Prospect Pension Scheme Statement of Investment Principles implementation statement for the scheme year ending 31.10.2023

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 SIP implementation statement published by the Prospect Pension Scheme is for the year ending 31st October 2023.

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.

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 trustee agrees with the Pensions Regulator's view that global heating has the potential to destabilise the social and economic conditions on which we depend for our pensions system, that the impact has financial consequences as well, and that any scheme that does not consider climate change is ignoring a major risk to pension savings and missing out on investment opportunities[1].

During the scheme year to October 31st 2023 the Trustee board discussed adopting the climate goal of net zero and resolved to undertake training in preparation for this. (The training was completed by the trustee board of directors on 26 February 2024.)

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) was reviewed and revised during the year. It includes the following:

"The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns.

"The Trustee currently has no alternative but to 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 Trustee expects that the investment managers will use their influence as major institutional investors to exercise the Trustee's 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 Trustee has adopted the Red Line Voting policies published by the Association of Member-Nominated Trustees as an appropriate set of policies that the Trustee wishes to guide their fund managers in the stewardship of their investments. To date, the fund managers have been reluctant to accept these policies and until this changes, the Trustee has no option but to allow the investment managers to continue exercising the investment rights attaching to the assets in any pooled funds according to their own policies. The Trustee will endeavour to hold the managers to account in relation to the exercising of these investment rights.

"The Trustee 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,

[1] https://www.thepensionsregulator.gov.uk/en/document-library/corporate-information/climate-change-and-environment/climate-change-strategy

management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant.

"Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustee will, with input from their investment consultant, monitor and review the information provided by the investment managers. Where possible and appropriate, the Trustee will engage with their investment managers for more information, and ask them to confirm that their policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code, and ask them to explain why their policies and/or voting activities are not in alignment with those of the Trustee if that should be the case."

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

2.1. Fund manager refusal to accept trustees' voting policy
The PPS trustees had 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.

LGIM did not respond directly to this, instead highlighting that the unit linked funds in which the scheme invests via its unit linked insurance contract issued by Legal and General Assurance (Pensions Management) Ltd would be managed in accordance with the scheme's SIP to the extent permitted by the terms of the trustee's unit linked insurance policy and PMC's description of funds.

Abrdn responded to say that it has proxy voting policies in place to guide their thinking and they draw upon these when making voting decisions. In client meetings, they do discuss topics including proxy voting and welcome the opportunity to exchange views. These discussions help inform abrdn's thinking as they develop their voting policies which are revised annually. "At this time, we do not offer a solution that enables voting on pooled funds based on individual requests of our clients or third party voting policies, such as the Red Line Voting Policy. However, we believe that clients will continue to develop their views and voting polices in this space and that certain third parties are looking into solutions for pooled fund voting. Therefore, this is an area we are monitoring closely."

Columbia Threadneedle confirmed that, as detailed in the Trustee's letter, "assets have been largely managed in alignment with the PPS stewardship and investment policies."
Asked how CTI had taken account of the views of the PPS and what actions they had taken as a result, CTI responded: "We have found PPS' feedback very valuable. In the past year, you have highlighted your focus on ethnic minority representation in the UK. We have taken that feedback into account and for 2023, included voting guidelines to require all FTSE 100 companies to have at least one ethnically diverse director. Further, for 2024, our voting guidelines in the UK have been expanded to include expectations that FTSE 350 companies have at least one woman in a senior board role, which is aligned with regulatory guidance."

2.2 Priorities for engagement
The directors prioritised the following issues: climate change, recognition of trades unions, ethnic minorities on boards, equality monitoring, excessive executive pay, the 'real' Living Wage and directors' pension provision.

The directors chose to request information on 'significant votes' on a thematic basis. In other words rather than select one vote at one company AGM to report on (eg how they voted on a shareholder resolution at one company's AGM) the directors chose to request information on how the fund manager voted on an issue (eg how often they had voted against companies that had failed to abide by the TCFD disclosure requirements).

The directors believe that this approach can result in obtaining a clearer and wider picture of the fund managers' activities in relation to the scheme's stewardship priorities.

A report by ShareAction stated that support for shareholder resolutions hit a new low in 2023, falling from its peak in 2021. In Shareaction's report *Voting Matters 2023*, the organisation stated that in 2023, only 3% of the 257 environmental and social shareholder resolutions it assessed received majority support – the threshold needed for a resolution to be approved. This is a notable decrease from the previous two years, with 14% of resolutions passing in 2022 and 21% in 2021. The report had analysed the voting of 69 of the world's largest asset managers.

The report stated: "This downward trend in support for resolutions has been driven by large US asset managers, who voted for on average just 25% of resolutions in 2023. However, European asset managers voted on average in favour of 88% of shareholder proposals in 2023, maintaining an upward trend since 2021. Asset managers from every European country followed this upward trend, with the exception of the UK, where asset managers' average support for resolutions has hovered at around 64%."

According to ShareAction's research, LGIM supported 89% of shareholder resolutions on environmental issues and 92% on social issues, coming 17th in the ShareAction's list, while abrdn supported 63% of environmental and 52% of social resolutions putting them at number 41 on the list, and Columbia Threadneedle supported just 50% of environmental and 54% of social resolutions, coming in at 49th out of 69.

2.3 Climate change

LGIM
The Trustee welcomed LGIM's tougher stated approach requiring companies to report in line with guidance of the Taskforce on Climate Related Financial Disclosures (TCFD), particularly in the light of the ShareAction report.

LGIM were asked to disclose:
- how many management-proposed resolutions they had voted against during the reporting period in relation to the company being in breach of this expectation and to specify which ones.
- at how many (and which) AGMs LGIM voted against the chair of the board due to insufficient action being taken regarding climate change.
- details of when LGIM abstained, voted against or did not vote on climate-related shareholder resolutions and which companies these concerned.

LGIM indicated that they had identified 299 companies for AGM voting sanctions; the proportion of companies not meeting the fund manager's threshold minimum standards was higher than previous years as a result of LGIM's expansion in 2022. LGIM confirmed that they would vote against the chair of their board where possible. They had written to those companies to inform them of their approach and expectations and would continue to engage with them. In their *Climate Impact Pledge Report 2023* LGIM indicated that 43 companies were eligible for vote sanctions against the chair where possible, compared with 21 in 2022.

LGIM has set out sector-specific expectations in their Climate Impact Pledge Sector Guides.
Insurance, banks, property, and oil & gas were sectors that failed to meet LGIM's minimum standards. The proportion of companies with ambitious targets was also lower for these sectors. LGIM indicated that newly included sectors such as aluminium, glass and forestry lead the way in the scale of their ambition and meeting LGIM's minimum standards.

Abrdn highlighted two climate-related engagements with companies held in the UK Ethical Fund that had taken place during the year.

"Firstly, we have engaged with RS Group, a global distributor of maintenance, repair and operations products and service solutions. We met with the company to understand better its exposure to rising logistics costs due to the need to decarbonise transport and increasing carbon taxes as well as actions taken by RS Group to benefit from growth in low-carbon transition industries and offer its customers products with lower emissions footprints.

"We engaged on the first point as RS Group had noted this risk in its reporting. We were therefore encouraged to learn in our engagement about the company's programme to optimise its supply chain process, including sourcing, storing, and shipping more products regionally and locally. This programme is complex, but should improve customer services, reduce costs, and ultimately lower emissions, as seen in the company's recent reductions in Scope 3 emissions from downstream transport logistics.

"RS had previously flagged that its customers are increasingly interested in products with lower carbon footprints, while longer-term RS Group estimated in its reporting that growth in customer segments linked to the low-carbon economy and net zero could represent a material commercial opportunity. We therefore sought to understand how RS Group is preparing for these trends.

"As a general point, we were impressed by the scale of RS Group's efforts to educate and encourage its suppliers to provide products with better sustainability credentials. Moreover, RS Group itself is expanding its BetterWorld range of products with sustainability certifications/benefits, with the aim of growing this from 20,000 products to 100,000 by 2025 (the company's current total stocked range is around 750,000 products).

"Overall, it appears early days for RS Group in terms of generating additional revenues from the energy transition, but we took comfort from the company's measures to respond to customers' increasing demands for more sustainable products with better traceability as well as its success in establishing relationships with new customer bases, such as in UK offshore wind.

