Prospect Pension Scheme SIP implementation statement for the scheme year ending 31.12.2021

The Occupational Pension Schemes (investment and Disclosure) (Amendment) Regulations 2019 require defined benefit pension schemes to produce and publish a statement which must set out how, and the extent to which, the scheme's policies on stewardship have been followed during the scheme year, and describe the voting behaviour by, or on behalf of, the trustees, including the most significant votes cast by the trustees or on their behalf, during the scheme year, stating any use of the services of a proxy provider. This is the second SIP implementation statement published by the Prospect Pension Scheme, for the year ending 31st December 2021.

The scheme invests in L&G World (ex-UK) Equities, Aberdeen Standard UK Ethical Fund, Theadneedle Dynamic Return Fund, Fidelity UK Real Estate Fund, and L&G Over 5 Year Index-Linked Gilts.

A major change took place in August 2021 in that Prospect Pension Trustees Ltd assumed the governance of the Prospect Pension Scheme. The scheme sponsor has three pension schemes following the merger with Bectu in 2017, and so it had been agreed to streamline governance by having one trustee board to govern all three schemes. Former trustees of PPS are included on the new trustee board.

At the time of preparation of the implementation statement the new trustee board was in the process of developing a new ESG policy including climate change. From 1 October 2021 the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 came into force, introducing new requirements relating to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk.

The PPS is too small to fall within the scope of the new requirements. Nevertheless, the corporate trustee directors chose to try to collect initial data and reports from the fund managers in relation to the TCFD recommendations and the information disclosed here will assist the board to develop its investment and stewardship policy and strategy with regard to climate change.

1. The trustee's policy on engagement and voting rights

The Statement of investment Principles (SIP) includes the following:

"The Trustees believe that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustees have examined how rights, including voting rights, attached to investments should be exercised. They recognise that they cannot directly influence the managers' policies on the exercise of investment rights as the assets are held in pooled funds. The Trustees delegate the exercise of the rights (including voting rights) attaching to the Scheme's investments to the investment managers, who are signatories to the UK Stewardship Code or equivalent. The Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

"The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant. The Trustees will endeavour to hold the managers to account in relation to the exercising of these investment rights. The Trustees will make representations to their investment managers on specific issues where they see fit."

2. Voting and engagement: equity managers

The PPS invests in the following funds:
L&G World (ex UK) Equities
Aberdeen Standard UK Ethical Fund

Threadneedle Dynamic Return Fund

All three utilise the proxy voting services of ISS. In addition, Columbia Threadneedle Investments (CTI) have retained Glass, Lewis & Co., IVIS (in the UK) and ISS to provide proxy research services to ensure quality and objectivity in connection with voting client securities.

2.1. Fund manager refusal to accept trustees' voting policy

The PPS trustees had, some years previously, asked their fund managers whether they would agree to operate the AMNT's Red Line Voting policies but they refused.

In the light of new regulatory requirements, the growing pressure on fund managers such as the recommendations of the Taskforce on Pension Scheme Voting Implementation, and the movement beginning to take place in the fund management industry, the PPS trustee directors asked abrdn (formerly known as Aberdeen Standard), LGIM and Columbia Threadneedle (CTI) to reconsider whether they are now prepared to operate the Red Lines on a comply or explain basis.

abrdn did not respond to this request.

LGIM replied: "LGIM currently only provides client voting within one pooled fund for a small selection of clients, which is a legacy process that is no longer offered to any existing or new clients. LGIM is working with other industry participants in seeking to help improve voting processes and will keep market developments in this area under review."

However, CTI responded: "In pooled investment funds we do from time-to-time receive views on voting from clients, and where relevant take them into account. Examples include advisory notices issued by ShareAction and voting alerts issued by the Local Authority Pension Fund Forum.
We also support client voting policies within segregated mandates. With respect to voting involvement more broadly, including in multi-asset funds like DRR [Dynamic Return Fund], we are mindful of technology and other issues, and have been in discussion with third-party vendors who are seeking to facilitate more open voting arrangements and the accommodation of client 'expression of wish'. These services seek to remove or reduce barriers that have previously inhibited client participation in pooled fund voting.
You can take comfort that change is starting to take place and, amidst all the other regulatory reforms being responded to, this is an area of work that is not being overlooked."
The trustee welcomed this statement.

2.2 Climate change

Significant votes:
The trustee asked the fund managers to state a) whether they had voted against any company resolutions during the period on the grounds of their failures with regard to climate change, emissions reporting and carbon mitigation strategies; and b) whether they had supported all shareholder resolutions on climate change, how many they did not support, and why.

The **abrdn** fund's investment is limited to UK companies, and abrdn reported that in 2021 there were no climate specific agenda items at meetings for companies held within the UK Ethical Equity Fund. They did not vote against any standard agenda items for failures with regard to climate change, emissions reporting and carbon mitigation strategies. However they added that outside the UK abrdn received and voted on 100 climate resolutions, 79 of which were proposed by shareholders. They voted against management recommendations on 29% of these resolutions. Additionally they voted against resolutions at 21 companies which were identified as a 'laggard' by the Transition Pathway Initiative.

They added: "Of the 79 shareholder proposed resolutions, we voted or abstained on 44 resolutions. Given the nuance of each resolution, each is assessed in detail by analysts in our Sustainability Group. We expect the companies we invest in to demonstrate clearly how they are moving towards Paris Agreement aligned goals and targets, and we want to see evidence of this action. In situations where we believe a company is already

making good progress in transitioning its business we may support management and vote against a shareholder resolution seeking further action. We publicly disclose specific rationale for all our votes on our website."

CTI cast dissenting votes on the board chair at 41 companies for climate-related reasons at the firm level, and 1 in the Dynamic Return Fund (DRR). They supported 42% of all climate-related shareholder proposals at the firm level and 49% in DRR. Reasons for not supporting those proposals differed based on the specificity of the proposal language and the unique facts and circumstances of each distinct company. Reasons for dissenting ranged from the core proposal already having been partially or substantially implemented, to improper proposal structure (e.g., in case of certain 'Say on Climate' proposals, approval would have limited management accountability on climate plans, etc.). They also supported certain company-sponsored climate-related proposals, generally 'Say on Climate' or related climate action plans where CTI believed they were appropriately structured.

The corporate trustee directors welcomed **LGIM's** tougher approach requiring companies to report in line with the TCFD and asked how many company resolutions they had voted against in relation to the company being in breach of this expectation and which ones, as it was not clear in their stewardship reports.

LGIM replied that in 2021, they had sanctioned 130 companies for not meeting their minimum standards for climate, risk and reporting. "We are considering how to strengthen these requirements even further."

LGIM's own voting policy states that where insufficient action is being taken, LGIM will vote against the chair of a company board on the issue of climate change on a global basis. They stated: "To help improve climate accountability across sectors, under our expanded Climate Impact Pledge in 2020, we announced that we would be voting against all companies globally not meeting at least one – or, for companies in North America and Europe, three – of our minimum standards. The stringency of both our requirements and the sanctions will increase over time. During the 2021 proxy season, 130 companies were subject to voting sanctions for not meeting our minimum climate-change standards. We update our Climate Impact Pledge report once a year in June.

