BECTU Staff Retirement Scheme 2022 SIP implementation statement

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

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

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

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

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

The part of the SIP which covers the Scheme's voting and engagement policies includes the following:

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

"The Trustees currently have 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 Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.

"The Trustees have adopted the Red Line Voting policies published by the Association of Member Nominated Trustees as an appropriate set of policies that the Trustees 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 Trustees have 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 Trustees will endeavour to hold the managers to account in relation to the exercising of these investment rights.

"The Trustees will monitor and engage with the investment managers about relevant matters (including matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance).
Investment managers will be asked to provide details of their stewardship policy and engagement activities on at least an annual basis. The Trustees will monitor and review the information provided by the investment managers."

2. Voting and engagement: equity managers
LGIM: Global Equity Fixed Weights (50-50) Index Fund
Newton: Real Return Fund
Both utilise the proxy voting services of ISS.

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

Newton indicated that they are looking at operational solutions. The main challenge appeared to be that the industry does not know what happens when a proportionate vote is submitted and the position in the fund / constituents of that fund subsequently change. So Newton are observing what is happening in the market and looking into how a proportionate voting system could work, but it is not possible at the moment. The directors believe that the answer to this question could be found easily so they expect Newton to resolve this issue.

The directors prioritised the following issues: climate change, trade union rights, equality, the living wage, excessive executive pay and audit. 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 the BP 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.

2.2 Climate change

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

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

LGIM's own voting policy states that where insufficient action is being taken, LGIM will vote against the chair of a company board on the issue of climate change on a global basis. The directors asked:

- At how many (and which) AGMs did you vote against the chair of the board on this basis?
- Please provide details of when you abstained, voted against or did not vote on climate-related resolutions that have been put forward at the companies in which you invest.

LGIM replied: "To help improve climate accountability across sectors, under our expanded Climate Impact Pledge in 2020, we announced that we would be voting against all companies globally not meeting at least one – or, for companies in North America and Europe, three – of our minimum standards. The stringency of both our requirements and the sanctions will increase over time. During the 2021 proxy season, 130 companies were

subject to voting sanctions for not meeting our minimum climate-change standards. We update our Climate Impact Pledge report once a year in June.
"With regards to climate-related resolutions, we break down our voting statistics by broader topics. During 2021, under our environment/ health category shareholder proposals, we voted for 64 proposals and against 61. We did not abstain from any."

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

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

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

Newton's voting policy on climate change states: "We encourage companies to measure, monitor and disclose greenhouse gas emissions and to have carbon mitigation strategies in place, particularly where a company has a material emissions footprint." However, Newton does not set out any voting guideline that would make clear how they may actually vote on this at an AGM.

The directors asked Newton to disclose how many and which company resolutions they voted against during the period on the grounds of their failures with regard to climate change, emissions reporting and carbon mitigation strategies.

Newton responded: "Ultimately, we believe that responsibility for the oversight of management of ESG risks, including from climate, lies with the board of directors, and we would consider voting against the re-election of relevant board members where we consider this oversight to have failed.

"As an active manager with a thematic and ESG-integrated investment process, we have limited exposure to companies with both high carbon emissions and limited preparations in place to transition to a lower carbon economy. Should the rare situation arise where we are invested in a company which is managing issues arising from climate change poorly, or we continue to hold a company following a failed engagement effort, we would consider initiating or supporting shareholder resolutions through industry partnerships like Climate Action 100+, and ultimately escalate our vote on director elections.

"Net zero engagements are multi-year engagements, many companies are holding transition plan votes at this year’s AGM, or next year’s, and many engagement programs arriving to an end close to the 2025 landmark year. As an illustration, we met with the CEO of Anglo American in 2021, to receive an update on the company’s broad strategy and progress surrounding specific ESG matters. The ESG topics discussed included exiting coal, the Responsible Mining Index, and biodiversity. We conveyed to the company that its positive efforts on climate must also be accompanied by good implementation at mines. Overall, we felt confidence in the way top management was tackling climate risk. At the 2022 AGM, which we have not voted at the time of writing, we will incorporate our learnings from this positive engagement and apply our internal framework. This does not mark the end of our engagement, however, and we will continue to engage with the company on its plan, seeking further enhancements in the coming years, such as evidencing capex efforts.

"Another engagement example is our discussion with Citigroup, where we highlighted the good progress made by the company with high quality disclosures that are in line with the recommendations of the TCFD. However, the bank still does not have a net-zero target. We will report on our vote on the company's climate plan and any escalation in our regular reporting cycle."

Newton reported that of 26 shareholder proposals they had supported 22 and voted against those at Swedbank AB (2), the PNC Financial Services Group Inc and Union Pacific Corporation. Of 11 votes on transition plans they had supported nine and opposed two, at BHP Group plc and Royal Dutch Shell plc. The rationale for these votes can be found in Newton's quarterly investment reports.

