Advice on the annual Implementation Statement

Ultra Electronics Pension Scheme

16 September 2024

This note has been prepared for the Trustee of the Ultra Electronics Pension Scheme (the "Scheme") in response to your request that we provide a draft Implementation Statement ("Statement") for the Scheme.

Background and introduction

There is a requirement for most trust-based defined benefit ("DB") and defined contribution ("DC") pension Schemes to produce an Implementations Statement ("Statement") which covers the report and accounts year (which is the 12 months to 5 April for the Scheme).

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

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

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

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

The Statement should set out how, and the extent to which, the Trustee has followed the Statement of Investment Principles ("SIP") during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. The Trustee should seek to demonstrate it has had regard to the Statutory Guidance.

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

The DWP's guidance states: "*where Trustees use the voting policy of the asset manager, they should briefly summarise in the [Statement] whether the asset manager's voting behaviour was aligned with the Scheme's stewardship priorities*".

As agreed, our draft Statement covers both the DB and DC arrangements of the Scheme.

Key points

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

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

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

- BlackRock Aquila Life Overseas Fixed Benchmark Equity Fund; and
- Ruffer Absolute Return Fund;

For the DC Section we have included data on the funds available to members that hold listed equities as follows:

- ReAssure (LGIM) Multi-Asset (formerly Consensus) Index Fund;
- ReAssure (LGIM) Ethical UK Equity Index Fund;
- ReAssure (LGIM) Global Equity 50:50 Index Fund;
- ReAssure (LGIM) UK Equity Index Fund; and
- ReAssure (LGIM) World (Ex-UK) Equity Index Fund.

We have not included Clerical Medical funds as we understand that these relate to AVCs only and therefore are not required to be covered in the Statement.

We have asked the managers to comment on votes that they believe to be significant. We have selected a subset provided by the managers and prioritised votes based on a combination of factors, including whether the vote is related to the Trustee's stewardship priorities, the size of the fund holding in the underlying company, and whether the vote was particularly controversial (for example, if it was high profile).

Next steps

We propose that you review the Statement and include it within your Report & Accounts ending 5 April 2024 to comply with the relevant regulations. The Report & Accounts need to be finalised within seven months of the end of the Scheme Year, ie by 5 November 2024.

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

Please let us know if you have any questions.

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The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with the Trustee of the Ultra Electronics Pension Scheme ("Our Client").

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Lane Clark & Peacock LLP

Implementation Statement, covering the Scheme Year from 6 April 2023 to 5 April 2024 (the "Scheme Year")

The Trustee of the Ultra Electronics Pension Scheme (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles ("SIP") during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-8 below. This statement covers the DB and DC arrangements of the Scheme only (ie AVCs are excluded).

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 9 below.

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

This Statement is based on the Scheme's SIP dated 28 March 2023, this being the SIP that was in place throughout the Scheme Year. Please note however that the Trustee has updated the Scheme's SIP since the end of the Scheme Year. This latest version can be found online here:

https://www.ultra.group/about-us/responsibility/pension-scheme/

1. Introduction

The Trustee reviewed the Scheme's SIP in March 2024, predominantly to reflect changes in the Scheme's investment objectives and strategy for the DB arrangements of the Scheme (details of which are contained in sections 2 and 3, below). However, as at 5 April 2024, the Trustee was still in the process of finalising the updated SIP - the updated SIP was finalised and became effective on 19 June 2024.

As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed all of the policies in the Scheme's SIP during the Scheme Year, including those on voting and engagement. The following Sections provide detail and commentary about how and the extent to which it has done so.

2. Investment objectives

In relation to the Scheme's DB arrangements, the Trustee's primary objective, as set out in the SIP, is to ensure that benefit payments are met as they fall due. In addition to this primary objective, the Trustee has set the following supplementary objectives:

- to invest the Scheme's assets to achieve full funding on a low dependency basis, with a secondary target of being fully funded on a buy-out basis in the longer term;
- to limit the risk of the assets failing to meet the liabilities over the long-term, by considering the liability profile of the Scheme;
- to ensure that there will be sufficient liquid assets available to meet benefit payments as they fall due; and
- to reduce the overall volatility of the funding level.