"As next steps, we encouraged the company to expand disclosures over time (where feasible) on RS Group's progress from the abovementioned initiatives, such as revenues from its BetterWorld products or progress in developing the client relationships required to benefit from growth in low-carbon transition industries.

"Secondly, we recently engaged with SSE on its climate transition strategy. For context, we are members of the Climate Action 100+ working group for climate-related engagement with SSE. As part of this ongoing engagement, we have regular meetings with the company. The purpose of our most recent meeting was to discuss with the company the investor working group's priorities for 2024, including: the risks to SSE achieving its 2030 climate-related targets and better disclosures on the contribution of different levers in the company's decarbonisation strategy to reducing emissions in order to help investors gain additional confidence in SSE's plans.

"Overall, we regard SSE as one of the leading companies in terms of the strength of its commitment to driving the energy transition, coupled with strong social policies and openness to collaborate with investors. Nonetheless, this year abrdn also intends to engage separately on the company's approach to securing community consent in regions where SSE plans to construct new electricity transmission lines, as a failure to secure community consent may pose risks to project delivery and achieving a broader Just Transition for the UK."

Abrdn indicated that these examples reflect how they would apply their Equities Engagement Roadmap in 2024, "namely to help identify potentially material issues for our holdings and then selectively engage with those companies where engagement could add the greatest value. For example, we plan to engage on corporate governance, another theme in the roadmap, with our holdings in the financial services industry."

Abrdn also stated that for their UK Ethical Fund they had not voted against any management-proposed resolutions during the reporting period in relation to the company being in breach of expectations on climate change and TCFD. There were no shareholder resolutions proposed in relation to companies within the fund.

Columbia Threadneedle did not vote against any company resolutions during the period on the grounds of failures with regard to climate change, emissions reporting and carbon mitigation strategies. CTI stated that their general engagement on these standards is framed by their publicly available *Environmental and Social Practices* statement, "which clearly references as an aspiration that issuers align business strategies with a 1.5C scenario", and also refers to environmental practices more broadly.

CTI supplied details of nine shareholder resolutions on climate that they had not supported.

At Microsoft they opposed a resolution calling for the company to assess and report on its retirement funds' management of systemic climate risk, on grounds that it was not in the shareholders' best interests.
At Equinor, an international energy company headquartered in Norway, CTI voted against four shareholder resolutions and abstained on a fifth. The four resolutions were to:

- stop all exploration and drilling by 2025 and provide financial and technical assistance for repair and development of Ukraine' energy infrastructure;
- end all plans for activities in the Barents Sea, adjust up investment in renewables/low carbon solution to 50% by 2025, implement CCS (carbon capture and storage) for Melkoya and invest in rebuilding of Ukraine;
- stop all exploration and test drilling for oil and gas, become a leading producer of renewable energy, stop plans for electrification of Melkoya and present a plan enabling Norway to become net-zero by 2050; and
- include global warming in the company's further strategy, stop all exploration for more oil and gas, phase out all production and sale of oil and gas, multiply investment in renewable energy and CCS, and become a climate friendly company.

All four resolutions were opposed because they were deemed overly prescriptive in nature and they entailed significant implications for the business.

CTI abstained on a resolution requiring Equinor to identify and manage climate-related risks and possibilities, and Integrate them into the company's strategy.

CTI also voted against a shareholder resolution at Amazon calling on the company to report on climate risk in retirement plan options, as CTI believed that the company's current disclosure provides requisite information to determine whether management and the board are considering attendant material risks. They abstained on a further resolution at Amazon calling for a report on climate lobbying because CTI believed that Amazon provides sufficient disclosure regarding how it identifies and mitigates misalignment between its lobbying activities and climate commitments.
Finally, CTI voted against a shareholder resolution at Alphabet Inc which called for a report on framework to assess company lobbying alignment with climate goals. CTI believed that management and the board were adequately considering attendant material risks.

2.4. Freedom of association and recognition of trade unions
The trustees' voting policy sets out a vote against the re-election of the chair of the main board if there is a failure to abide by the UN Global Compact standards on freedom of association, including the recognition of independent trade unions for the purpose of collective agreement. Principle 3 of the UN Global Compact is the clearest of all the Global Compact Principles: "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining". As the sponsor of the pension scheme is a major trade union both the sponsor and the scheme members have a strong interest in our fund managers proactively upholding principle 3.

The Trustee examined the fund managers' voting records with regard to Apple, Starbucks, Meta, Amazon, Tesla, Alphabet and Walmart which are known for hostility to union recognition. Some of these have a growing base in the UK.

LGIM
The trustee was pleased to note the change in LGIM's voting policy in relation to the denial of trade union rights in contravention of Principle 3. Previously LGIM had stated that it would merely support shareholder resolutions as they arise but in their 2023 voting policy LGIM is now committed to voting "against the chair or other directors of any company that is on the UNGC violator list for three consecutive years."

In LGIM's human rights policy document dated December 2023 the fund manager states that it "votes against the re-election of the chair or other directors of any company that is on our Future World Protection UNGC violator list for three consecutive years. Following the roll-out of further, deeper engagements on human rights in 2024, we will aim to implement a new voting policy from 2025. Application of this policy will be based on third-party data and voting will be escalated in subsequent years."
The trustee was very pleased to see this progress.

However, the trustee has major concerns about the LGIM Future World Protection Violator List. Having examined the list of November 2023 some notorious violators of UNGC Principle 3 were not included, such as Amazon which has spent years trying to prevent unionisation in their company. They reportedly spent more than US$14.2-million on union avoidance consultants in 2022, and three years ago their "aggressive anti-union drive" was being widely reported[2].
Starbucks and Walmart are other companies that in the trustees' view fulfil the criteria to be on LGIM's Future World Protection List but are not included.

Walmart has such a poor record that in August 2023 the UN Special Rapporteur on Extreme Poverty and Human Rights wrote to Walmart asking for information on allegations that Walmart US "pays wages that do not allow its workers and their families an adequate standard of living, and actively prevents workers from exercising their right to unionize".
The trustee asked why these long-term violators of the UNGC are not on LGIM's Future World Protection List and why LGIM is not voting against directors of these companies in relation to this.
In addition to Amazon, Starbucks and Walmart the trustees drew LGIM's attention to Alphabet, Google, Meta and Tesla. The trustee was pleased that LGIM supported shareholder resolutions on trade union/human rights at Walmart, Starbucks and Amazon and asked LGIM to indicate what further action it had undertaken with the above companies over the year and what further action it intended to take to progress this issue.

LGIM responded by pointing out that the data provider which produced the Future World Protection list did not identify those companies as being in breach of the UNGC. The trustee had already pointed this out to LGIM and had asked why the companies were not on the list.
LGIM indicated that it would welcome further discussions on companies over a follow up meeting, an invitation that the Trustee will take up.

Abrdn
The trustee welcomed the inclusion in abrdn's 2023 voting policy of the section on Labour and employment, of reference to the core conventions of the International Labour Organisation (ILO), which form the list of internationally agreed human rights, and the UN Guiding Principles on Business and Human Rights (UNGPs), both of which set out workers' rights to freedom of association and collective bargaining. In other words companies should recognise and negotiate with trade unions representing their workforce.

The Trustee highlighted research showing that union recognition underpins companies' records on other ESG issues. In the US the Treasury recently issued a report[3] stating that unions raise the wages of their members by 10 to 15%, along with improving pensions, workplace grievance policies and boosting equality. They add that "unions can boost businesses' productivity by improving working environments and by giving experienced workers more of an input into decisions that design better and more cost-effective workplace procedures."

The impact of unions on health and safety at work is even more stark. The National Library of Medicine in the USA has a study[4] which shows that a 1% decline in unionisation linked to American 'right to work' laws passed in some US states results in about a 5% increase in the rate of occupational fatalities. It adds that these laws (which weaken labour unions) have led to a 14.2% increase in occupational mortality through decreased unionisation.

By contrast, the presence of a recognised trade union in a company leads to better health and safety standards in the UK the trade unions themselves train around 10,000 workers a year in health & safety. Many or most of these are or become accredited workplace health and safety reps.

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[2] https://www.theguardian.com/technology/2021/feb/03/amazon-intensifies-severe-effort-discourage-first-warehouse-union
[3] https://home.treasury.gov/news/press-releases/jy1706#:~:text=Middle%2Dclass%20workers%20reap%20substantial,grievance%20policies%2C%20and%20predictable%20scheduling.