2.3 Trade union rights

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

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

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

LGIM responded: "Our stewardship reports are regular summaries of key engagement activities, and are not intended to be an exhaustive list of our engagement with all companies over the given timeframe.
At a market-level approach, we do take account of freedom of association in our LGIM ESG scores. It is thereby embedded into our minimum expectations for companies, and isolated as a stand-alone metric. We have engaged with some of the companies mentioned above on this topic precisely, specific to anti-union allegations.
When there are shareholder proposals calling for neutrality or various labour protections, we tend to vote in favour of these. In 2021, we supported 85 of the 90 social, workplace and political lobbying shareholder proposals at investee companies globally (94%), with the vast majority of these proposed in the US. We would draw attention to the difference between management resolutions and shareholder resolutions."

LGIM reported that it had engaged with Amazon on unionisation. Amazon had been accused of interfering with efforts by its workers to unionise, ahead of a vote by workers in an Alabama facility on unionisation. LGIM signed a letter to Amazon along with more than 70 other investors with collective assets under management (AUM) of US$6.4 trillion, to emphasise the role that worker representation plays in supporting companies in identifying and managing operating risks. "We highlighted that Amazon should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that as an internationally recognised human right, workers should be free to exercise their freedom of association and right to collective bargaining. We set out the expectation that Amazon should have in place policies and processes appropriate to its size and circumstances.
"We applaud the launch by Amazon of its Global Human Rights Principles: we have taken note of the company's commitment to The UN Guiding Principles on Business and Human Rights, which in turn recognise the fundamental right of workers to exercise their right to organise, should they choose to do so. We are also encouraged by the announcement that Amazon has commissioned a human rights impact assessment by an external consultant.

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

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

The directors studied how **Newton** had acted in relation to the five companies.

- At the 2021 Starbucks AGM Newton voted against a shareholder resolution requesting a policy be adopted that would allow for non-management employees to be appointed to the board. Newton's stewardship report stated that while Newton recognised this would allow employees to have a voice on the board, "we did not think employee representation in this manner would be the most appropriate and effective solution to address employee concerns and would not contribute to better-informed decision-making." Newton was asked to explain what would be the most appropriate and effective solution and what engagement they had had with the company on this.
- Workers at Microsoft had been trying to form unions in the UK and US - what engagement had Newton had to support this?
- Newton did not mention trade unions or workers' rights at Alphabet. Media reports had alleged an anti-union strategy. Newton were asked what engagement had been carried out with Alphabet in relation to trade union recognition and what they planned to do in the light of the report on the company's anti-union strategy.
- Newton was asked whether and, if so, how they had engaged with Walmart and Delta Airlines on trade union recognition.

Regarding Alphabet Newton noted that they had supported a shareholder resolution the previous year "requesting the appointment of a board director with human rights experience at the Alphabet AGM."

Newton stated: "Fundamentally, we are not opposed to employee representation on boards, and we take shareholder proposals into account on a case-by-case basis and also the market regulations and laws that govern such companies."

Newton discussed the different legislation and practices in different markets in relation to worker representation on boards. And "when considering a company's approach to unionization, we seek to understand, amongst other factors, how management and the board are currently capturing employee feedback, what the history is of employee treatment, etc. Overall, we believe that engagement is helpful as a first mechanism to address such concerns as these issues have many nuances. If we do not see progress being made by the company we may choose to escalate further through voting or participating in filing shareholder resolutions asking critical disclosures/questions. For example, we supported last year's shareholder resolution requesting the appointment of a board director with human rights experience at the Alphabet AGM. We also supported shareholder proposals requesting reports on human rights due diligence at Tyson Foods and Lockheed Martin."

The directors are not satisfied that these responses indicate sufficient alignment by Newton with the trustee's policy on trade unions.

2.4 Equality monitoring

BSRS policy is to vote against the appropriate company executive if the company fails to publish equality monitoring data for its workforce covering at least gender, race and disability and including management and board. The directors asked why **LGIM** had not adopted this voting guideline as they had identified lack of transparency as an issue preventing progress, and whether they would now do so.

LGIM responded that the BSRS policy in general terms has a significant degree of alignment with theirs in terms of a dual focus on diversity and transparency. They had been ratcheting up their expected minimum standards for ethnic diversity.

LGIM stated: "We have also increased our expectations of companies regarding ESG transparency: following a campaign undertaken from 2019, we targeted companies with a low score for Transparency, under LGIM's ESG score calculation. Given the growing consensus on the financial materiality of ESG factors, many investors like LGIM are increasingly seeking to integrate them within their investment processes. However, access to what is considered 'non-financial' and ESG information has been traditionally overlooked, mostly because such information was rarely included in the annual reports or seen by the auditors. We believe ESG transparency is

a responsibility which belongs to the board of directors, who need to ensure their company's ESG credentials can be appropriately used by markets so they can efficiently price in this information.
"As part of our campaign, we sent engagement letters to 101 investee companies, a target group of the biggest companies we hold which have a low Transparency score ('T score') under our ESG score calculation. Our engagement campaign aims at creating this awareness among boards and the sanction to incentivise them to improve the quality of their ESG disclosure, including both the company's own ESG reporting and ESG data held on them by data providers.

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

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

Newton did not appear to have voted against any companies for poor transparency. They acknowledged that equality monitoring data if available, can help provide an overall picture of the organisation and aids investors in assessing the health of the company's corporate culture and therefore, is an ideal resource to be had. "However, at the same time, we are conscious of the roadblocks that exist today for companies to be able to collect this kind of data and derive meaningful information using the same. There exist legal and regulatory hurdles for companies to be able to collect personal information and make it public. The data that can be collected may not be complete and therefore, may not be a true reflection of the company's culture and efforts," they stated.

