

# Mount Charlotte 1977 Retirement Benefits Scheme Implementation Statement – April 2024

## Why have we produced this Statement?

The Trustees of the Mount Charlotte 1977 Retirement Benefits Scheme have prepared this statement to comply with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

This statement sets out how the Trustees have complied with the voting and engagement policies detailed in the Scheme's Statement of Investment Principles (SIP).

## What is the Statement of Investment Principles (SIP)?

The SIP sets out key investment policies including the Trustees' investment objectives and investment strategy.

It also explains how and why the Trustees delegate certain responsibilities to third parties and the risks the Scheme faces and the mitigated responses.

The Trustees last reviewed the SIP in January 2024.

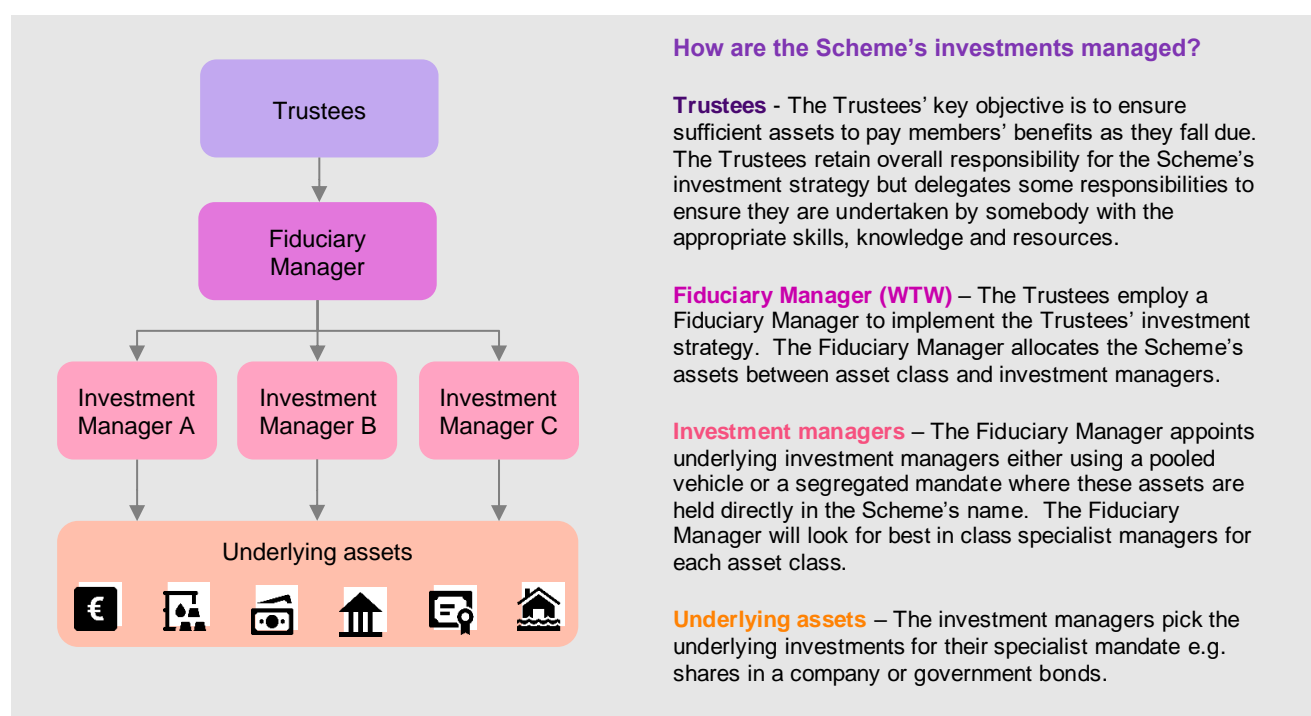
## What is the purpose of this Statement?

1. To explain how the Trustees' engagement policy has been applied over the year.
2. To describe the voting rights attached the Scheme's assets have been exercised over the year.