"With regards to climate-related resolutions, we break down our voting statistics by broader topics. During 2021, under our environment/ health category shareholder proposals, we voted for 64 proposals and against 61. We did not abstain from any."

They added: "We assess voting resolutions on a case-by-case basis; there may be proposals where we may agree with the ultimate aim of a shareholder proposal on climate (promoting climate stability and corporate climate action) but disagree with the specific means promoted. For example, in Q4 2021, BHP, one of the world's largest mining companies, put its climate transition plan to a shareholder vote for the first time. When assessing such plans, among other factors, we look closely at how aligned the emissions reduction targets are to Paris goals and whether the milestones set are credible and pragmatic. While we note BHP has made substantial progress in its environmental footprint, we opposed its climate transition plan as we deemed the targets to be insufficient and to fall short of the level of ambition required to support a net zero pathway.

"We also voted against Shell's Energy Transition Strategy in May 2021; we acknowledge the substantial progress made by the company in setting targets which include Scope 3 emissions, changes to executive remuneration, and business plans to increase low-carbon investment. However, we remain concerned that the strength of interim targets (up to 2035) and disclosed plans for oil and gas production do not meet the level of ambition required for the company to credibly claim alignment with a 1.5C pathway.

"We use voting as one or our escalation strategies; through our engagement activities, we work with companies to formulate solutions to the climate crisis that are appropriate in scale and ambition to align to a net zero trajectory, and that set achievable targets on the way."

2.3 Trade union rights

The PPS is a pension scheme for the employees of a trade union and consequently the issue of trade union rights is of fundamental importance to both the sponsor and the beneficiaries. The directors selected five

companies where anti-union activities had been reported: Starbucks, Facebook, Amazon, Alphabet and Walmart. They studied how the fund managers had voted at the companies' AGMs and what action, if any, they had reported as taking with these companies on trade union rights in terms of voting or engagement.

The trustee welcomed abrdn's policy statement that it expects "companies to comply with all employment laws and regulations and adopt the International Labour Organization's (ILO) convention as a minimum. In particular, companies will take affirmative steps to ensure that they uphold decent labour standards."

Also particularly welcome was abrdn's statement in its Ethical Review 2021 that it invests in companies that have strong labour practices, where employees are valued and treated with respect and dignity; demonstrate strong policies, practices and reporting on issues such as equal opportunities, diversity, freedom of association, right to collective bargaining, whistle blowing, training, education, and wellbeing; and implement strong safety, health and welfare policies.

Significant vote
abrdn was asked to confirm whether all the companies in the Aberdeen Standard UK Ethical Fund recognised trade unions for the purposes of collective bargaining. The trustee also noted that while the fund in which PPS invests is a UK fund, abrdn's voting records on the five US companies had been studied and there was no indication of voting in relation to the companies' reported stance against trade unions, and abrdn voted against shareholder resolutions at Facebook and Alphabet that required an independent director nominee with human and/or civil rights experience, for fear that it would "diminish the board's responsibility for human rights and civil rights." As, in the trustee's view, there appeared to be little board interest in upholding the right to collective bargaining it would have been a positive move.

The trustee directors failed to see why upholding principle 3 of the UN Global Compact on trade union recognition should be ringfenced to the ethical funds. These are mainstream issues that should be incorporated in any global voting policy. The trustee urged abrdn to recognise that the right to trade union recognition should be an active part of their main stewardship voting policy and voting guidelines.

abrdn responded: "We do not currently have a specific voting policy in respect of trade union recognition but this is something that is enshrined in UK law through the Employment Relations Act 1999 and thus we do not feel the need to make this explicit in our voting policy given we would follow regulation with regards to any votes related to this."

CTI
The trustee was pleased that at Facebook and Alphabet CTI voted for the shareholder resolution requiring an independent director nominee with human and/or civil rights experience. However at Amazon, while the fund manager supported a resolution calling for overseeing and reporting on a civil rights, equity diversity and inclusion audit they voted against adopting a policy to include hourly employees as director candidates. At Starbucks they voted against a policy to include non-management employees as prospective director candidates, and at Microsoft the trustee was unable to find any votes or reporting to indicate that CTI had had any dialogue with Microsoft over their anti-union record.

The Trustee directors have urged CTI to review how they apply their principles supporting the UN Global Compact in relation to companies with anti-union activities and to engage more actively with these companies in future, including by utilising the Red Line Voting policy.

CTI stated: "We are pleased you noted the instances where we supported this issue on our firm-wide votes and understand your concern in those instances when we did not support. We will take away your suggestion to further consider anti-union activities in engagement and proxy voting."

Regarding **LGIM**, the directors were unable to find any indication in stewardship reports that LGIM had raised trade union rights at any of these companies. The directors asked LGIM to disclose whether they had engaged with any of these five companies on their anti-union activities and why they had not voted against any resolutions at their AGMs specifically in relation to this.

LGIM responded: "Our stewardship reports are regular summaries of key engagement activities and are not intended to be an exhaustive list of our engagement with all companies over the given timeframe.
At a market-level approach, we do take account of freedom of association in our LGIM ESG scores. It is thereby embedded into our minimum expectations for companies, and isolated as a stand-alone metric. We have engaged with some of the companies mentioned above on this topic precisely, specific to anti-union allegations.

When there are shareholder proposals calling for neutrality or various labour protections, we tend to vote in favour of these. In 2021, we supported 85 of the 90 social, workplace and political lobbying shareholder proposals at investee companies globally (94%), with the vast majority of these proposed in the US. We would draw attention to the difference between management resolutions and shareholder resolutions."

LGIM reported that it had engaged with Amazon on unionisation. Amazon had been accused of interfering with efforts by its workers to unionise, ahead of a vote by workers in an Alabama facility on unionisation. LGIM signed a letter to Amazon along with more than 70 other investors with collective assets under management (AUM) of US$6.4 trillion, to emphasise the role that worker representation plays in supporting companies in identifying and managing operating risks. "We highlighted that Amazon should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that as an internationally recognised human right, workers should be free to exercise their freedom of association and right to collective bargaining. We set out the expectation that Amazon should have in place policies and processes appropriate to its size and circumstances.

"We applaud the launch by Amazon of its Global Human Rights Principles: we have taken note of the company's commitment to The UN Guiding Principles on Business and Human Rights, which in turn recognise the fundamental right of workers to exercise their right to organise, should they choose to do so. We are also encouraged by the announcement that Amazon has commissioned a human rights impact assessment by an external consultant.

"However, in spite of these initiatives that have been announced and following discussions with Amazon's Head of ESG Engagement, we remain concerned that the company has yet to demonstrate how it meets the commitments that it has set, not only with respect to human rights but also to transparency and stakeholder engagement. Our engagement with the company continues and we have had further conversations with them in the past month."