"Keeping these nuances in mind, we engage with companies to encourage setting up systems and tools that would effectively allow them to collect, store, and use comprehensive datasets that would provide meaningful information internally as well as to external stakeholders. We are of the view that companies should invest their time and resources into collecting data that would add to the firm's value. We make conscious efforts during our engagements with investee companies to make them aware that this issue continues to be a focus area for investors. It is not to be overlooked that there are a number of issues to be considered when asking companies to disclose such information – regulations, geography, size of the company, controversies or history of discrimination, etc. There are risks associated with putting such information out in the public domain which must be considered given these risks can result in material losses and reputational damage."

They pointed to their collaboration with ShareAction's Workforce Disclosure Initiative stating that the wrote to eight companies requesting that they respond to the survey. Newton also reported voting in favour of a shareholder resolution at Abbott Laboratories' AGM requesting that the company provide quantitative data on how it tackles racial justice. "We recognised that it had disclosed targets in relation to equal employment and improving diversity and inclusion within its 2030 sustainability goals. However, we felt that further quantitative data would help shareholders better assess the success of the company's diversity and inclusion initiatives and its ability to attract, retain and develop talent."

2.5 Ethnic minority representation on company boards
The Parker Review had set a target for FTSE 100 companies to have at least one ethnic minority worker on the company board by the end of 2021. The directors studied the March 2021 Parker update which listed 16 FTSE companies that had still not met this target plus three that had failed to report the data, and studied stewardship reports and voting records to see whether the two fund managers had engaged or voted in relation to this issue at any of the companies.

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

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

"The Parker Review appears to have isolated 21 companies initially. In the first stage of our campaign in 2020 where we wrote to 79 companies across the S&P500 and the FTSE100, 36 of the companies we wrote to were in the FTSE100. As a follow-up to the initial stage, we then wrote to 39 companies, of which 16 were in the FTSE100. Of these, 11 had been highlighted in the Parker Review. Our follow-up campaign takes account of the fact that since our initial letter, 20 companies had by that point added a diverse director. At the final stage of our campaign in March 2022, only two of the companies we will be voting against for lack of ethnic diversity on the board are in the FTSE100. We are delighted with the improvements shown in the indices where we have focused our attention, and will plan to expand our campaign to smaller companies in the future."

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

The directors informed **Newton** of their disappointment that its diversity policy and voting guidelines continue to ignore ethnic diversity. "Other than mentioning race in passing, you set no voting guideline about ethnic diversity on boards. We note that your Diversity Engagement and Voting policy was published in August 2020, well after the Black Lives Matter movement had begun and yet fails to progress Newton's policy. Our board believes that this is a major omission on your part."

Of the 19 companies cited by the Parker Review, Newton's stewardship reports did not indicate votes against the companies in relation to having an all-white board, nor engagement on this with any of the following companies: 3i Group, CRH, DS Smith, Ferguson, HomeServe, Informa, LSE, M&G, Persimmon, Ashtead and Just Eat. With BAE Systems Newton supported all resolutions at the AGM and while they discussed ethnic diversity in relation to new entrants Newton's report did not mention this serious problem at board level. Newton was asked: "Please explain whether you have voted against boards specifically in relation to ethnic diversity, and if not, then why you believe this matter to be insufficiently important to do so."

Newton stated that "Ethnic diversity is a topic on which we are engaging with boards and company management as part of a multi-year effort". They pointed out that laws and regulations are different in different markets. We also consider the challenge of a less developed pipeline for diverse senior talent. Moreover, we have observed the unintended consequences of quota systems and previous other attempts at swift and wholesale change on diversity within certain markets, resulting in the appointment of token board members and overly large boards to compensate for the necessary skills and experience. Our approach to encouraging greater effort on the part of companies to achieve ethnic diversity has thus far centred on a company's initiatives to improve diversity within the workforce as a way to more organically address the challenge faced at senior levels today. In our view, working with companies to improve diversity within the workforce will help to address the pipeline issues at board and executive levels for the next generation.

"There were several companies with whom we engaged on the topic of racial diversity, and we also supported several shareholder resolutions targeted at increasing ethnic diversity at senior management and board level.

"We engaged with Microsoft in the last quarter of 2020, where the company brought to our attention its commitment to increase ethnic representation in its workforce and to work towards overall racial equity over the next five years. In addition, we noted the work Microsoft is doing in regards to diversity beyond race and gender, increasing the representation of employees with special needs".

At Nike Newton noted "considerable improvement in terms of increased diversity at board level with the company announcing targets for 2025 which includes increasing representation of ethnic minorities by 30%.

"Diageo highlighted its ambition of increasing ethnic representation in leadership roles by 45% by 2025 during our engagement with the company in 2021.

"Ryanair during an engagement with us disclosed that it is seeking diverse candidates at board level beyond gender.

"In addition to these engagements, we supported three resolutions at Amazon's AGM in 2021 aimed at enhancing the company's disclosures on efforts to tackle gender and racial diversity within the company.