As part of the review of the SIP conducted in March 2024 the Trustee agreed to amend the first bullet point above to reflect the fact that the Scheme is now estimated to be fully funded on a low dependency basis. There are no other changes to the Scheme's objectives.

The Scheme's funding position on both a low dependency and indicative buy-out basis was reviewed as part of regular reporting by the investment adviser and Scheme Actuary at Trustee and Investment Sub-Committee ("ISC") meetings during the Scheme Year. The Trustee is also able to view the progress on an ongoing basis using LCP

Visualise (a tool provided by the Scheme's investment adviser which show key metrics and information on the Scheme including funding position, expected return and risks of the investment strategy).

As at 5 April 2024, the Scheme was fully funded on a low dependency basis and there had also been an improvement in the funding position on an indicative buy-out basis.

The Trustee maintains an Integrated Risk Management dashboard which is updated quarterly, which includes metrics that assess the liquid assets available within the Scheme as well as the liability hedging vs target levels.

For the DC / AVC arrangements, the Trustee's primary objective is to make available a suitable range of investment options to meet members' risk / return objectives. The Trustee has made available to members three alternative lifestyle strategies and a range of self-select funds, covering all major assets classes and a range of risk profiles.

The Trustee assesses the value for money members receive from the DC / AVC arrangements on a regular basis. The last assessment was undertaken in November 2023 as part of the triennial review of the Scheme's DC and AVC arrangements. Based on the outcome of this review the Trustee concluded that the DC / AVC arrangements remained appropriate for the Scheme and consistent with the Trustee's objectives outlined above. The Trustee did however agree to issue updated communications to members to remind them of the options available. These are expected to be issued as part of the latest member benefit statements in 2024.

3. Investment strategy

The Trustee, with the help of its advisers, reviewed and updated the Scheme's investment strategy for the DB arrangements over the course of the Scheme Year, following a significant improvement in the funding position of the Scheme.

The result of these reviews was that the Trustee agreed to adopt a revised long-term strategic allocation for the Scheme. The new long-term allocation has a lower allocation to return-seeking assets, including removing allocations to less liquid assets such as property and private market assets, with a corresponding higher allocation to matching assets. This also included increasing the target level of interest rate and inflation hedging to reflect the improvement in the funding position. The overall result of these changes is expected to lead to a lower risk, more liquid investment strategy (with a corresponding reduction in expected return).

The intention is that the Trustee will gradually transition to this new long-term allocation over time, as the less liquid assets return capital / income to the Scheme.

Actions taken over the course of the Scheme Year as part of this transition included:

- Submission of redemption requests for two thirds of the Scheme's property allocation (with an initial redemption request for a third of the allocation submitted in June and a second redemption request for the second third submitted in December 2023). The third redemption request for the final balance was submitted in June 2024. The proceeds from the first and second redemption requests were received in May and August 2024 respectively. The proceeds from the final redemption are expected to be paid out by the end of 2024.
- Investment of the £21m employer contribution received in August 2023 across the Scheme's LDI and collateral support assets, to increase the Scheme's interest rate and inflation hedging to c100% on the Technical Provisions liability basis and to bring the collateral support allocation more in line with the agreed long-term strategic allocation.
- Review of the Scheme's collateral support assets at the November 2023 Investment Sub-Committee and December 2023 Trustee meetings. This resulted in the Trustee agreeing to replace the existing absolute return bond allocation with new allocations to short-dated credit and asset backed securities – the actual implementation of these changes was completed after the Scheme Year end.

As part of these changes, the Trustee made sure the Scheme's assets were adequately and appropriately diversified between different asset classes.

There were no changes to the investment strategy for the DC / AVC arrangements during the Scheme Year.