They added: "In 2021, we supported 85 of the 90 social, workplace and political lobbying shareholder proposals at investee companies globally (94%), with the vast majority of these proposed in the US. Unionisation has been gaining increasing prominence in the US in particular."

2.4 Equality monitoring

Significant vote

The fund managers were asked to disclose how many times they had voted against a company for lack of disclosure of equality monitoring data.

Abrdn's own diversity and inclusion report 2021 states that it became a member of the Call to Action Coalition (CCA) in the US and in abrdn's "first set of commitments, in January 2021, we agreed to publicly disclose workforce demographic data reported to the US Equal Employment Opportunity Commission, known generally as EEO-1 data.

"As a second step of this initiative, we have called on our portfolio companies to do the same."

The trustee pointed to reports that in 2020 in the US 8% of S&P 500 boards were all white, while in the UK the same year for the FTSE 100 it was 37%. The trustee told abrdn: "It is therefore even more important that abrdn apply this policy in the UK, particularly since UK companies have had several years to fulfil the Parker Review targets."

abrdn responded: **"**In the US, we engage with companies to encourage annual disclosure of full details of their most recent EEO-1 data as part of their reporting cycle, we also updated our US voting policy to include board level ethnic and racial diversity considerations – to have at least one racially or ethnically diverse board member. In the UK, we have incorporated the recommendations of the Parker review into our voting policy and engaged with 14 FTSE100 companies to understand the actions they are taking in response to the Parker review."

The trustee was pleased that abdrn committed to reviewing "the wording of our diversity position statement to ensure the wording reflects our current position."

CTI responded that they have not cast dissenting votes solely on the basis of lack of disclosure of equality monitoring data; however: "We will soon be undertaking our post-proxy season policy review and will consider this issue."

LGIM responded that they had been ratcheting up their expected minimum standards for ethnic diversity. They stated: "We have also increased our expectations of companies regarding ESG transparency: following a campaign undertaken from 2019, we targeted companies with a low score for Transparency, under LGIM's ESG score calculation. Given the growing consensus on the financial materiality of ESG factors, many investors like LGIM are increasingly seeking to integrate them within their investment processes. However, access to what is considered 'non-financial' and ESG information has been traditionally overlooked, mostly because such information was rarely included in the annual reports or seen by the auditors. We believe ESG transparency is a responsibility which belongs to the board of directors, who need to ensure their company's ESG credentials can be appropriately used by markets so they can efficiently price in this information.

"As part of our campaign, we sent engagement letters to 101 investee companies, a target group of the biggest companies we hold which have a low Transparency score ('T score') under our ESG score calculation. Our engagement campaign aims at creating this awareness among boards and the sanction to incentivise them to improve the quality of their ESG disclosure, including both the company's own ESG reporting and ESG data held on them by data providers.

"In 2022 in our proxy voting season, we will be voting against those companies which still, despite our engagements with them, have low ESG transparency scores."

They added: "In addition to implementing our ethnic diversity voting policy, we will continue to expand our focus to include more companies and more countries; our first campaign was the tip of the ethnic diversity iceberg and as with the issue of gender diversity, we would expect many more engagements and deeper discussions to emerge over time."

2.5 Ethnic minority representation on company boards

Significant vote

In the 2021 update of the Parker review into ethnic representation on UK FTSE company boards, it named 16 FTSE 100 companies which as of March 2021 had all-white boards plus three which failed to report data. The fund managers were asked to explain whether they had engaged with or voted against any of those companies in this regard.

abrdn

Abrdn's voting record indicates no voting action with regard to lack of ethnic diversity at any of the AGMs of the Parker Review companies. It supported all resolutions at 13 of the 19 AGMs and nearly all resolutions at the rest, with oppositional votes concerning unrelated issues.

The trustee informed abrdn that they were most disappointed that the fund manager's voting policy makes no mention of ethnicity on boards, especially since their policy goes so far as to say that abrdn would take voting action at the general meetings of companies that do not demonstrate adequate consideration of the benefits of gender diversity. Further, in September 2021 abrdn issued a new position statement on diversity and

inclusion which included "Setting specific representation targets at the board, management and workforce levels in respect of _either_ gender _or_ ethnicity and, if possible, other diversity characteristics (or a clear roadmap to enable target-setting)" *[the board's italics*].
The trustee pointed out that listed companies are big enough to handle two targets at the same time and opposed the practice of giving companies a choice of target. There is evidence that when companies are given a choice of target the vast majority choose gender and leave ethnic minorities behind.

It was not clear whether the UK Ethical fund was invested in any of these companies but nevertheless the trustee would expect abrdn not to have such a poor voting record in the wake of the Parker Review and Black Lives Matter. The trustee stated that they believed that the lack of concern was clear in abrdn's 2021 ethical fund review which expressed concerns about gender diversity but did not mention ethnic diversity at all. abrdn was also asked whether they had any commitment to upgrade their voting policy and guidelines equivalent to their guidelines regarding women on boards, and in removing the choice of gender or ethnicity.

abrdn responded that in 2021 there were no votes against management due to diversity, equality and inclusion (DEI) concerns. abrdn has, for several years, adopted regional specific voting policies related to board level gender diversity in certain regions including the UK, Europe and USA. "Within these policies we have set out minimum diversity expectations for both Large and Small Cap companies. This has also been a focus of our engagement in recent years, and we engaged with companies 98 times during 2021 on diversity and inclusion.

"In 2021 we voted against management on 165 resolutions in respect of diversity and inclusion. In 2022, we updated our UK and USA policies to include board level ethnic and racial diversity. In the UK our voting policy reflects the expectations of the Parker and Hampton-Alexander (now FTSE Women Leaders) reviews. As part of the Parker review update we wrote to the laggards which we identified in our active portfolios to seek their comments and intentions on improving ethnic diversity.

"We will review the wording of our diversity position statement to ensure the wording reflects our current position. We are also in the process of a significant review of our Listed Company Stewardship Guidelines to include more granularity of our voting policies."

The Trustee had written to **CTI** to express disappointment that the fund manager's own voting policy does not mention ethnicity when it refers to the need for boards to have "an effective balance and diversity" and the lack of importance attached to ethnicity on boards despite its reports about Black Lives Matter. The trustee had studied CTI's voting record at the AGMs of the companies cited by the Parker Review update and could not find any indication that any voting had taken place to reflect discontent at the failure of these companies which had had years to meet the challenge of the Parker Review.

CTI responded with the very welcome news that "late in the reporting year we implemented a voting policy to cast a dissenting vote against the nominating committee chair of FTSE350 companies if the Parker Review flagged no ethnic or racial diversity on the board."

The directors were pleased that in the wake of the Black Lives Matter protests **LGIM** revised its policy regarding ethnicity on boards and in 2020 had written to the FTSE 100 and S&P 500 companies advising that they will vote against the re-election of the chair of the nomination committee or chair of the board at companies with all-white boards. This would be implemented in 2022. The FTSE 100 has had several years to comply with the Parker Review recommendations.