"Given these precedents, it is our belief that by initiating discussions at the top level while also focusing on a bottom-up approach where we also encourage the investee companies to promote from within by enhancing training and education, and providing skills-based initiatives, is helping to move companies in the right direction."

The directors noted that Newton did not respond in relation to the companies named in the Parker update. But they were encouraged that Newton stated: "However, recognizing the importance of this topic, and the pace at which expectations are evolving, we plan to publish more fulsome voting guidelines on this and other key considerations in our next policy refresh later this year for publication in early 2023."

2.6 Excessive executive pay

The trustee's policy on excessive pay includes a vote against the remuneration report or policy if the total remuneration package of any director is more than 100 times greater than the average pay of the company's UK workforce, other than in exceptional circumstances which must be fully justified.

The directors had studied the High Pay Centre's list of the highest paid UK companies and ascertained which were in breach of the policy.

LGIM invests in 14 of them, and had voted in favour of the remuneration reports of 10: JD Sports, Reckitt, Berkeley, Tesco, Watches of Switzerland, GVC Holdings, AstraZeneca, Serco, Experian and AngloAmerican.

LGIM were asked why it was appropriate to support such excessive pay at such a stressful time for the UK workforce.

LGIM responded: "LGIM's guidelines on director pay and our separate Principles of Executive Pay documents for the UK and US markets are detailed and provide a clear picture of our minimum expectations on pay practices globally. These documents are updated regularly, and changes to the UK principles are discussed with various remuneration advisers to provide context to the market.

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

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

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

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

The directors observed that **Newton's** voting policy on remuneration report or policy is very general and does not set out the criteria on which they would vote against. They were asked whether they had voted against any company on the basis of the trustee's policy and whether they had voted against any company on grounds that the total remuneration package was too high. The directors pointed out that CRH's pay ratio was 207 times the median pay in their company but Newton "took no action" at their AGM; AstraZeneca's pay ratio was 190 times, and Anglo American's was 105 times, but Newton supported the remuneration reports at both.

Newton responded: "We took no action at CRH's AGM owing to share blocking concerns. Voting at this meeting would have resulted in the securities being blocked from trading. In some instances, issuers or custodians implement a system whereby selling is not permitted between the vote being instructed and the meeting date. Where blocking is practiced, we will typically only vote when the resolution is not in shareholders' best interests and where restricting the ability to trade does not risk adversely affecting the value of clients' holdings.

"At Astrazeneca's AGM, votes were instructed against the remuneration policy, a new performance share plan, and members of the remuneration committee. We did not consider that the company had provided the necessary justification for significant increase in the variable pay awards that were granted to senior executives.

"We voted for the remuneration proposal at the Anglo-American AGM as we believe the company has robust disclosures and stretching performance metrics for both their long term as well as short term pay. Further, the pay and performance of the company are reasonably aligned."

Newton set out the criteria it considers and pay ratio is one, adding that they take a holistic approach to analyzing pay proposals. "We consider the significance of the quantum of pay with respect to the overall company performance as well as how it aligns with peers." They consider a range of issues including compensation structure, alignment with company performance, suitability of performance metrics, whether the performance targets are sufficiently stretching" etc.

Newton reported that they had voted against at LVMH "where we had quantum concerns". They stated: "We did not support a number of resolutions relating to remuneration practices. We were concerned that the overall levels of pay were excessive versus peers and that the company has provided little information demonstrating how pay arrangements are aligned with performance or the company's stated strategy."

The directors, however, continue to believe that measuring executive pay in relation to peers is the wrong approach. If, as the directors believe, excessive executive pay is widespread, then judging one executive's pay to make sure it is not excessive in relation to other CEOs means in practice that it will always remain too high.

2.7 Living wage

The trustee's policy, in furtherance of Principle One of the United Nations Global Compact, is to vote against the board's remuneration proposals if any members of staff, including subcontracted staff employed in the UK, are paid below the Living Wage or where applicable the London Living Wage (as set by the Living Wage Foundation) and the company has no plans to address this.

The directors asked both fund managers whether they had voted against any company on these grounds, and if so which ones.

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

LGIM, together with ShareAction, other asset owners and asset managers, has co-filed a shareholder resolution calling on Sainsbury's to become a living-wage accredited employer by their AGM in 2023. With over 600 supermarkets and over 800 convenience stores, and nearly 190,000 employees, Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's is currently paying higher wages than many other listed supermarkets, the company has been selected because it is more likely than many of its peers to be able to meet the requirements to become living-wage accredited.

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

Newton again focussed on their support for the Workforce Disclosure Initiative, encouraging companies to complete the survey. They added that they are "currently engaging with stakeholders in the context of the shareholder proposal tabled at Sainsbury's AGM, noting that this is an escalation of the collaborative initiative".

2.8 Audit

The corporate trustee directors have a policy that if competition for appointment as statutory auditor has been restricted to the "big four" accounting firms, vote against the re-election of the chair of the audit committee.

LGIM's policy merely expects the process of tender to be explained, whether it included a firm outside the global top four firms and why the ultimate decision was taken. The directors were disappointed that LGIM had not specified a voting guideline on this policy and asked them to explain why this issue is not important enough to justify a negative vote.