4. Considerations in setting the investment arrangements

When the Trustee reviewed the DB investment strategy, it considered the investment risks set out in the addendum to the SIP. This included considering the overall investment risk (measured using "Value at Risk") to help assess the merits of different investment strategies.

The Trustee considered a wide range of asset classes for investment, considering the expected returns and risks associated with those asset classes as well as how these risks can be mitigated. The Trustee also considered the need for diversification and specific circumstances of the Scheme (eg the investment objectives, funding position, level of contributions and strength of the sponsor covenant).

Further detail on the key risks considered is set out in Section 4.1 below.

The Trustee reviewed the DC / AVC arrangements in November 2023. As part of this review, it considered the relevant investment risks set out in the addendum to the SIP.

The Trustee invests for the long term, to provide for the Scheme's members and beneficiaries. To achieve good outcomes for members and beneficiaries over this investment horizon, the Trustee therefore seeks to appoint managers whose stewardship[1] activities are aligned to the creation of long-term value and the management of long-run systemic risks.

4.1 Policy towards risk

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustee maintains a risk register and this is discussed periodically. The Trustee has also agreed an IRM policy that aims to monitor and manage risks in relation to covenant, funding and investment to the Scheme. An IRM dashboard is produced on a quarterly basis and discussed at Trustee meetings.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the investment adviser or information provided to the Trustee by the Scheme's investment managers. These include the risk of inadequate returns, credit risk, equity risk, currency risk and collateral adequacy risk. The Trustee's implementation of its policy for these risks during the year is summarised below.

With regard to the risk of inadequate returns, as part of the strategy review for the DB arrangements the Trustee considered the best estimate return of the investment strategy and considered it to be sufficient to produce the required return needed to achieve the Scheme's investment objectives. For the DC / AVC arrangements the Trustee makes use of equity and equity-based funds, which are expected to provide positive returns above inflation over the long term. These form part of the growth phase of the lifestyle strategies available to members and are also available to members on a self-select basis.

The Trustee's policy for the DB section is to target an interest rate and inflation hedging level in line with the Scheme's funding level, on the agreed funding basis. This is monitored on an ongoing basis in the quarterly investment monitoring report produced by the investment adviser. Over the Scheme Year the Trustee increased the level of interest rate and inflation hedging to be broadly 100% on the Technical Provisions liability basis, to reflect the improvement in the funding position of the Scheme.

Equity, credit and currency risk were all considered as part of the investment strategy review, with the level of equity and currency risk to be reduced and, conversely, credit risk to be increased. However the increase in the credit risk is partly to provide a better match for the Scheme's projected liability cashflows / to provide more collateral support for the LDI portfolio.

With regard to collateral adequacy risk, the Trustee holds investments alongside the LDI portfolio, to be used should the LDI manager require additional cash to be invested to support the hedging arrangements. As at 5 April 2024, the Scheme held more than enough liquid assets to meet a potential capital call on the LDI funds.

Together, the investment and non-investment risks give rise to funding risk. The Trustee formally reviewed the Scheme's funding position as part of its 5 April 2022 triennial actuarial valuation. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at Trustee meetings, and the Trustee has the ability to monitor this daily on LCP Visualise.

The following risks are covered elsewhere in this Statement: investment manager, counterparty and excessive charges in Section 5, valuation and illiquidity/marketability risk in Section 6 and climate-related and ESG risks in Section 7.

The quarterly reports reviewed during the year showed that the Scheme's assets in aggregate have produced performance broadly in line with expectations over the long-term.

[1] The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

5. Implementation of the investment arrangements

The Scheme's investment adviser, LCP, monitored the investment managers on an ongoing basis, through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of regarding the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification in the fund.

The Trustee evaluates manager performance over both shorter and longer periods, encourages managers to improve practices and may consider alternative arrangements where managers are not meeting performance objectives.