LGIM were asked how many of the 19 companies named in the Parker update had they engaged with beyond the letter sent in 2020. They responded that in October 2021 they wrote to 39 of the original 79 companies they had contacted, and "we are pleased that we will now be voting against only 7. We have recently published an update of the improvements made by companies in these indices, and we list the companies we will be voting against in the 2022 proxy season, in line with our ethnic diversity policy."

"The Parker Review appears to have isolated 21 companies initially. In the first stage of our campaign in 2020 where we wrote to 79 companies across the S&P500 and the FTSE100, 36 of the companies we wrote to were in the FTSE100. As a follow-up to the initial stage, we then wrote to 39 companies, of which 16 were in the FTSE100. Of these, 11 had been highlighted in the Parker Review. Our follow-up campaign takes account of the

fact that since our initial letter, 20 companies had by that point added a diverse director. At the final stage of our campaign in March 2022, only two of the companies we will be voting against for lack of ethnic diversity on the board are in the FTSE100. We are delighted with the improvements shown in the indices where we have focused our attention, and will plan to expand our campaign to smaller companies in the future."

The trustee noted that LGIM's "ESG dashboard" includes women on boards but not ethnic minorities – LGIM states that it intends to update this. "However, we do not yet feel that global data available on board-level ethnic diversity is of sufficient quality and quantity to be able to include on our ESG score; indeed, in some countries (France, for example), it is illegal to report on the ethnic diversity of a company's workforce. We will be monitoring changes in regulations, practices and data coverage and quality, with a view to including this metric where feasible in the future."

2.6 Excessive executive pay

The trustee studied the fund managers' voting records at UK companies identified by the High Pay Centre as paying the CEO more than 100 times that of their workforce. It is not in the shareholders' interests for companies to ignore the need to be sensitive to pay and employment conditions within their workforce especially when determining annual salary increases. Excessive executive pay can cause internal resentment, falls in productivity, industrial unrest, reputational damage, fall in output and fall in shareholder value.
All had voted in favour of the remuneration reports at some or most of them. The fund managers were asked to explain why they had done so.

abrdn voted for the remuneration report at Ocado, where the CEO was paid 2,605 times the company's average salary, CRH (207), Flutter (198), Astra Zeneca (190 times), Experian (178), Berkeley (119) and Anglo American (105).

They stated: "Our voting policy in relation to pay does not include a hard limit based on the ratio of CEO's pay to average UK employee pay. Our assessment of remuneration arrangements is based on an analysis of the detail of pay proposals brought to us as part of UK companies' process of consulting on pay with major shareholders ahead of them finalising arrangements each year. This consultation process often results in changes being made to bring pay arrangements into line with shareholder expectations. When voting on pay resolutions at company general meetings the outcome of our vote will be informed by our analysis done during the consultation process. Our voting decision is based on an overall analysis of the remuneration rather than using a single ratio. Our analysis of pay arrangements led us to vote against pay resolutions at 115 UK companies in 2021."

The trustee had found that **CTI** had voted against the remuneration reports of two companies listed as paying the CEO more than 100 times that of their workforce; abstained at a further three and voted for the remuneration reports of AstraZeneca (which paid 190 times), CRH (207), Tesco (305), Watches of Switzerland (262), Entain (229) and Serco (190).

CTI responded: "We take an approach to remuneration at our companies that takes into account a variety of factors, one of which is the CEO pay ratio, and do not make voting determinations solely on the basis of any single factor. We do closely consider pay structure, with particular focus on the myriad elements of long-term incentives. As long-term investors we are keen to see alignment between the businesses strategy and incentives provided to managers implementing thereon, including metrics, measurement periods and performance. Our votes signal support, concern or objections with remuneration on that basis. In the case of abstentions this will occur at the PM's discretion based on our investigation and analysis; for example, should a company be improving previously objectionable practices we will signal our agreement by abstaining but noting we are not yet prepared to fully support."

LGIM invests in 14 of the companies identified as paying excessive remuneration to their CEO and had voted in favour of the remuneration reports of 10: JD Sports, Reckitt, Berkeley, Tesco, Watches of Switzerland, GVC Holdings, AstraZeneca, Serco, Experian and AngloAmerican.

LGIM stated: "LGIM's guidelines on director pay and our separate Principles of Executive Pay documents for the UK and US markets are detailed and provide a clear picture of our minimum expectations on pay practices

globally. These documents are updated regularly, and changes to the UK principles are discussed with various remuneration advisers to provide context to the market.

"While pay ratios are an important factor to consider, on their own they are something of a 'blunt instrument' because a number of factors can cause the ratio to fluctuate from year to year. Therefore, pay ratios are only one of a number of aspects of executive pay that we take into account when considering a vote decision. Our corporate governance & responsible investment policies (global, US and UK) set out our expectations of the remuneration committee.

LGIM added: "Our vote decisions are based on a number of red lines and an overarching consideration of fair treatment of stakeholders over the period. Over the course of 2021, we voted against 137 (23.1%) of the 593 remuneration reports proposed at UK companies and opposed the election of 80 remuneration committee members, due to our persistent concerns over their pay practices. Globally, we opposed 42.4% of all pay-related proposals due to the companies not meeting our minimum standards for fair and appropriate long-term performance-based pay.

"Where our concerns are severe, or repeatedly ignored by the company, we will escalate our vote to address directors' accountability for such failures by opposing their re-election. We have done so at Informa, where our concerns over inappropriately structured and generous pay were not addressed over the years, and at Cineworld, which introduced highly geared share incentives for directors while staff were laid off or furloughed. We have also recently pre-declared our voting intentions against Carnival's executive compensation on our website. "

"The rationale for any votes against management are disclosed on our website and at times may also be pre-declared, as was the case for Informa and Cineworld."

2.7 Living wage

Significant vote:
Fund managers were asked to disclose whether they had voted against any company on account of workers being paid below the "real" Living Wage as set by the Living Wage Foundation and if so which ones.

abrdn was also asked whether they were aware of any companies in the ethical fund that do not pay the 'real' Living Wage. abrdn responded that there were no votes related to Living Wage and Zero Hour Contracts during the time period. "There are insufficient company disclosures in order to determine whether all investee companies in the fund pay the 'real' living wage. At present, 24% of the fund is invested in companies which are accredited by the Living Wage Foundation. We regard this as a strong foundation, especially as accreditation specifically with the Living Wage Foundation may not be applicable for all companies. Furthermore, various investee companies which are yet to be accredited, such as RS Group, have made commitments in their public reporting to pay in excess of the living wage. We are not aware of wage controversies associated with this fund's investee companies.

CTI responded: "We have not cast dissenting votes solely on the basis of wages paid below the Living Wage (or London Living Wage) or where employment contracts do not specify working hours per week. An internal initiative has recently taken up a study on Living Wage and upon its completion a determination will be made with respect to implementation including possibly in our proxy voting approach."