LGIM responded: "We expect all companies when tendering to include an accounting firm outside of the top four. We also, as you suggest, expect companies to provide an explanation around their final choice. We do not consider it appropriate to have this as a voting issue because, while they (firms outside the big four) are equally good at carrying out audits in the local market (UK), they don't have audit offices to carry out audits globally.

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

Newton responded that they do not agree with the policy because there is "not enough empirical evidence available at the moment to suggest that the concerns would be addressed by greater competition, and we understand that there are also questions surrounding the audit quality provided by smaller firms. Therefore, we focus our attention on periodic rotation of auditors, as the frequent rotation provides us with comfort regarding the independence and objectivity of the auditor. Further, we also analyze the percentage of audit fees paid to auditors as compared to their overall payment.

"Through our voting and engagements, we have provided our feedback to companies and clearly indicated that we would want to see periodic rotation."

The trustee has previously written to Newton to criticise the fund manager's failure to set out clearly their voting guidelines which would show how they are likely to vote on any given issue. Newton continues to state that it decides how to vote on a 'case by case basis'. This is not helpful to trustees as it means that trustees can have no idea in advance of how the votes associated with the BSRS investments are likely to be cast, and it allows Newton carte blanche to vote without any consistency if they see fit.

3. Engagement: fixed income

BECTU Staff Retirement Scheme invests in the following fixed income funds:

LGIM:	High Yield Bond Fund
LGIM:	Investment Grade Corporate Bond – All Stocks
Royal London Asset Management:	Multi-Asset Credit Fund

The corporate trustee directors utilised the UN Principles of Responsible Investment guidance in requesting stewardship information from the fund managers with respect to the fixed income funds.

Royal London:
Do you have a dedicated fixed-income stewardship programme?
"RLAM is committed to being a responsible investor. This means being a good steward of our clients' assets and promoting responsible investment and good governance across all asset classes. Alongside this, we also believe that considering environmental, social and governance (ESG) issues in the investment process can help us deliver better returns for our customers and clients.

"At RLAM, we have embraced responsible investing for many years and continue to expand our offering in line with the evolving world of ESG best practice. In 2020, we expanded our ESG integration practices and now integrate these across all our asset classes.

"As our ESG practice has evolved, we've invested in our responsible investment team, our research and insight in this area, and we are excited at the future direction of our offering, as our approach becomes ever advanced.

"All our Stewardship Reports and Policies are available on our website, which can be accessed at: https://www.rlam.co.uk/institutional-investors/our-solutions/responsible-investment "

Stewardship
"We have been signatories of the UK Stewardship Code since 2013. At the beginning of September 2021, RLAM was announced as an official signatory to the new UK Stewardship Code 2020 - a testament to our commitment to being a responsible investor operating in the best interest of our beneficiaries.

"As we have done in previous years, we will continue to publish our Stewardship Report on our website. We will also share a copy with the FRC to ensure to maintain our compliance with the Code." RLAM's 2021 report is available on their website. They noted that their 2020 report was used by the FRC as a best practice example for Asset Managers reporting against the new Code."

Engagement
"Engagement at RLAM adopts two non-mutually exclusive forms: for information, where we seek to uncover additional evidence to supplement existing research or findings that feed into the investment process; or for change and influence, that seeks changed behaviour as a direct outcome of the engagement. Our engagement with issuers is not always limited to one topic and so we use our interaction with companies to engage on several applicable ESG related matters. In the past year, topics have included climate risk, cybersecurity, remuneration and health & safety amongst others."

Royal London referred to a graph which can be found on page 16 of their 2021 stewardship report: https://www.rlam.co.uk/globalassets/media/literature/reports/2021/77491-stewardship-report-2021-web3.pdf
It shows the proportion of engagement activity allocated to each ESG topic over the period across their fixed income portfolios.

Do you incorporate ESG issues into your assessment of issuers when evaluating whether to invest?

"ESG analysis is integrated into our investment process. This involves a collaborative decision-making process which incorporates independent ESG research into the investment process. Our Responsible Investment team (RI) is comprised of 17 professionals, who work very closely with our investment teams on ESG integration and stewardship.

"ESG is a critical component of the strategy as the financial and broader economic impact of ESG factors over the long term can be crucial. As a long-term through-the-cycle product, this makes active ESG integration critical to generating the best possible outcome for all stakeholders.

"ESG analysis is conducted at credit specific and sectoral levels. Following an independent review by the RI team of an individual credit, the Global Credit and RI teams apply an internal ESG score to the investment opportunity."

Do you engage with issuers pre-issuance and post-issuance? Please explain how.
"Yes, prior to investment, we review the ESG policies of the potential investment. If further details are required. The analyst engages with the company to address the particular ESG factor that may be under consideration. In the event that an investment is made ongoing ESG disclosure is monitored and engagement with the corporate takes place to assess whether the company has addressed any issues the analyst had identified and what steps have been taking by the company to address the factor (s). We have 3 case study examples in the presentation to demonstrate the engagement process."

In the last year have ESG concerns led you to choose to either pass on an investment opportunity, or to sell your holding?
"Yes, ESG factors are taken into consideration as part of our investment process and ongoing monitoring of investments."

What impact has your ESG engagement had on issuers? Please give examples.
"In some instances the engagement has led to positive interactions with the companies which have led to targets/goal setting by management teams and or improvements in ESG factors. In instances where progress has not been made we reassess our investments. The case study examples provided offer some insight into this."