The Trustee monitored the performance of the Scheme's investment managers on a quarterly basis, using a monitoring report prepared by the investment adviser. The report showed the performance of each fund over the quarter, one year and three years (or relevant timeframe as appropriate). Performance was considered in the context of the manager's benchmark and objectives. The Trustee also monitored its managers' responsible investment capabilities using scores provided by its investment adviser. This report was considered at the May 2024 Investment Sub-Committee meeting.

The Trustee also regularly invites the Scheme's investment managers to present at Trustee meetings, aiming to see each manager approximately once every other year. Over the Scheme Year, the Trustee met with abrdn (the Scheme's property manager), Insight (the Scheme's buy & maintain credit manager) and BlackRock (the Scheme's LDI, collateral support and equity manager) to discuss the Scheme's investments respectively managed by them. The main focus of the discussions with abrdn was on the future outlook for the property market, including ESG trends, noting the increase in demand for energy efficient property from tenants. Insight provided an update on the credit market and how it engages with bond issuers on ESG topics. The main focus of the meeting with BlackRock was on the LDI arrangements, including the management of leverage, collateral and counterparty risks within the funds. BlackRock also provided an overview of two new potential funds and this included how ESG factors are considered within their investment processes.

The Trustee has not made any changes to its manager arrangements over the Scheme Year. However as part of the strategy changes agreed during the Scheme Year the Trustee has implemented a number of changes since then, which will be covered in next year's Statement.

For the DC / AVC arrangements, the Trustee undertook a "value for members" assessment in November 2023 which assessed a range of factors, including the fees payable to managers in respect of the DC Section, which were found to be reasonable when compared against Schemes with similar sizes of mandates, as well as the performance of the funds.

6. Realisation of investments

The Trustee reviews the Scheme's net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

The IRM dashboard includes KPIs that focus on the liquidity of the Scheme's assets to cover collateral requirements on the Scheme's LDI portfolio and expected benefit payments over the next 2 years. Neither of these KPIs were breached during the Scheme Year.

The Scheme's investment adviser and administrator discuss on a monthly basis the Scheme's short term cashflow needs and advised the Trustee on any necessary disinvestments or investments. The Trustee receives income from several of the Scheme's investments that is used to meet these cash flow requirements, combined with deficit contributions from the employer.

In particular a deficit contribution of £21m was paid into the Scheme in August 2023, with the majority (c£20m) of this invested across the Scheme's LDI and collateral support assets to rebalance the Scheme's hedging levels to the agreed target and to ensure sufficient collateral to support the LDI portfolio. The remaining c£1m remained in the Trustee bank account to help meet monthly benefit payments.

The Trustee and employer have agreed for future deficit contributions to be paid into an escrow account from September 2023 onwards given the improvement in the funding position of the Scheme. As a result of this the Trustee reviewed the process for management of short term cashflow needs and provisionally agreed a revised quarterly cashflow management framework between the investment adviser and administrator at its March 2024 Trustee meeting. This was subsequently revised following further consideration and finalised in June 2024.

For the DC/ AVC arrangements it is the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments. All of the DC / AVC funds which the Trustee made available during the Scheme Year are daily priced.

7. Financially material considerations, non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations).

In May 2023, the Trustee received training on recent Responsible Investment developments from LCP, including on Net Zero alignment (where overall human-made greenhouse gas (GHG) emissions are zero –any remaining GHG emissions are balanced out by removals from the atmosphere). The Trustee also reviewed LCP's responsible investment (RI) scores for the Scheme's existing managers and funds, along with its qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on the LCP's ongoing manager research programme, and it is these that directly affect its manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2022.

On the back of this, the Trustee agreed to set a Net Zero "ambition" for the Scheme. It was also satisfied with the results of the RI review of the Scheme's managers and no further action was taken.

No specific actions have been taken in relation to the selection, retention, and realisation of managers as a result of member and beneficiary views.

For the DC / AVC arrangements, the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments and therefore, as mentioned in the SIP, it has made available an ethical UK equity fund as an investment option to members.

8. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. Each manager maintains its own voting policy, details of which can be found on their respective websites. However, the Trustee takes ownership of the Scheme's stewardship by monitoring and engaging with managers as detailed below.