[4]https://pubmed.ncbi.nlm.nih.gov/29898957/#:~:text=Results%3A%20The%20Local%20Average%20Treatment,occupational%20mortality%20through%20decreased%20unionisation.

The Trustee applauded abrdn's support for the shareholder proposals at the Amazon and Starbucks AGMs asking to commission a third party assessment on commitment to freedom of association and collective bargaining.

There was no such shareholder proposal at the other AGMs so the Trustee could see no voting from abrdn in relation to their anti-union activities.

The Trustee asked abrdn to provide details of what engagement they had had with companies on this issue and how they had voted on this issue over the period, and what further action they intended to take to progress this issue?

abrdn stated that it supported the right to collective bargaining and had set this out in our position statement on Labour and Employment.

https://www.abrdn.com/docs?editionId=b0093212-78c2-4f2e-b951-bc38c66c9b73

In addition to the voting actions they had taken at the companies listed by the Trustee, abrdn had extensive engagement with both Unite the Union and CK Hutchison in Q4 of last year in relation to collective bargaining. abrdn encouraged the company to increase its public disclosure in relation to its oversight mechanisms and process to both respect the right to collective bargaining and ensure the best interests of all employees. abrdn stated that they were comfortable with the steps the company had put in place to support collective bargaining.

Columbia Threadneedle:
The Trustee asked CTI to revise their voting policy to make clearer their commitment to supporting UN Global Compact Principle 3.

CTI responded that "general engagement on labour standards is framed by our publicly available *Environmental and Social Practices* statement, which clearly references as an aspiration for issuers Freedom of Association, Collective Bargaining and also refers to fair/living wages more broadly. It is based on the recognition of international standards, such as the ILO Labour Standards."
In 2023, across the company, CTI had over 300 RI engagement interactions on labour standards, including over 150 with board directors, senior executives, and operational specialists.
CTI pointed out that its voting guidelines do reference the “core conventions of the International Labour Organization” and therefore saw no need to amend its policies.
A few examples on related engagement and voting include, but are not limited to:

CTI engaged Starbucks on its trade union response on two occasions in 2023, following up on engagements in 2022, "speaking with the CEO, senior public affairs, and human resources directors to express our concern. We supported the shareholder resolution asking for an independent assessment of its human rights commitments applicable to freedom of association and collective bargaining. We have continued to monitor the situation, engaging with the Strategic Organising Committee on its board nominees, and will engage Starbucks ahead of the AGM to inform our voting decision."

CTI was aware of cases against Walmart and was "reviewing the recent allegations against Walmart using illegal tactics against unionization in California and will seek to engage the company. While we agreed with the proponent of 2023 AGM Item 6 Report on Human Rights Due Diligence that conducting human rights due diligence, we did not believe that the report would meaningfully add to our understanding of the processes the company employs as reported in existing disclosure. Being mindful of management attention and company resources, we took the decision not to support this proposal."

CTI engaged with Amazon’s Head of ESG Engagement on its approach to freedom of association and collective bargaining on three occasions in 2023. "We supported the shareholder resolution in 2023 asking for a third-party assessment of the company’s commitment to freedom of association and collective bargaining. We will continue to monitor the allegations against the company, the company’s response and will engage with the company ahead of the 2024 AGM to inform our voting decision."

2.5 Equality:

2.5.1 Ethnic minority representation on company boards
The Parker Review (which encourages and reports on the ethnic diversity of UK boards) has reported that 96% of FTSE 100 companies now have at least one ethnic minority board member. The trustee applauded LGIM on its vote against the election of Richard Huntingford as a director at Unite Group plc on grounds that, after a two-year engagement campaign, the company had failed to make progress in this regard.

The Parker review states that around 60% of FTSE 250 companies had achieved at least one ethnic minority board director - which means that around 100 companies have yet to do so.

In earlier correspondence, LGIM had provided welcome confirmation that the fund manager would be broadening the scope of its campaign to include companies in the FTS250 and the Russell1000 indices. The trustee asked how this was progressing.
LGIM indicated that its engagement campaign with these smaller companies had been completed at the end of 2023 after two years of engagement, and LGIM continues to engage with UK companies on this topic through the 30% Club Investor Group.

LGIM stated that as at 31 August 2023 in relation to the FTSE 250,
• A total of 64 companies were involved at the start of engagement campaign
• 36 companies were consistent laggards, 56.3% of the total
• 19 companies had improved and were no longer laggards, which represented 29.7% of the total
• 14 new companies came onto the list in 2023 and remained on the list in 2024; and
• Nine companies dropped out of the campaign due to changing index or de-listing, which represented 14.1%.

The Trustee also pointed out that the Parker Review update in March 2023 set new targets, this time for senior management positions, defined as the executive committee and the senior managers who report directly to executive committee members. The Review states: "Given the wide variation in the share of ethnic minorities in the population in different regions of the UK, the Parker Review recognises that there can be no “one size fits all” target percentage for ethnic minority executives in senior management." So the Parker Review are asking each FTSE 350 company to set its own target for its business for December 2027, for the percentage of its senior management team who identify as being from an ethnic minority.
The trustee asked whether LGIM was planning to engage with companies in relation to these targets for senior management, and if so whether it had begun to do so.

LGIM indicated that their work had so far focused on board level ethnic minority representation on which there continue to be laggards, and while they were aligning their work with the Parker Review, they had not specifically engaged on this level of senior employees.

Abrdn
The Trustee was delighted at abrdn's 2023 voting policy commitment to voting against the Nomination Committee Chair at the boards of FTSE 100 companies, if the board does not include at least one member from an ethnic minority background. This is in line with targets set up by the Parker Review.

The 2023 Parker Review update stated that three FTSE 100 companies remain with an all-white board: F&C Investment Trust, Frasers and Unite Group. In addition, Diploma, which was not listed by Parker as being a FTSE 250 company with a diverse board, moved into the FTSE 100.

It would appear that abrdn opposed no resolutions at F&C Investment Trust, and that it engaged with Unite on the matter of gender diversity and they provided an assurance that they have a clear plan to address the shortfall in the near term, but not regarding ethnic diversity.

However, the Trustee applauded abrdn for engaging with Diploma and gaining assurances that they intend to meet the standards of the Parker Review.
The Trustee also applauded abrdn's vote at Frasers where the fund manager voted against the chair of the nomination committee due to concerns regarding the ethnic diversity of the board, and also the gender diversity of the board.

The Trustee asked whether abrdn would engage with F&C and Unite regarding their failure to meet Parker Review targets if this was still the case when the 2024 update is published.

Abrdn noted that Unite's 2022 Annual Report confirmed that the company was working with a view to complying with the Parker review recommendation by 2024, and that Angela Jain was appointed to the board in August 2023 so abrdn do not plan engagement on this topic given progress has been made.

Abrdn noted that F&C Investment Trust's 2022 Annual Report confirmed that as part of the process underway in succession planning that the board soon expected to meet the Parker Review and that Anuradah Chugh was appointed to the board in July 2023 so abrdn do not plan engagement on this topic given progress has been made.

While the Parker Review has reported 96% of FTSE 100 companies with at least one ethnic minority board member, it has also stated that around 60% of FTSE 250 companies had achieved at least one ethnic minority board director - which of course means that around 100 companies have yet to do so.

The Trustee asked whether abrdn was planning to engage with the FTSE 250 companies that continue to have all-white boards. Abrd responded that "as the Parker Review target for FTSE250 boards is 'one by 2024' we are currently reviewing our engagement plan and voting policy for 2025 for those companies who do not meet the target by the end of 2024. We expect that engagement would take place with companies held actively which do not meet the expectation."

One of the top 10 holdings in the UK Ethical Fund is Kainos Group plc, which the Parker Review indicated had an all-white board, with five out of seven of the board being white men, and their entire leadership teams also white. In addition their digital services and workday practice leadership teams appeared to be exclusively male. The Trustee asked whether abrdn would engage with this company on its lack of diversity. Abrdn affirmed that it would.

"Our Active Ownership team has identified Kainos as one company that has not reached the FCA's diversity targets, which are applied on a 'comply or explain' basis. For background, these rules include: 1) 40% female board members; 2) one senior board position to be held by a female; and 3) one member from an ethnic minority background.