We would welcome details of how you have pursued your Net Zero and Just Transition policies through engagement with issuers included in the RLAM Multi-Asset Credit Fund.
"As part of our investment process, we review ESG &C and follow up with the company where applicable. We are requesting more detailed ESG reporting from companies and engaging with management teams in regards to their GHG targets and transition plans, where applicable. In terms of climate specifically, we are engaging with issuers who have not disclosed climate data to lobby for more information.

"Looking ahead, as part of our company-wide net zero transition plan, we are building a multi-year engagement plan. The plan aims to target RLAM's top 70 carbon contributing companies. Holdings within the Fund will be included in this assessment when determining this top 70 assessment."

LGIM:
In response to whether **LGIM** had a dedicated fixed-income stewardship programme they responded that the company's active ownership approach does not materially differ on the basis of the type of exposure. "We engage on behalf of all our clients' assets, and the Investment Stewardship team explicitly consider both our debt and equity exposures."

Asked whether they incorporate ESG issues into their asessment of issuers when evaluating whether to invest, LGIM stated that their policies are reviewed annually to ensure they remain aligned with the various evolving regulations, best practice and client feedback.

They added: "ESG and Responsible Investment matters are discussed regularly in three formal governance bodies. The Investment Stewardship Committee, a sub-committee of the LGIM Holdings Board, meets quarterly and receives a report from the Director of Investment Stewardship and the Head of Responsible

Investment Integration. Every month the Head of Responsible Investment Integration reports at the LGIM Executive Committee. Furthermore, adherence to the integration of ESG across liquid asset investment portfolios is discussed at the quarterly Investment Oversight Committee. Outside of these formal governance groups there is a monthly Responsible Investment Committee, an LGIM Executive decision-making group, and the Global Research and Engagement sector groups, which discuss ESG opportunities and risks within their sectors as art of the investment process."

In relation to whether LGIM engage with issues pre-issuance and post-issuance, LGIM noted that their engagements are conducted at a company level, not an asset-class-specific level.

LGIM was asked whether LGIM ESG concerns led to LGIM choosing to pass on an opportunity or to sell their holding. LGIM provided a list of 26 companies demonstrating where they had bought, held or not bought bonds as a result of ESG indicators. The companies whose bonds they bought included those producing renewable energy and those that were introducing more environmentally sustainable technology. Several of those whose bonds were not bought were involved in coal mining.

The directors had observed that the previous year in the LGIM High Yield Bond Fund three of the top 10 issuers were oil companies: Petroleos Mexicanos, Petroleo Brasileiro SA and Aker Exploration ASA. One year on only Petroleos Mexicanos remains in the top 10, but at 2.5% it is the largest in the fund, and while the fund's oil and gas benchmark is 12.4% the actual holding was 14.2%, a 2.5% increase. LGIM were asked to explain how this is in alignment with LGIM's climate change commitments.

LGIM responded: "As a founding signatory of the Net Zero Asset Managers Initiative, we have committed to work in partnership with our clients to reach net-zero greenhouse gas emissions by 2050 or sooner across all assets under management. In line with this commitment, in November 2021 LGIM set a target for 70% of eligible AUM to be managed in line with this net-zero ambition by 2030. In addition, drawing on industry best practice, we have set out LGIM's key requirements for any investment portfolio to be considered net-zero aligned. This includes setting targets, adopting a decarbonisation pathway, engaging for change, excluding misaligned companies, and growing 'green' opportunities.

LGIM were asked about their engagement with companies in their fixed-income funds. LGIM stated: "From a bond-investor point of view, the only material difference versus equities is perhaps fewer concerns around shareholder rights. Otherwise, the vast majority of themes and issues in which we engage on, including climate change, remuneration, gender diversity, human capital, audit, cyber security etc., are capital structure agnostic. Board composition, although influenced by equity holders and shareholder rights, is also relevant to bondholders in ensuring that the board has the necessary expertise and independence to oversee the management and strategy of the organisation. Our firm wide stewardship policy can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf "

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 directors recognise that the PLSA template had only just been released: no fund manager completed it. Consequently the information was supplied in very different formats.

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

Royal London
"The Multi Asset Credit Fund is included in RLAM’s net zero commitment and the scope of our firm TCFD report. As such, RLAM's approach to managing climate risk applies to the Fund in full. We have provided detail on each above listed elements of TCFD below. A copy of our TCFD report can also be found here: tcfd-report-2020.pdf (rlam.co.uk)"

"Governance
"Head of Asset Class and all investment managers: Responsible for ensuring material ESG risks, including climate risks, are considered within investment decisions and contributing to engagement and proxy voting decisions.

"Head of Responsible Investment (RI) and the RI team: Provides subject matter expertise, support, information, data and analytics to the investment teams, and oversees day-to-day implementation of engagement and proxy voting activities across all asset classes. Product Owner of the ESG Dashboard.

"Chief Investment Officer (CIO): Senior Management Function with Executive Committee responsibility for RI, including climate change.

"Responsible Investment Forum: Chaired by the Head of RI. Provides an informal place to discuss best practice, provide feedback and make recommendations to the business on Responsible Investment matters.