LGIM responded: "We ask all companies to help reduce global poverty by paying at least the living wage, or the real living wage for UK-based employees. We also ask them to ensure that their Tier 1 suppliers do the same. We are pleased that half of FTSE 100 companies and major household names in the UK are now real living wage accredited, including companies with which we have engaged on this topic, such as Taylor Wimpey**.** We also want companies to take steps to ensure that suppliers are abiding by these principles. As part of our engagements with companies during the year, we continue to ask for assurance that all their employees are offered the opportunity to work a minimum of 15 hours a week, should they wish to."

LGIM, together with ShareAction, other asset owners and asset managers, has co-filed a shareholder resolution calling on Sainsbury's to become a living-wage accredited employer by their AGM in 2023. With over 600

supermarkets and over 800 convenience stores, and nearly 190,000 employees, Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's is currently paying higher wages than many other listed supermarkets, the company has been selected because it is more likely than many of its peers to be able to meet the requirements to become living-wage accredited.

"LGIM decided to co-file this resolution because Sainsbury's decided to split their London employees into 'inner' and 'outer' London, with those in 'outer' London paid less than the real living wage of £11.05 per hour ('outer' London employees were offered £10.50 per hour). Although the hourly rate differential appears small, when multiplied by the total hours worked, this would make a beneficial impact on affected employees' ability to meet the demands of the cost-of-living crisis as inflation costs soar and the economy struggles to recover from the effects of the COVID-19 pandemic."

2.8 Audit

Fund managers were asked to confirm whether they are prepared to adopt a voting policy against the restriction of competition for appointment as statutory auditor to the 'big four' accounting firms and, if not, their reasons why. This does not imply that 'big four' companies cannot be selected - merely that the competition for auditor should not be restricted to them.

In a comprehensive response, **abrdn** shared concern about the lack of breadth in the audit market and over-reliance on the 'big four' accounting firms and stated that the UK government are proposing to address the lack of competition with a range of changes in the law and in giving additional powers to the regulator ARGA.

They also stated: "We do engage with companies in relation to their audit tendering process in situations that are material to us, and in these engagements we encourage companies to ensure that the tendering process provides opportunities for audit firms out with the 'big four'. In our experience of these engagements companies that are able to do so do seek to include the next level of audit firms in the process, but that doesn't always result in the firms making a bid for the work or providing a bid of sufficient quality to be successful. We would always have in mind that the smaller audit firms may not have the ability to provide audit services for the complexity of multi-national firms that make up the FTSE100.

CTI responded: "Our voting policy historically considers audit tenure and quality, among many factors, in the ratification of the auditor and election of audit committee matters but has not traditionally considered limited choice upon reappointment. As noted above, we will soon be undertaking our post-proxy season policy review and will consider this issue."

LGIM's policy merely expects the process of tender to be explained, whether it included a firm outside the global top four firms and why the ultimate decision was taken. LGIM stated: "We expect all companies when tendering to include an accounting firm outside of the top four. We also, as you suggest, expect companies to provide an explanation around their final choice. We do not consider it appropriate to have this as a voting issue because, while they (firms outside the big four) are equally good at carrying out audits in the local market (UK), they don't have audit offices to carry out audits globally.

"Some company's business operations are so diverse and complex that the smaller audit firms may not have the relevant expertise and resources required. We have therefore prioritised transparency, alongside our expectations for the length of tenure or auditors, and our expectations of the audit committee, and by limiting non-audit fees. We apply our policies consistently across all firms, rather than drawing up different policies for companies of different structures and complexities."

3. Engagement: real estate

PPS invests in Fidelity UK Real Estate Fund. The trustee has extended its active stewardship to its real estate portfolio. A set of stewardship questions was sent to Fidelity and a very informative discussion was held with the fund manager.

The Board recognises the importance of ESG in relation to real estate. In relation to the need for action on carbon emissions, the UNPRI states: "As investment buildings consume around 40% of the world's energy and contribute up to 30% of its annual GHG emissions, the people who manage global real estate assets - valued at

around US$50 trillion - are therefore one of the most important decision-making groups on earth to hear this clarion call."

The trustee welcomes Fidelity Real Estate's Sustainability Goals which state: "*Embedding sustainability across our whole investment approach, serves as a foundation upon which we can achieve measurable 'ESG' impacts in our property portfolios. By adopting a disciplined approach of actively managing ESG factors throughout the property life cycle, we aim to achieve more resilient, sustainable property portfolios which we believe will ultimately enhance value and deliver better performance for our clients. We have clearly defined goals and targets which will be measured and reported on annually. Some of these include:*

- *increase coverage of BREEAM / LEED certification across our portfolios for each of the next five years;*
- *reducing energy consumption by 3% per year and carbon emissions by 25%, from 2018 baseline, by 2023 at managed buildings;*
- *reduce water consumption by 10%, from 2018 baseline, by 2023*
- *Increase overall on-site recycling to an average of 50% from 2018 baseline, by 2023 at managed buildings*
- *Achieve a score of 80 in GRESB by 2023."*

The trustee asked Fidelity what progress they had made.
On the first goal, the UK fund had increased certification across the portfolio. Details of this can be found in Fidelity's Annual Fund Sustainability Report for 2020.

Regarding reducing energy consumption and carbon emissions, Fidelity stated that they are "actively promoting the energy efficiency of our assets and working towards implementing asset ESG roadmaps which outline energy efficiency actions for each asset. We also make sure that lighting upgrades across our assets meet our LED minimum performance specifications for energy efficiency." They set out the following:

"Energy consumption was -11% overall to date. Year-on-year reductions were 14% for electricity and 6% for gas. This target was achieved early in 2020, due to the impacts of COVID-19 lockdowns; however with a 'return to normality' anticipated, consumption into future years to 2023 will be more insightful as to whether we are on track to achieve this target.

"1 and 2 carbon emissions -34% overall to date. Our positive 2020 figures reflect the 19% drop in like-for-like energy consumption, alongside decarbonisation of the grid. This target was achieved early in 2020, due to the impacts of COVID-19 lockdowns; however with a 'return to normality' anticipated, consumption into future years to 2023 will be more insightful as to whether we will achieve this target. "

Fideoity gave several examples and one that particularly impressed the trustee was how they had installed solar panels atop an office building in Reading and put the energy to the use of the commercial tenants. The tenants paid some extra towards the capital expenditure, but they paid less for energy. This was an example of a win-win initiative, producing clean energy and reducing use of fossil fuels while reducing tenants' energy bills.

Regarding water consumption, it was -57% overall to date. "This target was achieved early in 2020, due to the impacts of COVID-19 lockdowns. However with a 'return to normality' anticipated, consumption into future years to 2023 will be more insightful as to whether we have achieved this target."

Fidelity stated that their on-site recycling rates are "consistently strong across our Fund's portfolio – however, we endeavour to improve data coverage and quality across our asset portfolio to ensure validity". They stated the rate was 99%.