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

Following the introduction of DWP's guidance, in December 2022 the Trustee agreed to set the following stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors:

- Climate Change;
- Board Renumeration; and
- Modern Slavery.

These priorities were selected as market-wide risks and areas where the Trustee believes that good stewardship and engagement can improve long-term financial outcomes for the Scheme's members. The investment adviser communicated these priorities, along with the Trustee's broader responsible investment expectations, to the Scheme's managers on behalf of the Trustee in the previous Scheme Year. As stewardship priorities, the Trustee considers votes in relation to these matters to be significant votes.

There has been no change to the Trustee's stewardship priorities during this Scheme Year.

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

9. Description of voting and engagement behaviour during the Scheme Year

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

In this section the Trustee has sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Scheme's funds that hold equities. For the DB arrangements these are as follows:

- BlackRock Aquila Life Overseas Fixed Benchmark Equity Fund; and
- Ruffer Absolute Return Fund;

For the DC / AVC arrangements these are as follows:

- LGIM Multi-Asset (formerly Consensus) Index Fund;
- LGIM Ethical UK Equity Index Fund;
- LGIM Global Equity 50:50 Index Fund;
- LGIM UK Equity Index Fund; and
- LGIM World (Ex-UK) Equity Index Fund.

In addition to the above, the Trustee contacted the Scheme's investment managers that do not hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the Scheme Year. Each manager confirmed there were no voting opportunities.

9.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

BlackRock

BlackRock's voting guidelines are market-specific to ensure it takes into account a company's unique circumstances by market, where relevant. BlackRock informs its vote decisions through research and engages as necessary. BlackRock welcomes discussions with its clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them.

BlackRock's voting guidelines are intended to help clients and companies understand its thinking on key governance matters. They are the benchmark against which BlackRock assesses a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. BlackRock applies its guidelines pragmatically, taking into account a company's unique circumstances where relevant.

BlackRock's voting process is led by the BlackRock Investment Stewardship team ("BIS"). Voting decisions are made by members of the BIS team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

While BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into its vote analysis process. BlackRock primarily uses proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that its investment stewardship analysts can readily identify and prioritise those companies where its own additional research and engagement would be beneficial. Other sources of information BlackRock uses includes the company's own reporting (such as the proxy statement and the website), its engagement and voting history with the company, and the views of its active investors, public information and ESG research.

Ruffer

Ruffer has internal voting guidelines as well as access to proxy voting research, currently from Institutional Shareholder Services (ISS), to assist in the assessment of resolutions and the identification of contentious issues. Although Ruffer is cognisant of proxy advisers' voting recommendations, in general, Ruffer does not delegate or outsource its stewardship activities when deciding how to vote on its clients' shares.

Research analysts are responsible, supported by Ruffer's responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based on their in-depth knowledge of the company. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. Ruffer looks to discuss with companies any relevant or material issue that could impact its investment. Ruffer will ask for additional information or an explanation, if necessary, to inform its voting discussions. If Ruffer decides to vote against the recommendations of management, it will endeavour to communicate this decision to the company before the vote along with its explanation for doing so. Collaborative engagement can also provide a platform to engage on wider sector, regulatory and policy matters with investors and other stakeholders.

Ruffer is open to working alongside other investors on both policy and company specific matters. The decision to collaborate on company specific matters will be judged on a case-by-case basis by the responsible investment team with input from research analysts and portfolio managers as well as the legal and compliance teams.

Legal & General Investment Management (as underlying investment manager for the ReAssure funds)

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all of LGIM's clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continues to develop its voting and engagement policies and define strategic priorities in the years ahead. LGIM also takes into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. However all voting decisions are made by LGIM and LGIM does not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that it receives from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards, which LGIM believes all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to its voting judgement. LGIM have strict monitoring controls to ensure its votes are fully and effectively executed in accordance with LGIM's voting policies by its service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

9.2 Summary of voting behaviour

A summary of voting behaviour over the Scheme Year for the DB assets is provided in the table below. With the exception of the value of the Scheme assets which is as at the Scheme Year end (5 April 2024), the data below is for the year to 31 March 2024, because managers are unable to provide data for non-quarter end dates.

