

## **The Family Action Pension Scheme – year to 31 December 2022**

### **Implementation Statement**

The Trustee of The Family Action Pension Scheme (the “Trustee” and the “Scheme” respectively) has prepared this implementation statement in compliance with the governance standards introduced under The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

Its purpose is to describe the actions taken over the past year and to demonstrate how the Trustee has followed the policies on voting, stewardship and engagement, as set out in the Scheme’s Statement of Investment Principles (the “SIP”) dated August 2021. This statement covers the year to 31 December 2022.

Whilst the Scheme has separate sections in the SIP for the Defined Contribution and the Defined Benefit sections, we have set out a unified implementation statement, as both sections have the same policies on voting and engagement.

### **Overview**

The Scheme’s Defined Benefit assets are held in pooled investment funds (via the Mobius Life investment platform) and the day-to-day management of these investments (including the responsibility for voting and engaging with companies) is delegated to the fund managers of the pooled investment funds (the “Fund Managers”).

Following the acquisition of BMO’s EMEA Asset Management business by Columbia Threadneedle in 2021, as of 1 July 2022 the enlarged business operates under the Columbia Threadneedle Investments brand.

The Fund Managers of the pooled investment funds over the period were Legal & General Investment Management (“LGIM”), Insight Investment (“Insight”), Columbia Threadneedle Investments (“CT”), BNY Mellon Investment Management Limited (“BNYM”) and TwentyFour Asset Management (“TwentyFour”).

As Trustee of the Scheme’s assets, we are responsible for the selection and retention of the funds. Reviewing the voting and engagement activities, for which we include details below, is an important exercise to help us ensure they remain appropriate and are consistent with the Fund Managers’ stated policies in this regard.

We are satisfied with the voting and engagement activities of the Fund Managers, and in particular, that they are using their position as stakeholder to engage constructively with investee companies; however, we will engage with the Fund Managers should we have any concerns about the voting and/or engagement activities carried out on our behalf.

The Trustee had no cause to challenge the Fund Managers’ voting and/or engagement activities during the year to 31 December 2022.

### **Changes to investment strategy**

During the year, there were no changes to the investment strategy of the Scheme.

## **Reporting and oversight**

The Trustee has regularly reviewed the performance of the funds over the year and performance information is set out elsewhere in this report. The Trustee is satisfied with the performance of the default life-style fund and the self-select fund range in the Defined Contribution section given their objectives. At the time of producing this statement, the DC Section comprises only two deferred members. The Trustee, in conjunction with the sponsoring employer, continues to review the operational efficiency and ongoing management of the DC Section, including potential alternatives to the current structure. This includes whether or not the interest of members may be better served and if members are likely to experience better value through the transfer of existing funds to an alternative arrangement. The Trustee is engaging with their advisors in this regard.

## **Changes to investment governance**

In November 2020, the Trustee put in place objectives for the current investment consultant. The purpose of these objectives is to help ensure they are getting good value for money. The Trustee will continue to assess performance, relative to these objectives on an annual basis.

## **Compliance with the Statement of Investment Principles**

The Trustee has reviewed the extent to which, in its opinion the Statements of Investment Principles have been followed in the year and the Trustee remains satisfied that it continues to follow all the principles, policies and processes as detailed in the Statement of Investment Principles.

## **Voting and engagement overview**

Details on voting and engagement activities provided by LGIM, Insight, BNYM, TwentyFour and CT are set out below. In order to produce this statement we have asked the Fund Managers a series of questions on their policies and actions and to provide examples relating to their voting and engagement activities during the year. We have then reviewed these and selected the most relevant comments for the purpose of this statement.

LGIM have provided information relating to the Multi-Asset (formerly Consensus) Fund as this fund holds equities for which they have voting rights.

BNYM have provided information relating to the Real Return Fund as this fund holds equities for which they have voting rights. The BNYM Global Dynamic Bond Fund does not hold equities and given that bonds do not confer voting rights, there was no voting carried out in relation to this fund. However, BNYM does undertake engagement activities in respect of its bond holdings and we have included an example below.