"Recognising that succession planning and board renewal can take time, we have not yet changed our voting policies. However, for 2024 AGMs our Active Ownership team will write to our companies which have not yet met in the first instance the FCA's target for 40% female board members. We will seek from the companies an update on their efforts to meet the FCA targets and whether the companies anticipate any changes at the AGM or can give a commitment to improve in the next year. If we have concerns about a company's response, we may then initiate further engagement and potentially voting action.

"For Kainos specifically, we note that the portfolio manager responsible for leading abrdn's coverage of the company also intends to engage separately with the company's Chairman on matters of corporate governance, including diversity. As Kainos is a FTSE250 company, it will be captured by any change to policy made in 2025 in relation to the Parker Review's 'one by 2024' board ethnicity target."

The Parker Review update in March 2023 set new targets, this time for senior management positions, defined as the executive committee and the senior managers who report directly to executive committee members. The Review states: "Given the wide variation in the share of ethnic minorities in the population in different regions of the UK, the Parker Review recognises that there can be no "one size fits all" target percentage for ethnic minority executives in senior management." So they are asking each FTSE 350 company to set its own target for its business for December 2027, for the percentage of its senior management team who identify as being from an ethnic minority.

The trustee asked whether abrdn was going to engage with companies in relation to the Parker review's new targets regarding senior management. Abrdn responded that it had not determined an engagement plan on these new targets. "Our immediate focus in term of UK diversity will be related to gender diversity of boards and the Parker Review ethnicity target for FTSE250 companies."

CTI

CTI responded that their general approach on director elections to boards is to consider candidates who are selected for their ability to oversee and enhance long-term company performance. "We would expect boards to recruit members with the appropriate combination of skills and experience, which includes diversity. We also note the FCA's recent diversity guidelines for listed companies which we expect should further improve diversity in the UK market. In company disclosures as part of the comply or explain approach to the FRC's Corporate Governance Guidelines and the FCA's diversity guidelines, we would expect companies to disclose progress in this area."

CTI made the same points as abrdn regarding Unite Group and F&C. Regarding Diploma, CTI noted that the board is currently going through a period of refreshment with the appointment of two women directors, Janice Stipp and Jennifer Ward. Both directors are US citizens which is beneficial to the company.
"The Company is aware that it needs further work on ethnic diversity in the boardroom as disclosed in the annual report. Furthermore, this is a key action point arising from the performance evaluation conducted in 2022."
CTI will continue to monitor progress on board refreshment and how this will include a director with an ethnic minority background.

Asked whether CTI planned to engage with companies in the FTSE 350 in relation to the Parker Review's new targets, and whether they had begun to do so, CTI responded that their engagement in considering board diversity (in the broadest sense) forms part of their day-to-day assessment of board structures at companies. "In these meetings, understanding targets is also part of the commitment from Chairs to address this issue. Each company will be unique in terms of their journey towards a diverse board, and we will seek to monitor progress in this area."
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2.52. Equality monitoring

LGIM

The trustee was pleased that LGIM now agree that companies should be required to publish equality monitoring data for its workforce on gender and race. Their UK corporate governance and responsible investment policy states that LGIM expects all companies to disclose a breakdown of board directors, executive directors, managers and employees at a minimum by geography, main skill set, gender and ethnicity.

The trustee's voting policy is that "if a company has not committed itself to publish within the next 12 months equality monitoring data for its workforce covering at minimum gender, race and disability, and including management and board, vote against the re-election of the chair of the committee responsible for corporate social responsibility or, in the absence of such committee, vote against the chair of the board. Year two: if the company has not begun annual publication of such data, vote as above."

The trustee asked whether LGIM had voted against any companies for failures to publish equality monitoring data and whether LGIM had voted in this way in relation to any company resolutions as opposed to shareholder resolutions. LGIM responded that their policy does not include companies facing any sanction for failing to publish equality monitoring data. The trustee assumes this means there was no voting in relation to this.

ABRDN

The Trustee welcomed abrdn's policy which states that they "expect boards to report on how they promote D&I throughout the business and believe that setting targets is important to addressing imbalances. We recognise the importance of adopting a regional approach to diversity and inclusion, allowing us to press for progress with appropriate consideration for the starting point. "

It also states: "We have for several years actively encouraged progress in gender diversity at all levels, and have expanded our scope in relation to diversity and inclusion across geographies. In respect of ethnic diversity, this is coming increasingly into focus as we encourage boards to progress in ensuring that their composition reflects their employee and customer bases.

"In the US market we support public disclosure of EEO-1 forms by companies. The EEO-1 form details a comprehensive breakdown of workforce by race and gender according to ten employment categories. The form is submitted privately to the US Equal Employment Opportunity Commission on an annual basis. When publicly disclosed, it offers investors and other stakeholders data in a standardised and comparable form. We have used our engagement programme to ask the companies in which we invest to disclose this form for their US operations while making it central to our D&I voting approach and supporting resolutions that request it."

The Trustee's voting policy is that "if a company has not committed itself to publish within the next 12 months equality monitoring data for its workforce covering at minimum gender, race and disability, and including management and board, vote against the re-election of the chair of the committee responsible for corporate social responsibility or, in the absence of such committee, vote against the chair of the board. Year two: if the company has not begun annual publication of such data, vote as above."

The Trustee asked whether abrdn had engaged with any companies in relation to publishing their equality monitoring data and/or setting targets for diversity with their workforce.
Abrdn responded that they had previously engaged with 30 companies in the US to encourage them to publish their EEO-1 data. "In addition, we also asked questions including: 1) Is there a D&I strategy and policy? How is this communicated; 2) Has the company set targets for representation of minority groups?; 3) Has the company implemented any specific targets for representation in its management team?
"There has not been a similar program in the UK, rather we would raise these issues on a case-by-case basis."

Columbia Threadneedle:
CTI reported that they regularly engage with companies on equality data and diversity targets. "While we have not escalated votes against management to company resolutions on this topic, we have been supportive of shareholder resolutions on this where we feel companies, shareholders, and broader stakeholders would benefit from such action. This includes supporting the gender pay gap shareholder proposal at Apple, Amazon, and Kellogg.

"In addition to our individual engagement efforts on this topic as outlined above, we are also members of several industry groups, including the 30% Coalition in the US, the 30% Club UK Investor Group, and the 30% Club France Investor Group, that engage collectively with companies not only on board gender diversity, but diversity, equity and inclusion throughout the workforce. Topics we've discussed with companies include closing gender pay gaps, global paternity leave (for both parents), and whistleblowing procedures, which are all vital to overall equality monitoring."

2.6 Excessive executive pay
One of only two issues where the LGIM voting policy significantly differs from the Red Line voting policy is that of excessive executive pay as expressed via pay ratios. While LGIM (and the Red Lines) are concerned with a range of remuneration issues, our board believes that LGIM does not place sufficient weight on the damaging impact of executive pay that is simply far too high in relation to the company's workforce.
According to the High Pay Centre, over the period 45 companies in the FTSE 350 paid their CEOs more than 100 times the median wage paid to their workforce. Of these, 35 were in the FTSE 100.
It would appear that LGIM supported the remuneration report at the AGMs of nearly all of them:
Ashtead, Associated British Foods, AstraZeneca, Aviva, B&M European Value Retail,
BAE systems, Barclays, Berkeley Group, BAT, BUNZL, Burberry, Compass Group,
Diageo, Flutter, Halma, Imperial Brands, Intercontinental Hotels, Marks & Spencer, National Grid, Next, Relx, Rentokil, Sainsbury, Smith & Nephew, DS Smith, Smurfit Kappa, Tesco, Whitbread and WPP.
LGIM voted against the remuneration reports at BP, Diploma, GSK, JD Sports and Pearson. LGIM voted against the remuneration policy at Burberry, Diploma, Next, Pearson and WPP.

The Trustee believes that excessive executive pay is an area where the highly paid financial services industry is out of touch with the British workforce who are the beneficiaries whose pension savings the fund managers are investing. At a time when the Office for National Statistics has stated that about 40% of energy bill payers are struggling to afford payments, to wave through such excessive executive pay deals as these the Trustee feels is irresponsible. The UK Corporate Governance Code makes clear that the remuneration committee “should be sensitive to pay and employment conditions elsewhere in the group especially when determining annual salary increases.”