Manager name	BlackRock	Ruffer
Fund name	Aquila Life Overseas Fixed Benchmark Equity Fund	Absolute Return Fund
Total size of fund at end of the Scheme Year	£889.7m	£2,716.3m
Value of Scheme assets at end of the Scheme Year	£13.3m	£2.2m
Number of equity holdings at end of the Scheme Year	1,847	61
Number of meetings eligible to vote	2,002	64
Number of resolutions eligible to vote	25,838	1,020
% of resolutions voted	94%	100%
Of the resolutions on which voted, % voted with management	93%	95%
Of the resolutions on which voted, % voted against management	6%	3%
Of the resolutions on which voted, % abstained from voting	0%	2%
Of the meetings in which the manager voted, % with at least one vote against management	29%	27%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	0%	10%

*The sum of % of votes for, against and abstaining from voting may not sum to 100% due to rounding.

A summary of voting behaviour for the funds in the DC / AVC arrangements over the period (excluding Clerical Medical which is solely AVC) is provided in the table below.

Manager Name	LGIM	LGIM	LGIM	LGIM	LGIM
Fund name	Multi-Asset (formerly Consensus) Fund	Ethical UK Equity Index Fund	Global Equity 50:50 Index Fund	UK Equity Index Fund	World (Ex-UK) Equity Index Fund
Total size of fund at end of the Scheme Year	£311.5m	£233.3m	£3,417.1m	£11,455.1m	£5,006.0m
Value of Scheme assets at end of the Scheme Year	£0.5m	£0.0m	£0.9m	£0.3m	£0.4m
Number of equity holdings at end of the Scheme Year	7,458	216	3,028	521	2,813
Number of meetings eligible to vote	9,311	251	3,035	709	2,867
Number of resolutions eligible to vote	94,134	4,532	39,303	10,462	34,635
% of resolutions voted	100%	100%	100%	100%	100%
Of the resolutions on which voted, % voted with management	77%	95%	82%	94%	78%
Of the resolutions on which voted, % voted against management	23%	5%	18%	6%	22%
Of the resolutions on which voted, % abstained from voting	0%	0%	0%	0%	0%
Of the meetings in which the manager voted, % with at least one vote against management	72%	43%	70%	40%	77%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	14%	4%	13%	5%	16%

*The sum of % of votes for, against and abstaining from voting may not sum to 100% due to rounding.

9.3 Most significant votes

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

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten significant votes, and suggested the managers could use the PLSA's criteria[2] for creating this shortlist. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

From this shortlist of votes, the Trustee has then selected the "most significant votes" to report on, based on the below criteria:

- aligns with the Trustee's stewardship priorities;
- are associated with companies in which the fund has a significant holding;
- might have a material impact on future company performance;

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

- have a high media profile or are seen as being controversial; and
- at least one vote is reported on from each of the funds in which the Scheme invests.

If members wish to obtain more investment manager voting information, this is available upon request from the Trustee. For the funds in which the Scheme fully disinvested during the Scheme year, only votes prior to the disinvestment date have been included.

Votes have been grouped by investment manager rather than by fund given there is significant overlap between holdings within funds managed by the same investment manager.

BlackRock

Chevron Corporation, 31 May 2023

- **Summary of resolution:** Report on Social Impact From Plant Closure or Energy Transition
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** 0.3%
- **Why this vote is considered to be most significant:** This vote was considered significant as it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** Against
- **Rationale:** BlackRock did not support this shareholder proposal because, in its assessment, Chevron is already providing disclosure regarding their approach to workforce continuity amid a transition to a low-carbon economy.
- **Was the vote communicated to the company ahead of the vote:** BlackRock endeavour to communicate to companies when BlackRock intend to vote against management, either before or just after casting votes in advance of the shareholder meeting.
- **Outcome of the vote and next steps**: Failed. BlackRock continues to hold the investment in the fund.