Insight have provided information relating to the Broad Opportunities Fund as this fund holds equities for which they have voting rights.

The CT LDI funds do not hold equities and given that these investments do not confer voting rights, there was no voting carried out in relation to these funds. The primary underlying counterparty for the LDI fund assets is the UK government; however the derivatives used means the funds will also have exposure to clearing houses and investment banks. Engagement with these types of organisations can be more difficult than engaging with companies issuing shares and debt, although it is an area that continues to evolve.

## **LGIM – voting and engagement activities**

The following commentary is based on the information that LGIM have provided in response to our questions and illustrates how they co-ordinate their voting and engagement activities with companies.

*"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 our clients. Our voting policies are reviewed annually and take into account feedback from our 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 we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.*

*All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.*

*LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our 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 we receive from ISS for UK companies when making specific voting decisions*

*To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.*

*We retain the ability in all markets to override any vote decisions, which are based on our 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 us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.*

*We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account. In determining significant votes, LGIM's*

*Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA)."*

Evidence that LGIM do not always vote 'For' management proposals, or in line with external recommendations (e.g. from ISS) is encouraging because it indicates that they are actively engaging with the companies they invest in, on behalf of the Scheme.

### **LGIM Multi-Asset (formerly Consensus) Fund (charges included)**

LGIM were eligible to vote on 98,805 resolutions. They voted on 99.8% of these. Votes: For 77%, Against 22%, Abstained <1%. On 12% of occasions LGIM voted against the recommendation provided by a proxy advisor (ISS).

There were 960 engagements over the year in relation to this fund.

The Trustee has reviewed LGIM's voting activity and has noted in particular the following votes for this fund:

#### **ROYAL DUTCH SHELL PLC**

Date: 24/05/2022

Resolution: Approve the Shell Energy Transition Progress Update

Vote: Against

*"A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, we remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.*

*LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.*

*LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote."*

#### **NORFOLK SOUTHERN CORPORATION**

Date: 12/05/2022

Resolution: Elect Director Mitchell E. Daniels, Jr.

Vote: Against

*"A vote against is applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. We are targeting the largest companies as we believe that these should demonstrate leadership on this critical issue.*

*LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.*

*LGIM views diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf."*

### **Insight – voting and engagement activities**

The following commentary is based on the information that Insight have provided in response to our questions and provides an illustration as to how they co-ordinate their voting and engagement activities with companies.

*"Insight retains the services of Minerva Analytics for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva Analytics provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote. Where contentious issues are identified, these are escalated to Insight for further review and direction.*

*The corporate structure of closed-end investment companies held in the strategy includes an independent board which is responsible for providing an overall oversight function on behalf of all shareholders. This governance framework includes a range of aspects including setting out investment objectives, and on an ongoing basis ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework, that is with an independent board acting on behalf of shareholders, generally limits contentious issues that can arise with other listed entities.*

*A key element of stewardship is proactive engagement with companies to ensure accurate analysis and to influence them to improve their practices. This engagement with issuers is a key part of our credit analysis and monitoring, and complements our approach to responsible investment. Given the size and depth of our credit analyst resource, one of the key inputs into our ESG analysis is the direct information which we receive from companies via engagements that take place with them*

*As a matter of policy, all our credit analysts regularly meet with issuers to discuss ESG-related and non-ESG related issues. Each analyst identifies the engagement issues relevant for each specific issuer. Insight will use ESG ratings and our proprietary carbon model to engage so-called 'laggard' companies. Meetings with company management provides the most effective and timely opportunity to raise these issues. If Insight does not already have regular meetings with a company's management, our investment teams are encouraged, in the first instance, to request a meeting with them. Where this is not possible, or additional action is deemed appropriate in order to further the interests of our clients, we may consider raising the issues with the company's broker or, if appropriate, the chairman. Further to this if we do not receive a response from the issuer regarding engagement then we will lead on a wider collaborative initiative, via the PRI or by engaging with other investors, to achieve greater influence over the issuer.*