"Investment Committee: Chaired by the CIO. Responsible for monitoring, oversight and advice to the CIO on investment matters as they relate to RI and climate change.

"RLAM Board Risk Committee: Board-level committee responsible for monitoring climate risk on a regular basis, in line with the RLAM risk appetite

"Risk management:
"We recognise ‘Climate and ESG’ as a principal strategic risk within our firm-level risk register, which tracks all the risks within RLAM’s risks universe. Furthermore, we also embed climate into the ‘Investment Performance’ risk within the risk register, given the potential impact of climate on investment returns. This means we now consider climate in two ways: first, as a stand-alone strategic risk, and second, as an investment performance risk. Both of these climate risks are subject to the same process for risk assessment and mitigation as other principal business risks.

"From an investment risk perspective, we have been working to integrate a number of transition risk metrics and information sources into our process and climate analytical tools, reporting and research. The table below summarises climate information we have available across RLAM’s investment teams.
Specifically in relation to the Fund, given the nature of the investment universe, the data availability and quality is lower than when compared to an equity fund for example. As a result, this makes climate risk harder to measure and thus integrate. That being said, we have begun to interrogate data to see what information we can attain based on availability. Specifically, we have begun by focusing on weighted average carbon intensity of the fund as this is where we have the best data coverage and highest data quality. Looking ahead, we would like to continue to build out our climate risk management process and advance in the use of other metrics, such as financed emissions and implied temperature rise.

"Strategy
"In 2021, we formally made a commitment to achieve net zero by 2050. This is an important commitment for us, and something we do not take lightly.
RLAM’s climate transition plan is currently in the development stage, and we aim to disclose our progress on this during 2022 as part of our commitment to the Net Zero Asset Manager Initiative (NZAMI). We are also working to align with the new requirements of the FCA, which will require the publication of a climate transition plan.

"Our commitments include:

- Achieve net zero across our overall investment portfolio by 2050
- Reduce carbon equivalent emissions from our investment portfolios by 50% by 2030
- Develop solutions that enable clients and customers to invest in the low carbon transition

"Our firm-level transition plan will require both top-down and bottom-up process updates, including at the Multi Asset Credit fund level. Whilst we do expect our transition strategy to evolve over time, we are already looking at ways to enhance the fund in terms of how it integrates ESG and considers climate risk. "

Please disclose whether you have a benchmark on progress to meet the need to limit global warming to well below 2 degrees against which to measure these metrics, and if so please indicate how the fund's metrics compare.

"Due to the nature of the Fund's investments, climate data availability and the quality at an issuer level is below many other asset classes. As a result, whilst we have climate risk metrics available for the fund, the amount of reliance we are able to place on them in terms of quantitative measurement of climate risk performance and driving a net zero strategy is limited. With this in mind, the focus in the short-medium term is more on increasing data quality and coverage and using qualitative research and engagement to drive positive climate activity within the fund."

LGIM

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

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

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

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

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

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

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

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

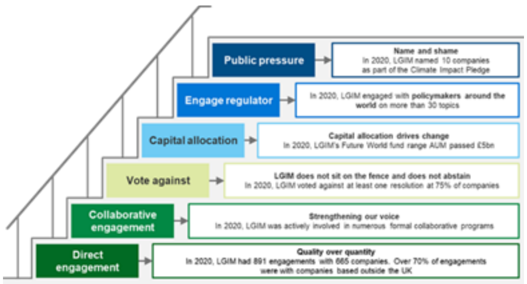
"The model starts with bottom-up scenarios of how the energy system may evolve over the next 30 years to meet the constraints of temperature outcomes (e.g. well-below 2C) or carbon budgets (e.g. net-zero 2050) – and converts these into investment implications. The core set of scenarios referenced by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

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

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

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

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



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

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

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

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

"This targeted approach – using voting and investment sanctions to motivate companies to step up on sustainability – has contributed to companies making improvements to their climate targets and strategies. Several companies, including Kroger, were excluded from our Future World funds for poor climate performance but have since made sufficient progress to be reinstated.