Exxon Mobil Corporation, 31 May 2023

- **Summary of resolution:** Adopt Medium-Term Scope 3 GHG Reduction Target
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** 0.4%
- **Why this vote is considered to be most significant:** This vote was considered significant as it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** Against
- **Rationale:** BlackRock did not support this shareholder proposal because in its view, the methodology for setting scope 3 targets in carbon intensive industries is still under development and until there is a common framework for managing the related uncertainty and complexity, BlackRock looks to company management to determine the appropriate disclosures to help investors understand their approach. BlackRock also thought complying with the specific asks of the shareholder proposal could be unduly constraining on management and the board's ability to set the company's long-term business strategy.
- **Was the vote communicated to the company ahead of the vote:** BlackRock endeavours to communicate to companies when it intends to vote against management, either before or just after casting votes in advance of the shareholder meeting.
- **Outcome of the vote and next steps**: Failed. BlackRock continues to hold the investment in the fund.

Ruffer

JDE Peet's, 25 May 2023

- **Summary of resolution:** Approve Remuneration Report
- **Relevant stewardship priority:** Board Remuneration
- **Approx size of the holding at the date of the vote:** 0.1%

- **Why this vote is considered to be most significant:** This vote was considered significant as is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** For
- **Fund manager vote:** For
- **Rationale:** After reviewing the report and discussing it with management, Ruffer's view is the restricted shares (RSUs) forming the LTIP component and majority of total pay create a strong alignment between shareholders and management in generating value. Further, the structure of restricted shares means their value is tied to company share-price performance meaning, it is a simple way of tying executive pay directly to the value placed on the company by the market.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps**: Passed. Ruffer will continue to engage with the company on governance issues and vote on remuneration proposals where Ruffer deem it to have material impact to the company.

BP Plc, 27 April 2023

- **Summary of resolution:** Approve Shareholder Resolution on Climate Change Targets
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** 0.5%
- **Why this vote is considered to be most significant:** This vote was considered significant as is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** Against
- **Rationale:** BP has, in Ruffer's opinion, outlined a credible transition strategy with appropriate decarbonisation targets, that reflects demand for oil & gas energy whilst allocating capital to the 'transition growth engines'. Whilst BP has tightened & reduced its 2025 and 2030 aims, it has retained its 2050 net zero target. Further, it has committed additional capital to the transition which BP argues is uncertain and therefore, locking into one, fixed strategy (through investing or divesting the wrong asset) is not in the best interests of generating shareholder value. This resolution asks for "BP to align its 2030 Scope 3 aims with Paris". Firstly, this would require a wholesale shift in strategy, which Ruffer believe is unnecessary given the Board has opined on net zero and published a strategy. Secondly, BP in isolation has no control over what global scope 3 emissions should be under Paris, given the world continues to emit carbon and one would expect the Scope 3 reduction will have to be steeper the nearer society gets to 2030. This burden is unfair, particularly in the context of BP making long-cycle investment decisions.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps**: Failed. Ruffer will monitor how the company progresses and improves over time, and continue to support credible energy transition strategies and initiatives which are currently in place, and will vote against shareholder resolutions which it deems to be unnecessary.

Legal & General

JPMorgan Chase & Co., 16 May 2023

- **Summary of resolution:** Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** n/a – held across multiple funds
- **Why this vote is considered to be most significant:** This vote was considered significant as is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM generally supports resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published targets. LGIM believes detailed information on how a company intends to achieve the 2030 targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the

activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company.

- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps**: Failed. LGIM will continue to engage with the company and monitor progress.