*"*Within selected assets such as our multi-let offices we offer segregated collection of general waste, including co-mingled, organic, fluorescent tubes and e-waste collection. We provide ongoing tenant education about correct waste and recycling disposal, including updated signage and waste education sessions, and conduct regular waste audits. Within our offices we have implemented centralised waste collection points to replace under-desk bins and try to influence our tenants to do the same."

The GRESB Real Estate Assessment is the industry benchmark for environmental and social impact. Results were released in Autumn 2021. Fidelity reported on their commitment and progress and in summary, "from a score of 57 on 2018, the Fund GRESB score has increased to 73 in 2021 and we are on track to deliver our target of 80 by 2023, despite the changes to GRESB scoring in 2020 having made the target harder to achieve."

PPS understands that the focus is shifting to initiatives such as the World Green Building Council's Net Zero Carbon Buildings Commitment which calls for all buildings to have net-zero carbon emissions by 2050. The trustee asked whether Fidelity has signed up to this and whether the UK Property Fund is in alignment with it.

They responded that In Q3 2021 Fidelity Real Estate released their Net Zero Carbon Commitment.

- Phase 1: Operational Net Zero Carbon by 2035 (Scope 1 and 2 emissions)
- Phase 2: Material Net Zero Carbon by 2050 or sooner (including Scope 3 emissions)

The strategy of the Fidelity UK Real Estate Fund now incorporates all the requirements of the Commitment, which includes all assets being Net Zero Carbon by 2050 and an important challenging first phase of being Net Zero Carbon for all landlord-controlled emissions (Scope 1 & 2) by 2035.

The trustee enquired about whether the property fund was implementing "Green leases" between landlords and tenants. Fidelity confirmed that for several years they had had a policy of inserting 'green' clauses into all new leases. "Our sustainability targets include promoting green lease adoption for all new tenants and / or renegotiate existing leases.

"The clauses firstly oblige occupiers of Fund assets to share their electricity, gas and water consumption data in addition to details of their waste produced / recycled through their operations. Furthermore we insert strict controls over the occupiers' alterations to ensure EPC rating are not negatively impacted. We are pleased to report that occupiers are increasing willing to add these and further 'green' obligations in leases as ESG becomes a more important part of their own policies and agenda. The fund of course has older legacy leases that do not include such provisions, though over time the number of these are reducing."

The trustee recognises that as the risks of climate change increase, buildings with strong environmental performance are likely to command higher rents than those that are less environmentally friendly and incur lower monthly operating and maintenance costs. The trustee asked what proportion of the UK fund is in each group. Fidelity responded that there are a substantial number of ways to designate a building of 'strong environmental performance', but perhaps the most readily understandable means of doing so would be to assess the EPC ratings of Fund assets.

"Energy Performance Certificate ratings, whilst not an assessment of how efficiently an asset is being operated and is a theoretical assessment of efficiency potential, to assess which buildings have strong environmental performance offer the most straightforward comparison. Fidelity UK Real Estate Fund buildings rated EPC 'A', 'B' or 'C' account for 25 of 35 properties, suggesting 71% of our assets are of 'strong environmental performance', looking at Gross Asset Value, this is almost identical at 72% for buildings rated EPC 'A', 'B' or 'C'.

"We are targeting EPCs of A/B on all refurbishments so as to future proof (and so add value to) our assets.

The trustee directors raised in writing and in discussion the issues of health and safety and union recognition in relation to their supply chain, in particular construction workers involved in work on the real estate. Fidelity "use contractors and subcontractors who are carefully chosen to be best in class, but over whom we have no direct control eg in terms eg of union recognition, D&I etc. However, we seek to influence these businesses though our selection process." Fidelity International's Supplier Code of Conduct & Ethics can be accessed through an online search using those words.

It was pointed out that the UK film and television production industry has a very similar employment structure to that of the construction industry, with companies hiring large numbers of subcontractors and self-employed workers, and yet the PPS sponsor – a trade union– had negotiated national agreements with the employers covering terms and conditions of the workforce.

There was discussion on how Fidelity works to prevent race discrimination in relation to letting properties in the portfolio. They responded that their agents were under instruction to forward all offers from potential new tenants. Treatment of supply chain employees was also discussed with the suggestion that Fidelity may wish to examine the diversity policies of their agents and others. Fidelity's own policies on diversity and inclusion are available from their website.

4. Taskforce on Climate Related Financial Disclosures
As stated in the introduction to this implementation statement, the board chose to try to collect initial data and reports from the fund managers in relation to the TCFD recommendations and the information disclosed here will assist the board to develop its investment and stewardship policy and strategy with regard to climate change.

The corporate trustee directors asked the fund managers to

- supply their responses to the TCFD recommendations on governance, strategy and risk management; and
- complete the new PLSA carbon emissions template.

4a: Could you please supply your responses to the TCFD recommendations on governance, strategy and risk management in relation to the fund.

Fidelity responded that in January 2018, Fidelity became a named supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We consider the recommendations as a major step in improving and enhancing companies' reporting on the risks and opportunities linked to climate change.

"We published our own first TCFD report in December 2020. This is available at:
fidelity_tcfd_report_2020_v15.pdf (eumultisiteprod-live-b03cec4375574452b61bdc4e94e331e7-16cd684.s3-eu-west-1.amazonaws.com)

"Our latest report was published in June 2022. It aims to further improve and increase reporting of climate-related financial information. One of the areas we highlight in the report is how we are integrating climate change risks and opportunities into our real estate investment franchise." The report is available at:
https://euissmultisiteprod-live-8dd1b69cadf7409099ee6471b87c49a-7653963.s3-eu-west-1.amazonaws.com/international/PDF/fidelity-tcfd-report-2021%20institutional-v9.pdf

"Fidelity's June 2022 report builds on our first TCFD report from 2020 as we move forward with the huge changes needed to play our part in the climate transition across investments and corporate operations. In the report, we highlight three areas on which we have made particular progress:

- **Climate investing policy** - we have developed a Climate investing policy that sets out our climate-related commitments and targets, focussed on traditional asset classes.

"The transition away from thermal coal represents the single biggest opportunity to reduce carbon emissions over the next decade. It is also important to address the risks of carbon emissions in connection with natural wealth and responsible extraction of it.

- **Real estate** - we are integrating climate change risks and opportunities into our real estate investment franchise.

"The main factor contributing to climate risks from our real estate investments are carbon emissions, the reduction of which also presents the most significant opportunities. We see the reduction of Scope 1 &2 emissions as the most impactful activities in the short and medium term; in the long term, the incorporation of all emissions from our real estate assets will be brought into scope.

- **Macroeconomic research** - we have developed a research framework for assessing the macroeconomic impact of climate change and factoring it into asset allocation.

"In our whitepaper series on climate risks from a macro perspective, we identified hurricanes, floods, and gradual warming as key physical risks. On the transition risk element, the effect of restructuring the economy in response to climate change and changes in consumer behaviour are the greatest climate macro risks. Furthermore, the report also covers how various climate change risks and opportunities affect financial markets, product development, and corporate operations across the short, medium, and long term, along with the relevant transmission channels. In response to this, we have set climate targets for our investments and corporate operations

"We expect to continue to improve our implementation of TCFD recommendations in coming years, with regard to both our activities as a corporate entity and our role as an investment manager. As investee companies improve their disclosure and data providers expand their offering, we will continue to expand our disclosure in alignment with the TCFD recommendations."