*Additionally, as a global asset manager, we have an important role in financial markets. We believe that we must take a proactive role in ensuring the long-term sustainability of the markets – this is in our clients' long-term interests, as well as that of wider society. Long-term initiatives include:*

- *Active engagement with other industry members to ensure our clients' rights and considerations are fully represented, including:*
  - *Joining the Working Group on Sterling Risk-Free Rates.*
  - *Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.*
  - *Collaborating with peers on a range of issues, such as credit risk and ratings with the PRI initiative.*
  - *Encouraging issuers to submit their carbon emissions to CDP initiative.*
- *Development of new sources of repo liquidity – a key issue for pension funds seeking to manage risk efficiently and effectively.*
- *Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions – a key issue for pension funds seeking to manage risk effectively over the long term.*
- *Supporting the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through our Advisory Council role with the Green and Social Bond Principles.*

*These engagements inform the overall credit analyst views of the companies and provide a platform not only for both increased transparency around ESG issues, but also ongoing engagement to change company behaviour, where appropriate."*

### **Insight Broad Opportunities Fund**

The strategy invests in 11 listed closed-end investment companies with a focus on cash-generative investments in social and public, renewable energy and economic infrastructure sectors. Insight have voted in line with recommendations of their proxy voting provider on all occasions. Insight were unable to provide details on the number of resolutions voted on at the time of producing this report.

There were 34 engagements over the year in relation to this fund.

The Trustee has reviewed Insight's engagement activity and has noted in particular the following example for this fund:

#### **S&P DOW JONES INDICES LLC**

Rationale:

*"As we make significant use of derivative instruments in the strategy, we have long been proponents of the development of these markets to help enhance responsible investment and promote adoption. We encourage the continual development of the relatively under-provided for ESG index-based instruments where appropriate.*

Action:

*"During Q1 2022, we participated in a consultation on suitability for further limiting exposure to companies involved in controversial weapons, small arms and military contracting; exposure to oil sands extraction and tobacco related industries in the S&P 500 ESG index. The consultation was organised by S&P Dow Jones Indices and proposed the exclusion of 13 companies representing c2% of the index. Our analysis suggested that the proposed exclusions could improve ESG outcomes without*

*materially altering the expected risk/return profile. We provided feedback in favour of the proposed changes."*

Outcome:

*"The changes proposed in the consultation came into effect from May 22 and improved (reduced) the threshold for inclusion of companies involved in controversial weapons, small arms and military contracting; exposure to oil sands extraction and tobacco related industries in the S&P 500 ESG index. We aim to maintain an ongoing dialogue with relevant index providers with a view to further improve ESG outcomes."*

### **BNYM – voting and engagement activities**

The following commentary is based on the information that BNYM have provided in response to our questions and illustrates how they co-ordinate their voting and engagement activities with companies. Newton are a subsidiary of BNYM and are the entity that manage the Real Return and Global Dynamic Bond funds.

*"We believe the value of our clients' portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Our understanding of a company's fundamental business enables us to assess the appropriate balance between the strict application of corporate governance policies and taking into account a company's unique situation.*

*We do not maintain a strict proxy voting policy. Instead, we prefer to take into account a company's individual circumstances, our investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. For the avoidance of doubt, all voting decisions are made by Newton.*

*It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence. It is also only in these circumstances when we may register an abstention given our stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures we do not provide confusing messages to companies.*

*Voting decisions take into account local market best practice, rules and regulations while also supporting our investment rationale. For example, when voting on the election of directors in Japan, we are unlikely to vote against a board chair should the board not be majority independent given that only recently the corporate governance code has recommended boards appoint independent directors. However, in the UK, where majority independent boards are well established and expected by investors, we are likely to vote against the chair and non-independent directors. This being said, we frequently vote against executive pay at US companies despite it being accepted US market practice of granting significant awards of free shares, as we believe executive pay should be aligned with performance."*

## **BNYM Real Return Fund**

BNYM voted on 1,287 resolutions. Votes: For 89%, Against 11%, Abstained 0%.