It is not in the shareholders’ interests for companies to ignore this matter as doing so may cause any of the following: internal resentment, falls in productivity, industrial unrest, reputational damage, fall in output and fall in shareholder value. If the average wage in a company is approximately the national UK median annual earnings for full-time employees of almost £35,000 per year, a director earning 100 times this would be paid £3.5-million.

The trustee noted the public outrage at the pay award at Centrica, owner of British Gas, whose astronomical price increases brought misery to millions but a pay bonanza to the CEO which, while not coming in at over 100 times the median pay of the workforce, was so generous that even the CEO himself stated could not be justified[5] - yet LGIM waved through the remuneration report at the last AGM. Some other fund managers opposed it.

LGIM has previously stated that 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 LGIM takes into account when considering a vote decision.

Nevertheless, in this time of great hardship for the UK workforce other fund managers are taking a different and tougher view of excessive executive pay. Other asset managers believe that excessive overall reward can have a very damaging effect on a company and they expect remuneration committees to take into account factors arising from the cost of living crisis when deliberating over executive pay outcomes. The trustee compared LGIM's voting record with those of other asset managers and there are several votes where LGIM had supported the remuneration report and/or policy while other fund managers have voted against. This undermines our voting policy as the fund managers' votes were effectively cancelling each other out.

The trustee asked LGIM to justify its decision to support the remuneration reports and policies at companies paying their CEOs more than 100 times the median paid to their workforce, and at Centrica.
LGIM responded that as a long-term engaged investor, it wanted to support companies’ boards to be able to recruit, retain and incentivise the appropriate talent to sustainably grow the business and encourage innovation without undue risk-taking.

LGIM has not set a strict policy threshold or maximum pay expectation in terms of absolute quantum; instead it applies a combination of principle-based and structural expectations to assess companies’ executive remuneration and their alignment to long-term sustainable performance and stakeholder experience.
LGIM expects boards to consider whether their company’s pay ratio is appropriate within the industry in which it operates. Consideration should also be given as to whether the year-on-year changes in the ratio are appropriate in light of corporate performance.

However, the fund manager does not apply policy-based voting sanctions based on pay ratios on grounds that these these often do not adequately take into consideration the differences in market norms due to industry and sector, organisational and ownership structures, products and services offered and performance and alignment with the experience of shareholders and other stakeholders.

LGIM said that it believed that voting on pay ratios above a certain level may also disproportionately sanction companies that employ large numbers of lower-skilled workers. In addition to employment opportunities,

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5 https://www.theguardian.com/business/2024/jan/19/boss-of-british-gas-owner-says-it-is-impossible-to-justify-his-pay-chris-o-shea#:~:text=O'Shea%2C%20who%20has%20been,after%20Russia's%20invasion%20of%20Ukraine.

these companies are often also offering an essential service or products to communities, therefore requiring investment and suitable management to be encouraged into these sectors.

Nevertheless, LGIM's voting policy for the US market now states: "From 2024, we will vote against the say on pay resolution of any S&P 500 company whose CEO to median employee pay ratio is greater than 300 and the company's total shareholder return relative to the S&P 500 has underperformed when measured over a three-year period." LGIM highlighted this in response to the Trustee's questions on the Living Wage (below): LGIM had introduced this new policy in relation to addressing pay inequality. Its North America voting policy states: "LGIM's principles on executive compensation is based on pay for performance, however, we view pay inequality as a potential source of risk to our portfolios." So LGIM has adopted a voting guideline on pay ratios for the US market but not the UK market.

ABRDN:
Regarding the companies identified by the High Pay Centre as paying their CEOs more than 100 times the median, would appear that abrdn supported the remuneration report at the AGMs of:
Ashtead (216 times), Associated British Foods (166) Astrazeneca (159) Aviva (127), B&M Euroepean Value Retail (178), BAE Systems (164), Barclays 101), BP (172), British American Tobacco (113), Bunzl (163), Burberry (116) , Diageo (178), Diploma (126), Flutter (102), Halma (104), Imperial Brands (112), JD Sports (160), Marks & Spencers (113), National Grid (111), Next (113), Pearson (181), Relx (129), Rentokil (121), Sainsburys (229), Smith & Nephew (107), DS Smith (104), Smurfit Kappa (116), Tesco (197), Whitbread (141) and WPP (118).

abrdn voted against the remuneration reports at Compass Group (129), GSK (106) and Intercontinental Hotels (109).

abrdn voted against the remuneration policy at Flutter (102), Intercontinental Hotels (109), Next (113) and Pearson (181).

They did not respond on these points. However, the Trustee applauded abrdn's decision to vote against the remuneration report at British Gas owner Centrica, despite 93% of shareholders supporting it.

Columbia Threadneedle:
CTI appeared to have opposed remuneration policies at just two of the FTSE100 companies that paid their CEOs more than 100 times the median in their companies and had not opposed any remuneration reports, abstaining on one.

CTI responded: "Our expectations around levels of remuneration and other incentives is that it should be designed to promote sustainable, long-term shareholder value creation and it should reflect the executives work and contribution to the company. For example, at Unilever's AGM this year, we abstained on the remuneration report given concerns regarding the incoming CEO's salary level which was set above the incumbents. Our key concerns were that the new CEO had not demonstrated any value creation having only started and the salary would have a knock-on impact on other elements of remuneration including variable incentives. Subsequently, after the AGM, we engaged with the Remuneration Committee Chair who has provided a commitment to review the salary level in light of concerns raised.

"With regards to Centrica, we note that the CEO has turned down bonus payments in 2022 considering customer experience of the increasing energy costs. In addition, given the decline in share price and cancellation of the dividend during the pandemic, the Remuneration Committee decided not to award bonus payments during this time as well. Given the recovery and subsequent performance, our investment teams believed pay last year was awarded in line with our pay for performance principle. This would also be a retention mechanism in light of the turnaround in the business."

2.7 Living wage
The Trustee's voting policy, in furtherance of Principle 6 of the UN Global Compact, proposes a vote against the board's remuneration proposals if any members of staff, including subcontracted staff in the UK, are paid below the Living Wage or where applicable the London Living Wage (as set by the Living Wage Foundation); or

do not have employment contracts specifying the number of working hours per week or (aside from overtime with increased pay) allow more than a 25% increase or decrease on that figure to meet business needs.

LGIM

The trustee was pleased at the improvement in LGIM's commitment on the Living Wage that it now asks all companies in which LGIM invests to ensure they are paying a Living Wage or the real Living Wage for UK-based employees and that it also asks them to ensure that their Tier 1 suppliers are paying the Living Wage.
The Living Wage Foundation states that "half" the FTSE 100 companies pay the real Living Wage.

Significant votes:
The trustee asked what action LGIM had taken at the companies that do not pay the real Living Wage; and to report on whether LGIM had voted at any other AGM against a company resolution on the issue of the Living Wage during the period.

The fund manager pointed out that although 50% of the FTSE 100 are not Living Wage accredited, that did not necessarily mean they were not paying the real living wage. However LGIM added that until companies publicly disclose minimum pay data and data providers capture it, it is hard to target companies on not paying a Living Wage on a broad scale.

Instead, LGIM tries to tackle income inequality through different avenues. For example, in 2023, it expanded corporate engagement on paying the Living Wage and income inequality, launching a targeted engagement campaign on this with specific vote sanctions against the re-election of top directors at companies that fail to meet LGIM's minimum expectations by the time of their 2025 AGM. LGIM is targeting the food retail sector, as it believes these companies to be generally more resilient due to the community service they provide, financially less impacted by the COVID-19 pandemic than other sectors, and with a high proportion of their workforce earning low wages. The fund manager identified 15 global supermarket retailers in developed economies and begun engagement with these companies in late 2023.

LGIM stated that pay ratios are also expected to be higher where executives receive substantial variable pay opportunity in years of good performance, but it could only reasonably be applied where a company could demonstrate strong outperformance. So it was to address income inequality in the US, a market where executive pay is often outpacing UK levels substantially, that LGIM stated that it had introduced a voting policy that seeks to expose any performance-pay misalignment and from 2024 would vote against the say on pay proposals at S&P 500 companies whose total shareholder return has underperformed the S&P 500 over the previous three years and their CEO pay ratio exceeds 300.