<u>**Pearson Plc, 28 April 2023**</u>

- **Summary of resolution:** To approve the remuneration policy
- **Relevant stewardship priority:** Board Remuneration
- **Approx size of the holding at the date of the vote:** n/a – held across multiple funds
- **Why this vote is considered to be most significant:** This vote was considered significant as is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** For
- **Fund manager vote:** Against
- **Rationale:** LGIM continues to review and strengthen its executive pay principles to improve pay practices and help companies better align pay with long-term performance. The company consulted with LGIM in advance of the publication of their remuneration policy to propose some changes to executive pay. The changes centred around the fact that their CEO is based in the US and should therefore be compensated in line with US peers. Thus, there was a higher proposed annual bonus opportunity and long term incentive award. Its main concern was that although the company wants to align the CEO's salary with US peers, they have elected to use UK practices when it comes to his pension. This would result in a pension provision of 16% of salary, which is more than his US peers typically receive. LGIM voted against the policy because it feels the company should not pick and choose the regions (UK/US) to set executive pay based on which region offers the highest opportunity.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote and next steps**: Passed. LGIM will continue to engage with the company and monitor progress.

<u>**Shell Plc, 23 May 2023**</u>

- **Summary of resolution:** Approve the Shell Energy Transition Progress
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** n/a – held across multiple funds
- **Why this vote is considered to be most significant:** This vote was considered significant as is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** For
- **Fund manager vote:** Against
- **Rationale:** LGIM voted against the resolution, though not without reservations. LGIM acknowledges the substantial progress made by the company in meeting its 2021 climate commitments and welcomes the company's leadership in pursuing low carbon products. However, LGIM remains concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5ºC trajectory.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote and next steps**: Passed. LGIM continues to undertake extensive engagement with Shell on its climate transition plans.

9.4 Engagement opportunities

This section provides some examples of engagement by Insight, who manages the Scheme's buy and maintain credit mandate. The underlying bonds do not have voting rights attached to them, but nevertheless the Trustee expects Insight to engage with the underlying companies who issued the bonds on matters that may affect the ability of the companies to pay back the bond holders, including ESG matters. The examples have been selected as they align with the stewardship priorities of the Trustee.

<u>**Société Générale, Q4 2023 (stewardship priority: Climate Change)**</u>

Insight identified some areas of weakness in the bank's environmental policies and targets compared with peers. These issues focused on fossil fuel financing, oil and gas exposure and financed emissions reporting. Insight initially discussed these issues with the bank initially in October 2022 and followed up over the course of 2023 to understand what actions it had taken to address Insight's concerns.

Société Générale announced in September 2023 changes to its fossil fuel financing policies, including setting project financing exclusions for oil and gas and setting a longer-term oil and gas exposure reduction target.

Société Générale highlighted that the bank is targeting a 70% reduction in absolute carbon emissions by 2030. For upstream exposure, Société Générale is now targeting a reduction in exposure by 80% by 2030 versus 2019 levels, with an intermediate target of 50% by 2025 (previous target was a 20% reduction by 2025). This new target applies to both oil and gas, which is best in class compared to peers in terms of gas policy restrictions. To meet the target, Société Générale is ending financing for new greenfield oil and gas fields.

On its Arctic oil & gas exclusion, previously, the restriction only applied to Arctic oil project financing due to a large client. Insight flagged this to Société Générale in previous engagements and the bank has now updated its policy so the exclusion also covers gas.

The changes made by Société Générale mean Insight has achieved several of its engagement objectives, such as the Arctic gas exclusion, project financing exclusions for oil and gas and its oil and gas exposure reduction target by 2030.

Duke Energy Corp, Q1 2024 (stewardship priority: Climate Change)

Insight engaged with the energy company after it was flagged by Insight's coal screening process. The issuer has a plan to phase out of coal by 2035, which is past Insight's deadline of 2030.

The company expressed confidence it will achieve its coal phaseout by the deadline, unless political barriers emerge. The plan for the next five years is to focus on gas; however, this continues its reliance on fossil fuels.

The company has a detailed transition plan to achieve Net Zero by 2050. However, its plan is heavily reliant on natural gas as a main source of energy. Insight will monitor the progress of the issuer's phaseout closely.