

Macfarlanes Pension Scheme

Implementation Statement

This is the Implementation Statement prepared by the Trustees of the Macfarlanes Pension Scheme (“the Scheme”) and sets out:

- How the Trustees’ policies on exercising rights (including voting rights) and engagement have been followed over the year.
- The voting behaviour of the Trustees, or that undertaken on their behalf, over the year to 31 December 2020.

How voting and engagement policies have been followed

The Scheme invests entirely in pooled funds, and as such delegates responsibility for carrying out voting and engagement activities to the Scheme’s fund managers.

The Trustees reviewed the stewardship and engagement activities of the current managers during the year, alongside preparation of the Implementation Statement. The Trustees were satisfied that the managers’ policies were reasonable and no further remedial action was required during the period.

Having reviewed the above in accordance with their policies, the Trustees are comfortable the actions of the fund managers are in alignment with the Scheme’s stewardship policies.

Voting Data

Voting only applies to equities held in the portfolio. The Scheme’s equity investments are held through pooled funds, and as such the investment managers of these funds vote on behalf of the Trustees.

The Scheme’s equity investments are managed by Legal & General Investment Management (“LGIM”) and Columbia Threadneedle Investments (“Columbia Threadneedle”). The table below provides a summary of the voting activity undertaken by each manager during the year to 31 December 2020.

Manager	LGIM	Columbia Threadneedle
Fund name	Global Equity Market Weights (50:50) Index	Dynamic Real Return Fund
Structure	Pooled	
Does manager vote at a fund level or at a firm-wide level?	Fund	
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustees to influence the manager’s voting behaviour.	
Number of company meetings the manager was eligible to vote at over the year	4,007	347
Number of resolutions the manager was eligible to vote on over the year	48,638	4,565

Manager	LGIM	Columbia Threadneedle
Percentage of resolutions the manager voted on	99.59%	98.10%
Percentage of resolutions the manager abstained from	0.43%	2.39%
Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on	83.63%	91.43%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	15.94%	6.18%
Percentage of resolutions voted contrary to the recommendation of the proxy advisor	0.38%	n/a*

*Columbia Threadneedle's final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations.

Significant votes

For the first year of implementation statements we have delegated to the investment managers to define what a "significant vote" is. A summary of the data they have provided is set out below.

LGIM, Global Equity Market Weights (50:50) Index

	Vote 1	Vote 2	Vote 3
Company name	Qantas Airways Limited	Whitehaven Coal	International Consolidated Airlines Group
Date of vote	23/10/2020	22/10/2020	07/09/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	<i>This information was not provided.</i>	<i>This information was not provided.</i>	<i>This information was not provided.</i>
Summary of the resolution	Resolution 3: Approve participation of Alan Joyce (CEO) in the Long-Term Incentive Plan Resolution 4: Approve Remuneration Report.	Resolution 6: Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.	Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020.
How the manager voted	LGIM voted against resolution 3 and supported resolution 4.	LGIM voted for the resolution.	LGIM voted against the resolution.
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes	Yes	Yes
Rationale for the voting decision	LGIM wanted to ensure the impact of the COVID crisis on the company's stakeholders	The role of coal in the future energy mix is increasingly uncertain, due to the	The COVID-19 crisis and its consequences on international transport have negatively

	Vote 1	Vote 2	Vote 3
	<p>was appropriately reflected in the executive pay package. LGIM engaged with the Head of Investor Relations of the company to express their concerns and understand the company's views. They supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. LGIM's concerns as to the quantum of the 2021 LTIP grant remained and so they voted against resolution 3.</p>	<p>competitiveness of renewable energy, as well as increased regulation. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.</p>	<p>impacted this airline company's financial performance and business model. LGIM were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. We noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience.</p>
Outcome of the vote	Both resolutions passed, with 90% of shareholders supporting resolution 3 and 91% supporting resolution 4.	The resolution did not pass. However, the environmental profile of the company continues to remain in the spotlight.	The resolution passed, with 28.4% of shareholders opposing the remuneration report.
Implications of the outcome	LGIM will continue to engage with and monitor the company.	LGIM will continue to engage with and monitor this company.	LGIM will continue to engage with and monitor closely the renewed board.
Criteria on which the vote is considered "significant"	It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.	The vote received media scrutiny and is emblematic of a growing wave of green shareholder activism.	It illustrates the importance for investors of monitoring LGIM's investee companies' responses to the COVID crisis.

Columbia Threadneedle Investments, Threadneedle Dynamic Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	Amazon.com Inc.	Alphabet Inc.	Facebook Inc.
Date of vote	27/05/2020	03/06/2020	27/05/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.89%	0.84%	0.43%
Summary of the resolution	Elect Director Thomas O. Ryder	Elect Director L. John Doerr	Report on Median Gender/Racial Pay Gap
How the manager voted	Against	Withheld	For
If the vote was against management, did the manager communicate their	No	No	No

	Vote 1	Vote 2	Vote 3
intent to the company ahead of the vote?			
Rationale for the voting decision	Director is an affiliate serving on a key committee.	Compensation committee chair; concerns around compensation.	Material social risk for business; in shareholders' interests.
Outcome of the vote	Passed	Passed	Not passed
Implications of the outcome	Columbia Threadneedle will continue to actively engage with the company.	Columbia Threadneedle will continue to actively engage with the company.	Columbia Threadneedle will continue to actively engage with the company.
Criteria on which the vote is considered "significant"	The manager voted against management.	The manager voted against management.	The manager voted against management.

Fund level engagement

The investment managers may engage with their investee companies on behalf of the Trustees. The table below provides a summary of the engagement activity undertaken by LGIM and Columbia Threadneedle during the year.

Please note that both investment managers have only provided the engagement data at a firm wide level.

Manager	LGIM	Columbia Threadneedle Investments
Fund name	Global Equity Market Weights (50:50) Index, Leveraged Gilt Funds and Sterling Liquidity Fund	Dynamic Real Return Fund
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	<i>This information was not provided.</i>	<i>This information was not provided.</i>
Number of engagements undertaken at a firm level in the year	891	278
Examples of engagements undertaken	Areas covered by engagements include: climate change, gender and ethnic diversity, remuneration and Covid-19.	Areas covered by engagements include: climate change, energy & climate transition, health, wellbeing and food security.

Summary

Based on the information received, the Trustees believe that the fund managers have acted in accordance with the Scheme's stewardship policies.

Where information is not included, it has been requested but has not been provided in a useable format or at all by the investment manager. The Trustees' investment consultants are in discussion with the managers around how this data will be provided for future statements.

**Prepared by the Trustees of the Macfarlanes Pension Scheme
8 April 2021**