CTI responded to the TCFD disclosure request stating: "We are committed to playing our part in supporting the transition to a low-carbon global economy, recognising that climate change presents both risks and opportunities that can affect our business, and that unabated climate change will cause economic damage that will put at risk our ability to deliver long-term financial returns. We support the recommendations of the TCFD and are working on our interim report, which is intended to be published in September."

Abrdn did not respond to this question.

LGIM responded as follows:

Have you produced a TCFD report which outlines their governance of climate related issues? If so, please can you share a link? If not, do you plan to support the TCFD recommendations in the future? If so, when do you anticipate an implementation plan and report to be produced?

"LGIM was the world's largest asset manager to publicly endorse the TCFD recommendations when they were first released and has publicly encouraged investee companies to report in line with the TCFD recommendations. LGIM was proud to take part in the governmental cross-industry working group that produced detailed guidance for schemes, launched in January 2021.

"LGIM has recently published its own TCFD-aligned publication as an asset manager as has our parent company Legal & General as an asset owner. LGIM's active ownership report (https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/) provides a high-level overview of our alignment with the TCFD recommendations. For more detailed TCFD-aligned reporting, please see LGIM's PRI report (https://www.lgim.com/landg-assets/lgim/document-library/capabilities/public-transparency-report-for-lgim-holdings.pdf). Legal & General Group Plc's TCFD report is also available via the following link: https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre/climate-report-tcfd-2021 "

Will you share climate-related scenario analysis that you have undertaken as part of your investment process?

"At LGIM, we calculate a metric called Temperature Alignment which we believe provides a concise way to illustrate the results of scenario analysis. This metric is available for LGIM funds and can be found through the ESG reports on the Fund Centre.

"The Temperature Alignment uses the energy scenario insights from our bespoke climate risk framework (LGIM Destination@Risk) to set a benchmark for company decarbonisation pathways. This impact metric allows investors to distinguish companies that are encouraging or slowing the energy transition. For information, this paper shows some of the forward-looking considerations we make in our scenario analysis for calculating the Temperature Alignment.

"We do not currently perform climate related scenario analysis on our Global High Yield Strategy. However, we do have access to LGIM's Destination@Risk model.

"Our global scenario modelling tool Destination@Risk is in active use and being embedded across all investment strategies. The model allows the robust assessment of the climate risk embedded in securities and portfolios and allows understanding of the climate outcomes that are being financed.

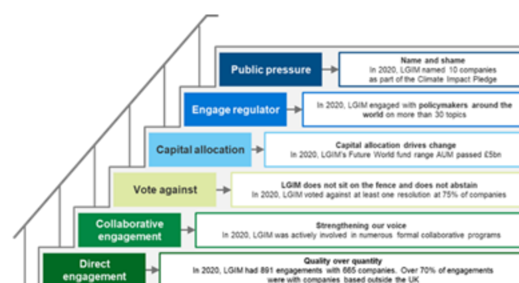
"The model starts with bottom-up scenarios of how the energy system may evolve over the next 30 years to meet the constraints of temperature outcomes (e.g. well-below 2C) or carbon budgets (e.g. net-zero 2050) – and converts these into investment implications. The core set of scenarios referenced by Destination@Risk are "BAU", "2 Degree Disorderly" and "Paris Aligned scenarios".

"The Temperature Alignment module projects forward company carbon emission intensity based on the historical decarbonisation trend and probability weighted forward-targets. Each company is assigned a temperature score, by comparing projections to "BAU – 4C" and "Paris Aligned – 2C" pathways."

What is your escalation policy when engagement is unsuccessful? Please can give an example of when you have escalated, how you did so, your rationale for doing so, and the outcome?

"Escalation is a key part of our engagement approach, including supporting (or co-filing) shareholder proposals on climate change, voting against directors or even divesting from companies, alongside public pressure in the media and through collaboration.

"We implement a stewardship and engagement strategy specific to supporting efforts to limit carbon emissions to net zero by 2050. This engagement strategy draws on all the elements of LGIM's approach to escalation, as outlined below, and including a voting policy.



"Through our dedicated engagement programme, the Climate Impact Pledge, we are committed to help companies to step up on their commitment to net zero, build resilient strategies for this transformative transition period and succeed in the low-carbon world.

"When launched in 2016, we focused our engagement on the largest, more influential companies in the sector. In 2020, aided by improvements in data availability, we expanded the coverage tenfold to cover substantially more sectors, with clear voting sanctions for the companies not meeting all our minimum standards.

"We use qualitative and quantitative measures to assess companies' progress. We publicly celebrate the successes we see in our companies, but also take voting and investment sanctions against companies falling behind. Our engagement has consequences.

"Climate ratings for c. 1000 companies are publicly available under a 'traffic light' system. This covers companies selected from 15 climate-critical sectors (from aviation to food and chemicals) and are responsible for 60% of all greenhouse gas emissions from listed companies.

"This targeted approach – using voting and investment sanctions to motivate companies to step up on sustainability – has contributed to companies making improvements to their climate targets and strategies.

Several companies, including Kroger, were excluded from our Future World funds for poor climate performance but have since made sufficient progress to be reinstated.

"In 2020, we sent letters detailing our assessment to several hundred companies identified as having poor scores relative to their size. At the 2021 annual general meeting season, through voting, we sanctioned 130 companies that fell short of our minimum standards. The stringency of our standards and sanctions will increase over time, with the possibility of divestment from select funds for persistent offenders.

"Alongside the quantitively driven engagement programme, we also selected 58 companies for in-depth engagement, in which sector experts from across LGIM's investment teams participated. These companies are influential in their sectors, but not yet leaders on sustainability; we believe they can and should embrace the transition to net zero carbon emissions in the next few years.

"If companies do not meet the minimum standards we have set out, engagement may translate into firm-wide voting sanctions and adopting the Climate Impact Pledge exclusions. In 2021, we kept nine companies on our sanction list from previous years, while adding four more additional companies. We removed one company from our sanction list and reinstated it in select funds.

"Engagements are carried out by investment and stewardship teams, across the entire capital structure – so both equity and fixed income – on how their disclosures and strategies are aligned with net zero.

"For further details, please see our Climate Impact Pledge report, available here:
https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge/ "

How do you undertake top-down research and analysis related to climate-related risks? Please provide examples of how climate-related risks are considered across the investment strategies and asset classes in which the Scheme is invested?