## What changes have we made to the SIP?

The Trustees have made the following changes to the SIP over the year:

- Added information on the Trustees' stewardship policy including their priorities which are: climate change, biodiversity and diversity, equity and inclusion.
- Details on how the Fiduciary Manager assesses the voting policies of the Scheme's investment managers.
- Further defined the management of interest rate and inflation risk



### Why does the Trustees believe voting and engagement is important?

The Trustees' view is that Environmental, Social and Governance (ESG) factors can have a significant impact on investment returns, particularly over the long-term and therefore contribute to the security of members' benefits. The Trustees further believe that voting and engagement are important tools to influence these issues.

The Trustees have appointed a Fiduciary Manager who shares this view and has embedded the consideration of ESG factors, voting and engagement in its processes.

The Trustees incorporate an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

### What are the Trustees' voting and engagement policy?

When considering its policy in relation to stewardship including engagement and voting,

the Trustees expect investment managers to address broad ESG considerations, but has identified climate change, biodiversity and diversity, equity & inclusion as key areas of focus for the Trustees.

The day-to-day integration of ESG considerations, voting and engagement are delegated to the investment managers. The Trustees expect investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital.

Where ESG factors are considered to be particularly influential to outcomes, the Trustees expect the Fiduciary Manager to engage with investment managers to improve their processes.

### What training have the Trustees received over the year?

To ensure the Trustees are kept up to date with best practice in ESG considerations, voting and engagement the Trustees received specific training from the Fiduciary Manager on stewardship priorities and climate metrics.

## What are the Fiduciary Manager's policies?

### Climate change and net zero pledge

The Trustees believe Climate Change is a current priority when engaging with public policy, investment managers and corporates.

The Fiduciary Manager has committed to targeting net zero greenhouse gas emissions by 2050 at the latest, with a 50% reduction by 2030, in the portfolios that it manages including the Scheme's.

### Public policy and corporate engagement

The Fiduciary Manager partners with EOS at Federated Hermes, whose services include public policy engagement, and corporate voting and engagement on behalf of its clients (including the Trustees).

Some highlights from 2023 include:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives.
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations on 128,101 resolutions, with 22,716 against management.
- Active participation in a range of global stewardship initiatives.

### Industry collaboration initiatives

The Fiduciary Manager engages in several industry initiatives including:

- Signatory of the UK Stewardship Code
- Co-founder of the Net Zero Investment Consultants Initiative
- Member of Net Zero Asset Managers Initiative
- Signatory of the Principles for Responsible Investment (PRI)
- Member of the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC)
- Co-founder of the Investment Consultants Sustainability Working Group
- Founding member of The Diversity Project
- Supporter of the Transition Pathway Initiative

## How does the Fiduciary Manager assess the investment managers?

**Investment manager appointment** - The Fiduciary Manager considers the investment managers' policies and activities in relation to ESG factors and stewardship (which includes voting and engagement) at the appointment of a new manager. In 2023 the Fiduciary manager conducted engagements with over 150 managers on sustainability and stewardship. In 2022 it also introduced engagement priorities on climate, modern slavery and engagement reporting for all our asset managers.

**Investment manager monitoring** - The Fiduciary Manager produces detailed reports on the investment managers' ESG integration and stewardship capabilities on an annual basis.

**Investment manager termination** - The Fiduciary Manager engages with investment managers to improve their practices and increases the bar by which they are assessed as best practice evolves. The Fiduciary Manager may terminate an investment manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no investment managers were terminated on these grounds during the year.

## Example of engagement carried out over the year

### High yield manager Environment - Climate issue

**Issue:** This manager is an underlying exposure that sits within the Fiduciary Manager's broader high yield credit portfolio. As the Fiduciary Manager increased its minimum standards and expectations over time in relation to SI, this manager became a clear laggard relative to other exposures in the portfolio, lacking a framework for both ESG integration and engagement. The Fiduciary Manager communicated its concerns with the manager who committed to a plan to significantly improve their capabilities and resources spent here. During this process, the Fiduciary Manager stopped allocating new capital to this manager.

**Outcome:** The manager has now made significant process on their SI capabilities, as well as the commitments made as part of the engagement process. They have developed a new ESG integration framework, as well as a checklist for both new and existing investments to ensure all holdings are analysed using correct ESG data sources, and any concerns are documented. They have also started producing ESG reporting, such as emissions at a portfolio level.

The manager has now also shown a number of positive ESG engagement examples with underlying holdings. Whilst this remains a work in progress, this has become a much great focus for analysts at the firm, which is viewed positively.