Abrdn

Asked what action they had taken at the companies that do not pay the real Living Wage, abrdn responded that they would engage with companies on a case-by-case basis on this issue. **"**For example, we recently engaged with Hollywood Bowl in late 2023 and early 2024 on the topic of the real living wage. Overall, the company was fairly open to engagement and transparency and hence we left it with an encouragement to the company that it continue to consider the cost of living for employees on an ongoing basis in its wage decisions.

"We have also had extensive engagement with supermarkets on living wage including Tesco and Sainsburys."

2.8. Directors' pension provision

The trustee's policy is to vote against the remuneration report or policy if the pension contributions for any director are not limited to the director’s basic salary and are out of alignment with that of the company’s workforce.
LGIM's very similar policy, as set out in its remuneration principles, is that "LGIM expects companies to ensure that the pension provisions for a new board director, and for others for whom contracts are being re-negotiated, are aligned with what is being offered to a majority of the workforce. In addition, and in line with market practice in this area, LGIM expects incumbent directors’ pension provisions to be aligned with what is offered to a majority of the workforce by 2023. LGIM will vote against the remuneration policy where there have been no changes proposed to address a disparity in pension provisions."
LGIM was asked to provide details of what engagement it had had with companies on this issue and how it had voted on this issue over the period.

LGIM responded that it has an established policy on executive pension alignment and expects directors' pension provisions to be aligned with what is offered to a majority of the workforce in which they operate. As such, LGIM will vote against the remuneration policy where there have been no changes proposed to address a disparity in pension provision.

The fund manager added that there are very few companies in the UK that still have enhanced pension provisions for their existing directors, let alone new directors coming in.
In 2023, LGIM voted against the adoption of the remuneration policy at three UK companies due to continuing pension differentials between incumbent directors and the wider workforce (Next plc; Clarkson plc; A.G. Barr plc). They spoke with both Next and Clarkson on pay issues this year.
Separately, LGIM also pre-declared a dissent vote at the 2023 AGM of Pearson plc. As part of the debate around the competitiveness of UK pay versus what might be received for similar roles in the US, they consider each proposal on a case-by-case basis. However, LGIM were keen to ensure that company executives do not pick and choose those pay elements from each market that benefit them the most without a good strategic rationale.

Pearson's proposals centred around the fact that their CEO is based in the US and should therefore be compensated in line with US peers, so they proposed to increase the annual bonus opportunity from 200% to 300% of salary, and his LTIP award from 350% to 450% of salary. His salary stood at US$1,250,000 and he was expected to receive a 3.5% increase, in line with workforce raises in the UK and US.
LGIM's main concern was that, although the company's stated intention was to align the CEO's pay package more closely with US peers, they elected to use UK practices when it came to his pension. This would result in a pension provision of 16% of salary, which is more than a US executive could expect to receive. At the AGM in April 2023, LGIM decided to vote against the policy resolution and escalated its concern by voting against the re-election of the remuneration committee chair. LGIM also pre-declared this vote, ahead of the AGM.
The remuneration policy vote received 46.4% of votes against, almost failing the 50% approval threshold, and was one of the highest levels of pay dissent in the UK last year.

abrdn **reported that they had** engaged previously with certain UK companies on this topic and welcomed the improvements seen to meet the fund manager's expectations. "In 2023 we voted against the Remuneration Reports of 10 companies which did not align their pensions with the wider workforce. None of these companies were held in the UK Ethical Fund."

Columbia Threadneedle responded that in line with the UK Corporate Governance Code, "we expect only basic salary to be pensionable and for rates to be aligned with those available to the workforce. If a company departs from this, we will seek a comprehensive explanation for departing from the provisions in the Corporate Governance Code. This includes examining public disclosures, engagement and considering pension payments in the context of total remuneration. This could lead to a vote against the remuneration report or policy if we are dissatisfied with the response as this principle is embedded within our voting policy."

3. Summary of votes cast

Question	**Legal & General Investment Management World (ex-UK) equity Index Fund** *(LGIM supplied data for the year to 31.12.2*	**Columbia Threadneedle CT Dynamic Real Return Fund**	**abrdn UK Ethical Equity Fund**
What was the total size of the fund as at 31.10.2023?	£1,390,694,373	£1,245m	Data not supplied
What was the number of equity holdings in the fund as at31.10.2023?	2838	999 on a look-through basis	Data not supplied
Total size of Scheme assets invested in the fund/mandate as at the end of the Reporting Period (if known)?	Data not supplied	Data not supplied	Data not supplied

How many meetings were you eligible to vote at over the year to 31.10.2023?	2938	73	64
How many resolutions were you eligible to vote on over the year to 31.10.2023?	35367	1156	1220
What % of resolutions did you vote on for which you were eligible?	99.90%	99.91	1220
Of the resolutions on which you voted, what % did you vote with management?	77.79%	86.68	1207
Of the resolutions on which you voted, what % did you vote against management?	22.07%	12.02	12
Of the resolutions on which you voted, what % did you abstain from?	0.14%	1.30	1
In what % of meetings, for which you did vote, did you vote at least once against management?	76.85%	68.49	7
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.	We deploy our specialist corporate governance team on the most complex and sensitive cases, while voting on more routine, straightforward votes are cast using the proxy voting platform of Institutional Shareholder Services, Inc. (ISS) who also provide recordkeeping and vote disclosure services. We have also retained Glass, Lewis & Co., IVIS (in the UK) and ISS to provide proxy research services, similar to sell-side or broker research, to ensure quality and objectivity in connection with voting client securities. Other internal and external research is used to support vote decisions as appropriate.	ISS where we have a bespoke policy in place.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	16.18%		18

4. Real Estate: Fidelity UK Real Estate Fund

TCFD response

Fidelity was asked to supply its responses to the TCFD recommendations on governance, strategy and risk management.

Fidelity made available to the trustees their latest TCFD report, published in June 2023 and aim to further improve and increase reporting of climate-related financial information.

"The new report provides insight on how we are delivering on our net-zero targets, noting a number of methodologies we employ to achieve our strategies, among which are the following:

"Sustainability research and ESG Ratings - We take a comprehensive approach to evaluating issuers' management of their material environmental and social impacts through our sustainability research and ratings.

"Climate Voting Policy - As a means of exerting our influence as active investors, the group has introduced specific minimum expectations for our investee companies regarding climate-change governance, oversight, practice, and action.

"We discuss that in our view, climate action is something that goes beyond any individual company or investor. We believe we must work in concert with our investee companies and the wider investment industry to achieve our short, medium, and long term targets.
"The climate crisis is making it imperative for all investors to play their part in the net zero transition. At Fidelity, we are determined to contribute our fair share towards that goal, both by reducing the carbon footprint in our corporate operations and — more importantly — in our investment strategies."

Stewardship:
The board welcomed Fidelity Real Estate's Sustainability Goals which states: "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:
1. increase coverage of BREEAM / LEED certification across our portfolios for each of the next five years;
2. reducing energy consumption by 3% per year and carbon emissions by 25%, from 2018 baseline, by 2023 at managed buildings;
3. reduce water consumption by 10%, from 2018 baseline, by 2023
4. Increase overall on-site recycling to an average of 50% from 2018 baseline, by 2023 at managed buildings
5. Achieve a score of 80 in GRESB by 2023."

*[Note: **BREEAM** (Building Research Establishment Environmental Assessment Method) is a sustainability assessment method that is used to masterplan projects, infrastructure and buildings. BREEAM originated as a British certificate, meaning it is adapted to the British and European construction law and British best practices.*
***LEED** (Leadership in Energy and Environmental Design) is designed specifically for buildings in the United States.*
***GRESB** (Global Real Estate Sustainability Benchmark) is an investor-led organization that provides actionable and transparent environmental, social, and governance (ESG) data to financial markets.]*

The board asked what progress Fidelity had made in meeting these five goals in relation to the Fidelity UK Real Estate Fund. Fidelity responded: "We remain committed to our sustainability goals and are undertaking several steps. For example:
1. Better data collection and coverage using Deepki (ESG data intelligence solution)
2. Water smart meter provider partnership (Smartvatten)
3. Asset management projects around energy data collection and building waste data
4. Increased data collection clauses (including green lease clauses) in leases with tenants

1. Increase coverage of BREEAM / LEED certification across our portfolios for each of the next five years;
"The UK Fund has increased certification across the portfolio.
"We commit to obtaining asset level green building certification such as BREEAM, where cost-benefit is positive. This protects value and acts to stay ahead of regulations. The Fund team initiates feasibility studies and provides support to the property teams to meet certification requirements and performance objectives. BREEAM is the preferred certification of choice for UK assets. BREEAM is a sustainability assessment method that is used to assess the environmental performance of buildings. We also remain informed of other green certifications in the marketplace including: Fitwel, WELL, LEED, NABERS UK & Cycling Score. Phoenix benefits from a Platinum Cycling Score certificate.
"Currently, Fusion Point 1 & 2, Phoenix & Martland Park hold BREEAM certifications. In addition, a number of our other assets are also being considered for BREEAM certification in the near future.
As of 4Q23, 24% of the portfolio by GAV had Green Building Certification."