There were 42 engagements over the year in relation to this fund.

The Trustees have reviewed BNYM's voting activity and have noted in particular the following vote for this fund:

### **GREENCOAT UK WIND PLC**

Date: 28/04/2022

Resolution: Re-elect Shonaid Jemmett-Page as Director

Vote: AGAINST

*"We voted against the re-election of the chairperson of the board. We raised concerns over the past share issuance undertaken by the trust. We believe the share placing was not conducted in a manner that was in the best interests of shareholders and the share placing would be at a discount to NAV had it been recalculated on the back of increasing power prices. The vote was deemed significant given the proposal failed to include industry accepted best practice in terms of pricing of placed shares. In such circumstances, the expected minimum is that the shares would be issued at or above their prevailing net asset value, which would prevent unnecessary value dilution for existing shareholders."*

## **BNYM Global Dynamic Bond Fund**

The fund does not hold equities and therefore does not have the same voting rights as some other funds. However, Newton's engagement activities are undertaken for all the companies that they hold and so they also engage with the companies whose bonds are held in this fund. There were 186 engagements over the year in relation to this fund.

The Trustees have reviewed BNYM's engagement activity and have noted in particular the following example for this fund:

### **VOLKSWAGEN**

*"We had a follow-up meeting with the company following MSCI deeming it to be in breach of the UNGC. While we acknowledge the company's clarification that it has exposure to the plant in question via a joint venture, rather than direct ownership, we shared our view that this argument was technical in nature and appeared defensive. Instead, the company needs to better communicate its approach to supply-chain audits and risk management, particularly in sensitive regions. Furthermore, while the company's exposure is via a joint venture, it still has accountability on expectations placed on the practices of its joint-venture partner."*

*Despite this follow-up discussion, our concerns remain regarding how the company is properly managing this risk, particularly as it appears committed to continuing with the partnership, which is important for the company to be able to sell vehicles into this market. We do acknowledge the challenges of maintaining supply chains in this region and note that there is a lesser chance of this being a high-risk exposure for the company given the skilled nature of the roles and the smaller size of the plant. Furthermore, the company does not use intermediaries to manage this risk better."*



## **TwentyFour – engagement activities**

The following commentary is based on the information that TwentyFour have provided in response to our questions on voting and engagement. They are fixed income investors only and therefore do not have an opportunity to vote. The following commentary illustrates how they co-ordinate their engagement activities with companies.

*"We believe that acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general, and as such we are very happy to do so when appropriate. We have actively worked with other managers to help improve the governance of the sectors in which we operate, which we believe is beneficial for all of our respective clients."*

*TwentyFour is regularly consulted as an advisor by the Bank of England, the PRA/FCA, the UK Treasury, The European Commission and the European Banking Authority, as well as a number of other EU finance ministries (BaFin, DNB, and Bank of France etc.)*

*As Fixed Income investors we are focused on protecting against the downside and this is where we focus our efforts when engaging. In certain instances we have engaged with management on subjects that we hope will influence management behaviour and decisions over the long term, and in some cases this may lead to improved financial outcomes – but our core focus remains on protecting against the downside."*

## **TwentyFour Absolute Return Credit Fund**

The fund does not hold equities and given that bonds do not confer voting rights, there was no voting carried out in relation to this fund. However, TwentyFour does undertake engagement activities in respect of its bond holdings.

