aspects of the company's business from products and services, workforce, customer experience and efforts to promote its values. The conclusion was that Apple had taken significant steps to respect civil rights internally and externally but there are nonetheless opportunities for the company to do more, which they acknowledged. Columbia Threadneedle had previously supported a shareholder resolution in 2022 requesting the company to conduct a civil rights audit to help shareholders better assess the effectiveness of Apple's efforts to address the issue of any inequality in its workforce and its management of related risks.

2. Mercedes-Benz Group AG – H2 2023 – one star rating

- Mercedes released its new edition of its Raw Material Report in November 2023, which Columbia Threadneedle believe is a marked step forward in disclosure on its risk assessment process for upstream environmental and social issues in its raw material supply chains. The report covers more materials, with more detail on Mercedes' risk controls and next steps. This has been a core focus of Columbia Threadneedle's engagement, and it will continue to engage with Mercedes to expand its focus to cover rubber and leather, and to include more information on environmental risk due diligence for several materials.