2***. Reducing energy consumption by 3% per year and carbon emissions by 25%, from 2018 baseline, by 2023 at managed buildings;***
"We 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.

The project to secure data relating to the portfolio is an ongoing challenge and one where substantial progress is being made. The Fidelity real estate business is currently onboarding a SaaS data platform which will provide an enhancement to the Real Estate funds' existing processes and procedures for collecting and analysing data. The system will also provide the functionality to capture property data, utility data and tenant data either by automated or by manual input, and will assist in the analysis, management and reporting of specific utilities and other sustainability data for assets in FIL's Real Estate funds, including CRREM tool analysis and GRESB submissions.
To address gaps in energy data collection, our asset management team is running a project to facilitate partnership with utility providers to access their web portals and automatically collect energy data. Better energy coverage will also lead to improved GHG data coverage.

3. ***Reduce water consumption by 10%, from 2018 baseline, by 2023***
"The Fund is partnering with Smartvatten, a smart meter provider, to facilitate better tracking of water consumption across the portfolio. We expect to finalise the contract by end of 2023 and begin a programme of installation in all multi-let assets in Q4 2023 (single-let assets targeted over 2024).
4***. Increase overall on-site recycling to an average of 50% from 2018 baseline, by 2023 at managed buildings***
"Waste is a global problem, and our business recognises our role in reducing the waste generated by our building users. We encourage less waste production and are working to reduce both the absolute volume of waste we send to landfill and increase the proportion that is recycled or composted.
"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.
"We acknowledge that plastic pollution poses a significant threat to the environment, and we are committed to reducing plastic waste in all parts of our operations.
"For building waste data, we will re-engage with building managers across the portfolio in 2024 to systematically collect and report data on both total waste output, and recycling rates, particularly on the single let industrial units.
"For 2023 GRESB results, we improved data coverage for retail assets and office assets compared to 2022 results, but our coverage for industrial holdings has significant scope for improvement."

The fund had seen its GRESB score move to 65 in 2023, down from a score of 77 in 2022. Although FUREF remained ahead of its GRESB peer group (64), the main drivers to this reduction were around data collection and verification on consumption (energy, water, and waste) and Green House Gas (GHG) calculations. Fidelity are confident that they can continue to improve their GRESB score.

The Trustee was impressed by Fidelity's installation of solar panels atop an office building in Reading and putting the energy to the use of the commercial tenants, seeing this as an example of a win-win initiative, producing clean energy and reducing use of fossil fuels while reducing tenants' energy bills. In the wake of the huge increase in energy prices the Trustee asked for an update. Fidelity responded that based on the modelled information and predicted output of 37,232 kWh, the communal electricity costs were anticipated to achieve savings of £6,758 pa, directly benefiting the tenants.

Green leases
For a number of years the Fidelity UK Real Estate Fund has had a policy of inserting 'green' clauses into all new leases. Their sustainability targets include promoting green lease adoption for all new tenants and / or renegotiate existing leases. They have increased the floor area covered by green lease clauses from 27% to 47% over the last two years (to end Q2 2023).
Fidelity stated that it is standard practice for the Fund to incorporate 'green lease' clauses within all new leases, lease renewals and deed of variations. The clauses aim to ensure:
• Any tenant works that are undertaken cannot negatively impact the EPC rating of the property
• The tenant will provide to the landlord utilities and waste data
• The landlord will have access to the tenant's utilities portals (where relevant)

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 occupier's 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.
"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."

Fidelity UK Real Estate Fund buildings rated EPC 'A', 'B' or 'C' account for 24 of 31 properties, suggesting 77% of their assets are of 'strong environmental performance', looking at Gross Asset Value, this is almost identical at 74% for buildings rated EPC 'A', 'B' or 'C'.

The Trustee asked for any updates on actions to improve health and safety of construction workers, trade union rights for those working for the property companies in which the fund invests, that the properties benefit the communities in which they are based, and work to prevent race discrimination in relation to letting properties in the portfolio.

Fidelity UK Real Estate Fund as an investor rather than developer undertakes quite limited construction.
"Our procurement processes, as set out in the Fidelity Real Estate Sustainable Refurbishment Guide, require experienced and reputable consultants to recommend experienced and professional contractors to operate on Fund assets. Though Health and Safety of construction workers is the responsibility of the contractors themselves, our project managers inspect sites regularly and raise any H&S concerns and review the results of required external third-party audits on behalf of the Fund.

The Fidelity UK Real Estate Fund invests in direct real estate rather than property companies, therefore does not directly have such workers under Fund control. "Fidelity uses contractors and sub-contractors who are carefully chosen to be best in class, but over whom we have no direct control e.g. in terms of union recognition, D&I etc. However, we seek to influence these businesses though our selection process.
Firm level policy: Fidelity International's Supplier Code of Conduct & Ethics.
"FIL recognises that its Suppliers are an extension of its own business footprint and as such we seek to partner with suppliers who operate in accordance with our own business values. This document outlines our expectations of Suppliers in more detail and highlights communication channels which Suppliers can use to discuss issues relating to working with FIL. Where services are subcontracted by our Suppliers, we expect the requirements of this documented to be cascaded by our Suppliers and monitored accordingly."

Regarding enhancing local communities, "at acquisition, the impact of an asset, its operation and any future construction on the immediate and wider community is assessed. This will be further reviewed through the annual business plan process.
"As landlords rather than shareholders, the real estate team does not have the same level of influence on companies' internal processes but is still able to influence factors relating to the building they reside in. They therefore focus more on the environmental aspects of the external vendor reports which are likely to have the most impact on their portfolios.
"The Fidelity Real Estate Sustainable Refurbishment Guide outlines how we are keen to give something back to the community, where economically viable in the context of property investment. The community will be impacted through our construction works and they will be our long-term neighbours. We aim to only contract with consultants and contractors who share our outlook.
"Assets should have a positive impact on the local community. Where possible, refurbishments should:
• Employ local labour
• Support apprenticeships and assist local employment
• Appreciate the social impact of developments and be sensitive to local noise pollution and traffic disturbances.
The wish to play a positive role in communities through creating high quality workspaces and in partnership with occupiers creating good quality employment opportunities is we believe a policy that entirely aligns with financial objectives to maximise income and capital returns for investors.

Regarding protecting against discrimination, Fidelity's lettings agents are legally obliged to put all offers from potential new tenants to Fidelity, without any screening. The Fund Portfolio and Asset Managers at the stage

of considering a new tenant for any Fund asset will undertake a range of due diligence checks which range from assessing future use and operation, to covenant strength and endeavouring to assess their sustainability policies. "There have been situations where tenants have been rejected on ground of financial stability and use, though Fidelity are not aware of any specific concerns over race discrimination.
"Firm level policy: Diversity and inclusion and Cultural Diversity Action Plan Report
"Fidelity strives to create a safe and respectful work environment and encourages behaviours that support/cultivate this objective. Discrimination and harassment, whether committed by supervisors, non-supervisory employees, or others, are unlawful and will not be tolerated."

Fidelity provided some examples of work towards a Net Zero Carbon Pathway.
Fidelity commissioned a specialist report to show what is required to reposition their multi-let office building in Gatwick and align it to a Net Zero Carbon pathway. "This will involve reducing energy demand in line with UK Green Building Council targets, decarbonising heating, installing energy generation by way of PV panels, and ensuring the procured electricity comes from renewable sources. Our discussions to date indicate that this matches with tenant requirements and we expect this plan to assist with extending leases in the building and increasing the rental income."

