Connect Pensions and Life Assurance Scheme Statement of Investment Principles implementation statement for the scheme year ending 31st October 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 statement is for the year ending 31st October 2023.

The scheme invests in LGIM Ethical Global Equity Fund, Columbia Threadneedle Dynamic Real Return Fund, LGIM All Stocks Index-Linked Gilts and LGIM Over 15 Year 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 CP&LAS 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 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 Trustee as an appropriate set of policies that the Trustee wish 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.

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

While the new policy adopted a more proactive and assertive approach including a voting policy, both the earlier and the new SIP state: "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, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance), through the Scheme's investment consultant. The Trustee will endeavour to hold the managers to account in relation to the exercising of these investment rights. The Trustee will make representations to their investment managers on specific issues where they see fit.

"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 scheme invests in the following funds:
LGIM Ethical Global Equity Fund
Columbia Threadneedle Dynamic Real Return Fund [DRR]

2.1. Fund manager refusal to accept trustees' voting policy
The CP&LAS has adopted the Association of Member Nominated Trustees' Red Line Voting policy which the fund managers have previously refused to honour. The corporate trustee directors agree with the government and TPR on the importance of having a voting policy as it sets out the trustee's views on how fund managers should engage and vote, at the AGMs of companies in which the scheme invests, on a range of matters covering environmental (including climate change), social and governance issues. Even where fund managers refuse to act on the basis of the client's voting policy, it can still be used as a benchmark to hold the fund managers to account. The corporate trustee directors asked both fund managers to reconsider their decision not to accept their voting policy.

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.

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 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.

Columbia Threadneedle
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 Trustee's 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.

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

[2] https://www.theguardian.com/technology/2021/feb/03/amazon-intensifies-severe-effort-discourage-first-warehouse-union

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.

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."

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

CTI 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.

They also 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.

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."

2.5.2 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.

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 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[3] - 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.

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3 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.

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 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, 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.

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 (as stated above) 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.

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.

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** **Ethical Global Equity Fund** *(LGIM supplied data for the year to 31.12.23)*	**Columbia Threadneedle** **CT Dynamic Real Return Fund**
What was the total size of the fund as at 31.10.2023?	£ 1,049,032,803	£1,245m
What was the number of equity holdings in the fund as at31.10.2023?	1081	999 on a look-through basis
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
How many meetings were you eligible to vote at over the year to 31.10.2023?	1175	73
How many resolutions were you eligible to vote on over the year to 31.10.2023?	16787	1156
What % of resolutions did you vote on for which you were eligible?	99.90%	99.91
Of the resolutions on which you voted, what % did you vote with management?	81.34%	86.68
Of the resolutions on which you voted, what % did you vote against management?	18.48%	12.02

Of the resolutions on which you voted, what % did you abstain from?	0.17%	1.30
In what % of meetings, for which you did vote, did you vote at least once against management?	74.89%	68.49
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?	GIM'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.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	14.04%	N/a

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.

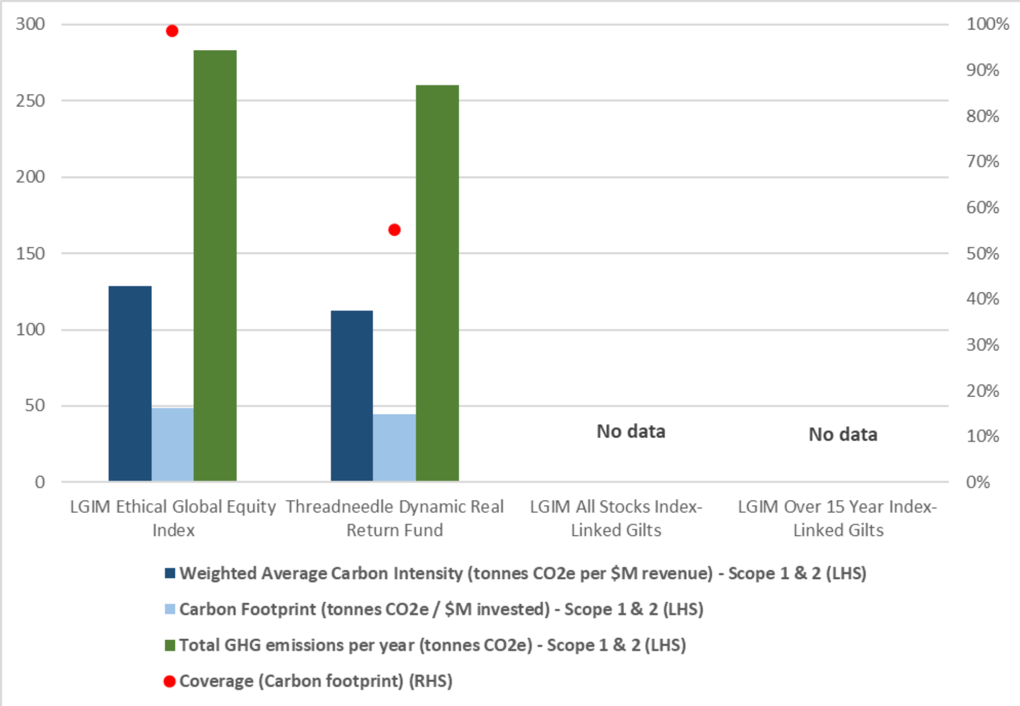
The corporate trustee directors asked the fund managers to
• supply their responses to the TCFD recommendations on governance, strategy and risk management; and
• complete the new PLSA carbon emissions template.

The TCFD reports for the fund managers are as follows:

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

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

4.1 Carbon disclosure metrics
LGIM supplied its data using the PLSA carbon emissions template which CTI supplied the information in custom format.



Portfolio alignment metrics

- LGIM Ethical Global Equity Index – 2.9°C
- No data for the other funds.

5. 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 both fund managers opposed a company's remuneration policy or remuneration report. Where one opposed, the other fund manager 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 almost twice as many shareholder resolutions on climate change 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 voting policy 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 and Columbia Threadneedle at the companies highlighted by the Trustee.

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."

It was also extremely welcome to see 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.

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.