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

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

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

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

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

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

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

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

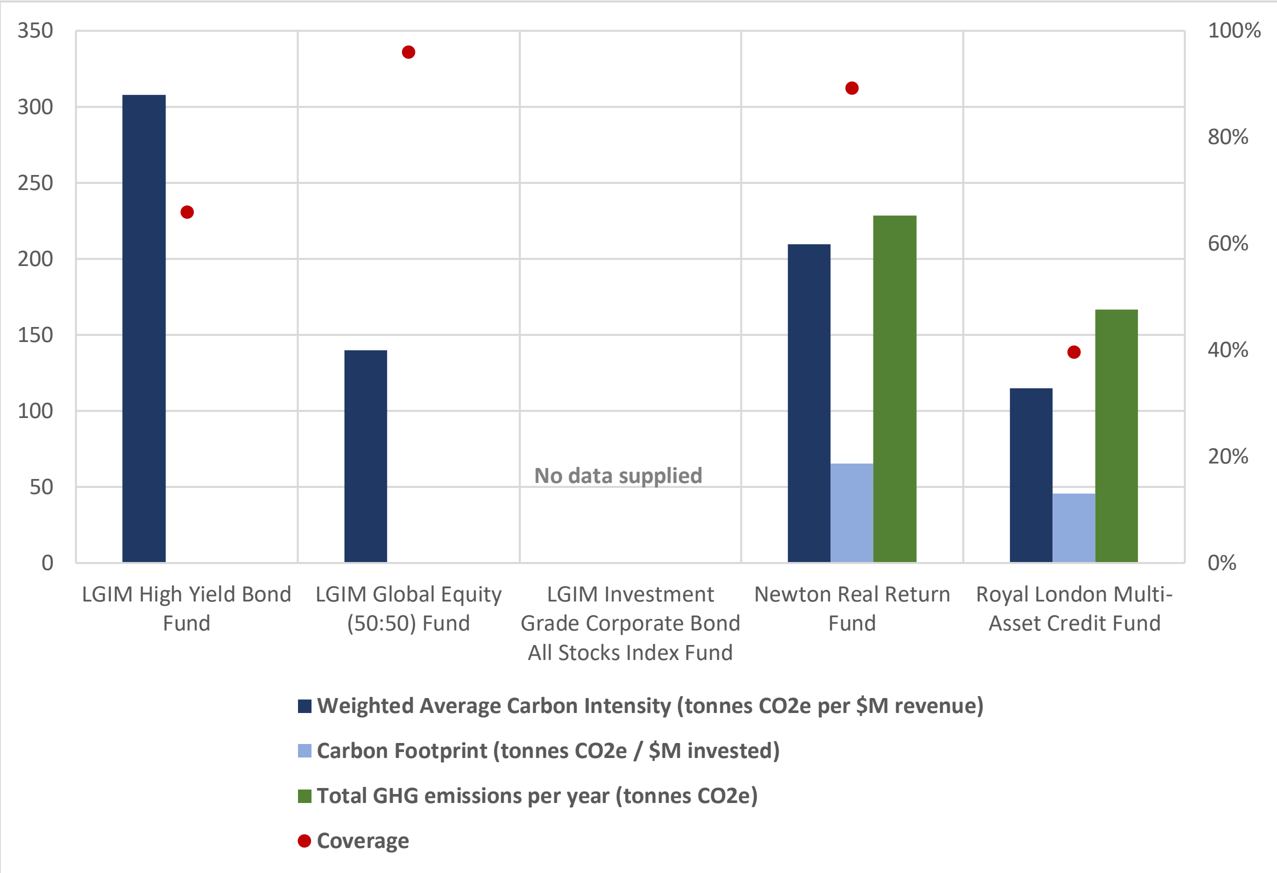
"From a bottom-up perspective, within our proprietary credit research template we hold for every name in the portfolio we explicitly look at a range of issues within Environment. For example, please see below:

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

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

Newton did not respond to our request for their responses to the TCFD recommendations on governance, strategy and risk management.

4b: Carbon disclosure metrics



Portfolio alignment metrics

- LGIM High Yield Bond Fund – 4.1 C
- LGIM Global Equity (50:50) Fund – 3.6 C
- Newton Real Return Fund – 2.3 C
- No data for the LGIM Investment Grade Corporate Bonds or RLAM MAC Fund.

5. Conclusion and next steps

The corporate trustee directors are pleased that the response from LGIM and Newton this year was an improvement on last year.

Regarding the request for new data on carbon metrics, the directors recognised that as this is very new to the fund management industry it is still bedding down. Had the fund managers used the PLSA carbon metrics reporting template, which has the support of the fund managers' Investment Association, it would have made it far easier to compare data from the different funds on a like-for-like basis. We trust that by next year all fund managers will use the template. The information that was supplied was nevertheless very helpful to the directors in furthering their understanding of how the scheme investments relate to the issue of climate change.

The information gained through the preparation of this implementation statement will be used by the directors to inform the development of policy on ESG including climate change and to engage further with the fund managers.

The directors will be responding to LGIM and Newton in relation to areas where the directors believe the response has been inadequate or out of alignment with the trustee policy.

In particular the directors will be engaging with the fund managers on the matter of trade union rights. The directors have stated above that trade union rights are fundamental to the scheme's sponsor and beneficiaries, in addition to the fact that they are enshrined in international conventions. The UN Global Compact policy on this matter is the clearest of their principles and so fund managers should have no difficulty in pressing on this.

The directors are therefore disappointed at the lack of commitment to this issue as shown by merely supporting the rare shareholder resolutions on this rather than voting against company boards where the company is failing, and not engaging and voting on this issue where in the directors' view it is clearly necessary. The directors will be impressing upon the fund managers the need to be tougher on companies that are falling short of these standards.

The directors will also engage with Newton regarding ethnic minority representation on boards. Despite Newton being prepared to engage with companies and vote against board directors where there is an absence of robust policy and a low level of gender diversity on the board, there was no commitment to respond the same way to a lack of ethnic diversity on the board.

In the light of the continued reluctance of the fund managers to support client voting policies, even on a comply or explain basis, the corporate trustee directors may consider whether there are alternative funds on the market that align with the scheme's investment strategy and have a more sympathetic approach to client voting policies. This is in particular with regard to Newton as their policy and actions appear to be out of alignment with the scheme policy on several issues.