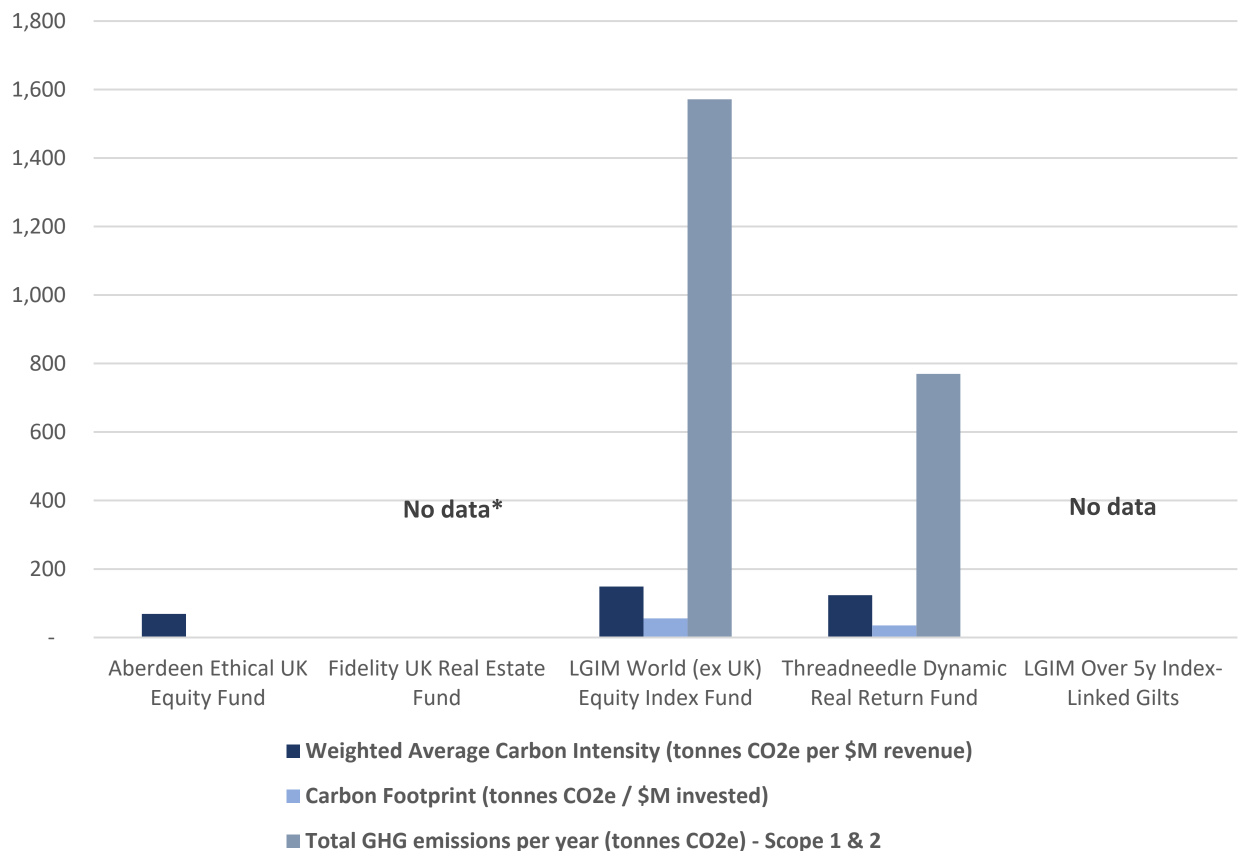
LGIM: "From a top-down perspective our GREGs (Global Research and Engagement Group) covers deep dives in various topics across E, S and G. See below some of the topics covered during in 2021 that were related to climate risk:

- Climate Risk
- Green, sustainable and KPI Bonds
- SDG Alignment
- Biodiversity
- Destination@Risk
- Carbon reporting 5 years from now
- ESG in big Tech
- EU Green recovery Fund
- Data centres and climate change
- Spanish renewables
- Europe energy prices
- Renewable energy sourcing for corporates
- European carbon permits
- Coal phase out in Europe/US
- Renewables - opportunities and risks
- LNG market dynamics and its role in Energy Transition
- Energy Transition Mechanism
- Natural Gas Update
- Oil Majors - Target Practice
- Temperature Alignment/Destination Update
- HY EUR Energy ESG developments
- Funding Fossil Fuels
- Biofuels, Renewable Diesel, and Renewable Natural Gas
- Destination Model predictions
- Carbon Taxes – Probability of a US Carbon Tax
- Fossil fuel reliant sovereigns
- Implications of potential EU carbon border adjustment

Do you know, and disclose, the exposure to fossil fuel assets? If so, what is your assessment (and management) of the assets in this strategy that are the most 'at risk' from climate impacts (both transition and physical risks). Please also describe the scenario and timeframe which impacts the assets. Where applicable, do you actively monitor a company's progress against these targets?

"Yes, we can provide the exposure to fossil fuel assets on request. We have had ESG explicitly factored into our investment process since 2011, at industry and company level. In last five years we have garnered more external input to this. Also developed our GREGs (Global Research and Engagement Groups), and enhanced ESG analysis to help quantify and analyse ESG more discretely. Downside risk is still managed in the same way as managing other financial risks and measured through our ranges which shows the upside, base case and downside of a bond using probability weighted inputs.

5b: Carbon disclosure metrics



Portfolio alignment metrics

- LGIM World (ex UK) Equity Index Fund – 3.5C
- No data for the other funds.

*Fidelity provided data in kilowatt-hours. This is a more widely used measure of building efficiency. However, the PPS investment advisors Barnett Waddingham are working with the manager to get emissions data consistent with the rest of the portfolio. This is still a new requirement for investment managers (particularly in the property space where the emissions metrics are really better suited to companies), so Fidelity are not alone in being unable to provide emissions data at this stage.

6. Conclusion and next steps

The trustee is pleased to observe the beginnings of change in relation to the fund managers' attitude to accepting asset owner voting policies on a comply or explain basis. The directors welcome CTI's statement that they are working on this issue and that "change is starting to take place... and ... this is an area of work that is not being overlooked."

Comparing the fund managers' voting records on issues of particular concern to the trustee has demonstrated why it is important that it is the client's voting policy that is heeded rather than the client being compelled to accept that of several fund managers.

They voted in contradictory ways on shareholder resolutions on trade union and human rights; none took voting action at the AGMs of the companies that had no ethnic minority board directors. And they mostly voted for the remuneration reports at 14 FTSE companies that paid their CEOs more than 100 times that of the workforce. Where any fund manager opposed the remuneration report, in most cases another fund manager's vote contradicted it. This shows that the impact of fund managers wishing to vote all their votes according to their own voting policy do so at the expense of the client's assets being voted in contradictory ways.

The trustee is also pleased that some progress is being made by some fund managers on the issues that the PPS had decided to prioritise. The directors are particularly pleased to receive commitments from the fund managers to review their policy in the light of the representations from the trustee.

The new focus on stewardship in relation to the real estate fund has shown the importance that must be attached to this area, particularly in relation to climate change. And the data that has been gathered in furtherance of the TCFD requirements will be of great assistance to the board in developing its ESG policy.

The board will continue to engage with the fund managers particularly in relation to commitments that it has secured from them to review policies.