### Infrastructure manager Environment - Climate issue

**Issue:** Infrastructure stocks typically screen highly for emissions. The manager's Core Infrastructure strategy is more than 50% invested in electric generation (integrated power and transmission and distribution) and energy infrastructure assets, which have significant amounts of carbon intensity. More than 80% of the carbon intensity of the Core strategy comes from the top 20 stocks, with majority from the electricity generation sector. We have engaged with the manager to understand how they assess climate and ESG risks particularly for these high-emitting stocks.

**Outcome:** This manager has produced an emissions abatement analysis to determine the baseline emissions of companies and understand their progress in meeting their net zero targets. Positively, the majority of the 20 high-emitting companies have made strong progress on their targets. Whilst one company reported higher emissions than the baseline due to higher utilization rates, it has implemented initiatives to reduce emissions overall.

The manager is continuously monitoring its constituents through the emissions abatement analysis and its "SAFE" transition methodology framework to ensure companies are making progress on their targets. The SAFE framework classifies each stock as 'Secure', 'Aligned', 'Transforming', and 'Vulnerable'. 'Transforming' and 'Vulnerable' companies are analysed further for stranding risk and are engaged with through a staged escalation process, where ultimately divestment would occur if companies do not deliver results within a reasonable timeframe.

We have asked the manager to include changes in company ratings from the SAFE framework to be included in annual reporting. We continuously monitor the evolution of the SAFE framework.

### Emerging Market Debt manager Environment - Climate issue

**Issue:** While we know anecdotally that the manager's underlying fund is engaging robustly with certain issuers, we have asked for regular and consistent engagement reporting to evidence this and ensure the engagement is not selective or ad-hoc.

**Outcome:** We are agreeing a template that we believe provides sufficient evidence of ongoing actions and follow ups. This will be included in quarterly reporting packs for WTW.

### What are the voting statistics we provide?

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example bonds do not have voting rights attached. Therefore, voting information was only requested from the Scheme's equity investment managers within the Scheme's Core Diversified Fund.

Responses received are provided in the following page. The Trustees used the following criteria to determine the most significant votes:

- Trustees' stewardship priorities (climate change, biodiversity and diversity, equity & inclusion)
- Financial outcome for members, including size of holding
- High profile votes

The Scheme is invested in both active (trying to outperform the market) and passive (aiming to perform in line with the market) equity funds. The Trustees has decided not to publicly disclose active investment manager names as the Trustees believes this could impact the investment manager's ability to generate the best investment outcome.

### In conclusion...

...The Trustees are satisfied that over the year, all SIP policies and principles were adhered and in particular, those relating to voting and engagement.

# Towers Watson Investment Management – Core Diversified Fund

## Voting activity over the year

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Number of votes eligible to cast: 41,990  
Percentage of eligible to cast: 95.7%



■ For: (85.7%) ■ Against: (14.2%) ■ Abstain: (0.1%)

### Significant vote

**Company:** Alphabet

**% Fund:** 1.1%

**Vote topic:** Report on risks of doing business in countries with significant human rights concerns

**Issue:** Transparency related to business conducted in places with significant human rights concerns

**Voting instruction:** For management resolution

**Outcome:** Failed the resolution

**Why a significant vote?** The manager believes transparency on country risk is a non-controversial proposal and serves both Social and Governance interests

**Next steps:** The manager will vote for similar measures in the future

### Significant vote

**Company:** Berkshire Hathaway Inc.

**% Fund:** 0.3%

**Vote topic:** Report if and how company will measure, disclose and reduce greenhouse gas emissions

**Issue:** Shareholder proposal promotes better management of ESG opportunities and risks

**Voting instruction:** For management resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Vote against management, large holding in portfolio

**Next steps:** None to report

**Voting policy:** As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. The manager expects all of their underlying managers who hold equities over a reasonable timeframe to vote all shares they hold. The manager has appointed EOS at Federated Hermes (EOS) to provide voting recommendations to enhance engagement and achieve responsible ownership. EOS also carries out public policy engagement and advocacy on behalf of all of their clients. In addition, EOS is expanding the remit of engagement activity they perform on the manager's behalf beyond public equity markets, which will enhance stewardship practices over time.