A second example was a fully tenanted multi-let office building located in Southampton city centre. "£1.8m work is underway to replace the HVAC (Heating, Ventilation and Air Conditioning) system, install PV and undertake update work to the reception. When complete in Q3 2024, the office will be repositioned in the market with an improved EPC from C to A and a new Green Building Certificate using BREEAM.
"Given the scale and scope of the project it is unusual to undertake these works while the building is fully occupied. We have spent a considerable amount of time liaising with the tenants and we are in advanced discussions with the tenants to increase the length of their leases alongside an increase in their rental level. The estimate from the independent valuers is that an uplift in value of £1.45m to £1.55m (over and above the HVAC and reception works being undertaken) could be achieved through the lease length increases and rent increases. This will also improve liquidity for an investment sale. "

A third example was that In July 2022, "we made our tenant Ford (Unit B) aware that we were planning on installing PV panels on the roof of Unit A, adjacent to their unit, and asked whether they would be interested in us installing panels on their roof. Ford said that they were interested in having PV panels on their roof but asked whether we would object to them installing the panels themselves (i.e., at their own cost). We confirmed that we didn’t object and by November 2023, Ford’s PV panels were installed.
"Their PV installation has been documented via a licence to alter and, as part of their installation, we agreed a deed of variation to their lease, whereby they must share their PV data with us."

5. 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.

The TCFD reports for the fund managers are as follows:

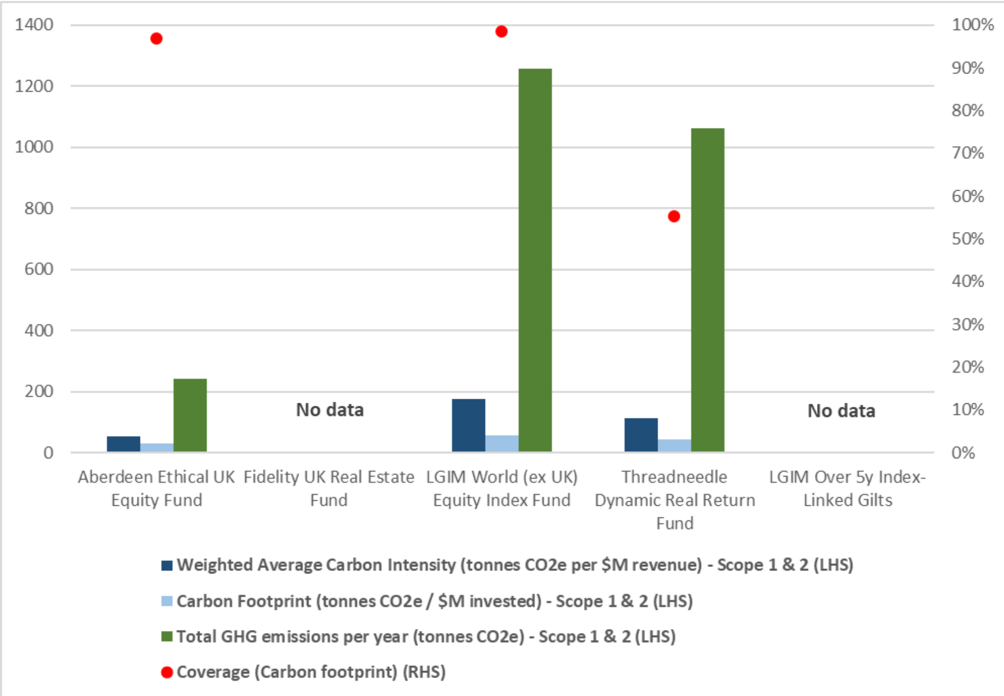
https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge/

https://www.abrdn.com/docs?editionId=afb53552-b713-47a1-888b-ef5edb35b776

https://docs.columbiathreadneedle.com/documents/Climate%20Change%20Report_TCFD.pdf?inline=true

https://professionals.fidelity.co.uk/sustainable-investing/our-policies-and-reports

5.1 Carbon disclosure metrics
Some fund managers were still working on implementation of the PLSE carbon disclosure template and so information was again supplied in different formats.



Portfolio alignment metrics

- LGIM World (ex UK) Equity Index Fund – 2.8°C
- Aberdeen Ethical UK Equity Fund – 1.8°C
- No data for the other funds.

6. Conclusion and next steps
This year's SIP implementation statement reaffirms why it is so important that fund managers honour their clients' voting policies, or if they will not do so, that pension funds use their own voting policies as a benchmark to hold them to account.

This report shows that when fund managers do not follow the trustee's voting policy they cast the shareholder votes associated with our holdings in contradictory ways, with one voting for a resolution and another voting against. This effectively cancels out our votes.

For example, at the AGMs of companies identified by the High Pay Centre as paying their CEOs more than 100 times the median pay of their workforces, the Trustee could not find a single case where all three fund managers opposed a company's remuneration policy or remuneration report. Where one or two opposed, the other fund managers supported it.

The ShareAction analysis of fund manager voting on shareholder resolutions, *Voting Matters 2023,* underlines this, reporting as it does that LGIM had supported about a third more shareholder resolutions on climate change than abrdn and almost twice as many as Columbia Threadneedle.

Nevertheless, following the Trustee's consistent engagement with the fund managers over several years on our priority issues we have seen very welcome progress in movement towards the Trustee's policy.

Regarding pay ratios, the trustee welcomes LGIM's new voting policy for the US market that they will vote against the 'say on pay' resolution of any S&P 500 company whose CEO to median employee pay ratio is greater than 300 and the company's total shareholder return relative to the S&P 500 has underperformed when measured over a three-year period. The trustee will continue to press LGIM to adopt a voting guideline on pay ratios for the UK market.

The Trustee welcomed LGIM's tougher approach on climate change requiring companies to report in line with guidance of the Taskforce on Climate Related Financial Disclosures (TCFD), particularly in the light of the ShareAction report.

On trade union rights, the Trustee was very pleased to see the positive change in LGIM's and abrdn's voting policies in relation to the denial of trade union rights in contravention of Principle 3 of the UN Global Compact. LGIM has moved from merely supporting shareholder resolutions as they arise to now proactively voting against the chair or other directors of any company that is on their UN Global Compact violator list for three consecutive years. The Trustee intends to meet with LGIM to discuss why some notorious anti-union companies are not included in the list. The trustee also welcomes the voting and engagement actions taken by both LGIM, Columbia Threadneedle and abrdn at the companies highlighted by the Trustee, along with abrdn's engaging with Unite the Union and CK Hutchison in relation to collective bargaining.

In the previous implementation statement the Trustee had been disappointed that no fund manager took voting action at the AGMs of the companies that had no ethnic minority board directors. As shown above, this situation has improved.
The trustee is particularly pleased at Columbia Threadneedle's confirmation that after the Trustee highlighted our focus on ethnic minority representation in the UK, "we have taken that feedback into account and for 2023, included voting guidelines to require all FTSE 100 companies to have at least one ethnically diverse director. Further, for 2024, our voting guidelines in the UK have been expanded to include expectations that FTSE 350 companies have at least one woman in a senior board role, which is aligned with regulatory guidance."

The Trustee was also delighted at abrdn's new 2023 voting policy commitment to vote against the nomination committee chair at the boards of FTSE 100 companies, if the board does not include at least one member from an ethnic minority background.

It was also extremely welcome to see all of the fund managers now engaging with companies on this matter.

The trustee was pleased that LGIM now agree that companies should be required to publish equality monitoring data for its workforce on gender and race, and that abrdn now exports boards to report on how they promote diversity and inclusion throughout the business and believe that setting targets is important to addressing imbalances.

The trustee was pleased at the improvement in LGIM's commitment on the Living Wage that it now asks all companies in which LGIM invests to ensure they are paying a Living Wage or the real Living Wage for UK-based employees and that it also asks them to ensure that their Tier 1 suppliers are paying the Living Wage.

Overall the Trustee believes that this active engagement with our fund managers has proved valuable. The Trustee had adopted these stewardship engagement priorities across the three pension schemes that it governs all of which have a common scheme sponsor, and following its engagement with four equity fund managers on the issue of ethnic minorities on boards all have now included ethnic minorities on boards as a voting policy with some voting against the chair of the nomination committee at companies failing on this policy issue. This means that shareholder votes of more than £2.5-trillion can now be used to vote against companies that are failing to meet their Parker Review targets. The trustee will continue to engage with its fund managers to ensure that such votes are cast in accordance with these policies, and to push for further progress on its strategic priority areas.