There were 233 engagements over the period in relation to this fund. The Trustees have reviewed TwentyFour's engagement activity and have noted in particular the following examples for this fund:

### **ALLIANZ**

*Issue: "We engaged with Allianz following the miss-selling of structured alpha funds to clients through fund mismarketing and mismarking of performance."*

*Action: "We were satisfied with Allianz's response that this was an isolated incident, supported by a US Department of Justice ruling that called it "limited". Allianz has paid compensation externally, while internally it has actually reduced the number of committees in its risk department to make accountability and responsibility more clear. It has also increased external auditing of the risk and compliance functions to ensure this does not happen again."*

*Outcome: "In our view management has taken appropriate steps to prevent a recurrence, and we will continue to hold."*

## **ORSTED**

*Issue: "As a leader in the European renewables sector, we asked Orsted for an update on the planned closure of its remaining coal assets."*

*Action: "The planned closure of coal assets next year has been pushed back to 2024/25, following orders from the government keep them open as a result of the current energy crisis. This is obviously not ideal from an environmental perspective, however this is completely out of management's control and given the current energy crisis, the government's decision is understandable. We will continue to monitor updates on decommissioning, but this development should not punish Orsted's environmental profile. Orsted is a world leader in offshore wind, and aside from the coal assets it has incredibly strong environmental credentials."*

*Outcome: "Management have been honest with their challenges in coal decommissioning; continue to monitor."*

## **AKELIUS**

*Issue: "Akelius' purchase of a 12% stake in Castellum raised some governance concerns for a number of reasons; it did not align with the company's investment plans, it came at a time when Castellum's owner was said to be in financial trouble, and it occurred when Castellum was in a blackout period, which tends to prohibit this kind of activity."*

*Action: "We arranged a call with management to get further clarity on these issues and to determine whether there are material governance concerns. The overall response wasn't great, and management struggled to defend our claims. The relationship between the CEOs remains suspicious; they are good friends and the rationale for the purchase didn't go any further than "it was cheap," which didn't fill us with confidence. We are also concerned that Akelius could increase its stake further, increasing the divergence with the current investment plan."*

*Outcome: "Unsatisfactory rationale around governance concerns; remain uninvested."*

## **CT – engagement activities**

The following commentary is based on the information that CT have provided in response to our questions and illustrates how they co-ordinate their engagement activities with companies. These examples provide evidence that they are engaging actively with the companies they invest in on behalf of the Scheme.

*"We take responsible investment seriously. The identification of financially material environmental, social and governance (ESG) issues forms part of our investment process, helping us to manage risk and support long-term returns. Beyond the management of opportunity and risk, we also see responsible investing and broader investment stewardship activities as part of our duty as an investor acting in the best interest of our clients, and as a participant in the global financial system.*

*Our approach is aligned with the core values and beliefs of the wider financial group, and draws on national and international codes and standards for responsible investment and*

ownership, including the United Nations Principles for Responsible Investment, to which we are a founder signatory.

*LDI portfolios are very different to traditional equity or bond portfolios and so our engagement programme primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (both in terms of companies to whom we have the greatest exposure and to companies whom we feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones.'*

### **CT Dynamic LDI Funds**

These funds contain investments that provide exposure to long dated interest rates / inflation. They do not hold any physical equity investments and are therefore not eligible to vote. However, CT does still engage with counterparty banks on relevant issues.

There were 16 engagements over the first half of 2022 and 7 engagements over the second half of 2022 in relation to all CT LDI portfolios.

They have provided the following examples:

#### ***BARCLAYS PLC***

*"At the Q3 investor update, the company announced that it was accelerating its timeline to phase out the financing of thermal coal power in the US from 2035 to 2030, in line with its approach in the UK and EU. The decision was taken as a result of engagement with shareholders and the introduction of the Inflation Reduction Act in the US."*

#### ***HSBC HOLDINGS PLC***

*"HSBC has updated its energy policy to include the ending of funding for new oil and gas projects. In particular it states: HSBC will not provide new finance, or new advisory services, to any client for the specific purposes of O&G exploration, appraisal, development, and production pertaining to:*

- ultra-deepwater offshore O&G projects;*
- shale oil projects; extra heavy oil projects;*
- projects in environmentally and socially critical areas;*
- infrastructure whose primary use is in conjunction with the above activities."*

### **Signed on behalf of the Trustee of the Family Action Pension Scheme**

*Signed by Helen Frisby on 14 June 2023*

**Helen Frisby**

**Director - Independent Trustee Services Limited**

**Date: 14 June 2023**