

Implementation Statement

Macfarlanes Pension Scheme

Purpose of this statement

This implementation statement has been produced by the Trustees of the Macfarlanes Pension Scheme (“the Scheme”) to set out the following information over the year to 31 December 2023:

- how the Trustee’s policies on exercising rights (including voting rights) and engagement activities have been followed over the year.
- the voting activity undertaken by the Scheme’s investment managers on behalf of the Trustees over the year, including information regarding the most significant votes.

Stewardship policy

The Trustee’s Statement of Investment Principles (SIP) in force at 31 December 2023 describes the Trustee’s stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in September 2020 and has been made available online here: [Statement of Investment Principles \(macfarlanes.com\)](https://www.macfarlanes.com). The Scheme’s SIP will be updated shortly to reflect the purchase of a bulk annuity policy after the reporting period.

The Trustees elected not to set stewardship priorities for the Scheme as over the reporting period the Scheme solely invested through pooled investment vehicles where the Scheme’s asset only represents a small proportion of the capital invested in the funds. The Trustees understand that they are constrained by the policies of the managers. Additionally, only c.29% (£3.7m as at 31 December 2023) of the Scheme assets were invested in assets with voting rights attached. Post reporting year end, the Scheme restructured the asset allocation to invest in line with a specified price lock portfolio ahead of the purchase of a bulk annuity policy with an insurer. At this point, 0% of the Scheme’s assets had voting rights attached. As a result, the Trustees were comfortable not setting specific stewardship priorities. However, the Trustees have historically taken stewardship priorities, climate risk, and ESG factors into account during manager selection. The Trustees have also reviewed the stewardship and engagement activities of the investment managers annually.

How voting and engagement/stewardship policies have been followed

Based on the information provided by the Scheme’s investment managers, the Trustees believe that their policies on voting and engagement have been met in the following ways:

- 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.
- Additional information on the voting and engagement activities carried out for the Scheme’s investments are provided on the following pages.
- Annually the Trustees receive and review voting information and engagement policies for the asset managers, which they review to ensure alignment with the Trustees stewardship priorities. The Trustees

believe that the voting and engagement activities undertaken by the asset managers on their behalf have been in the members best interests.

- As part of ongoing monitoring of the Scheme's investment managers, the Trustees use ESG rating information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues.
- Having reviewed the above in accordance with their policies, the Trustees are comfortable the actions of the fund manager is in alignment with the Scheme's stewardship policies.

**Prepared by the Trustees of the Macfarlanes Pension Scheme
May 2024**

Voting Data

This section provides a summary of the voting activity undertaken by the investment managers within the Scheme's Growth Portfolio on behalf of the Trustees over the year to 31 December 2023. The leveraged gilts, index-linked gilts and the cash fund with LGIM have no voting rights and limited ability to engage with key stakeholders given the nature of the mandate. The LGIM Diversified Fund was fully disinvested during Q4 2023, as such data has been provided to the quarter end of disinvestment.

Manager	LGIM
Fund name	Diversified Fund
Structure	Pooled
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.
No. of eligible meetings	9,077
No. of eligible votes	94,290
% of resolutions voted	99.8%
% of resolutions abstained	0.2%
% of resolutions voted with management¹	76.4%
% of resolutions voted against management¹	23.4%
Proxy voting advisor employed¹	ISS
% of resolutions voted against proxy voter recommendation	14.6%

¹ As a percentage of the total number of resolutions voted on
Totals may not sum due to rounding

Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustee over the year to be set out. The guidance does not currently define what constitutes a "significant" vote. However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme's stewardship priorities / themes. The Trustees have not set explicit stewardship priorities / themes for the Scheme. So, for this Implementation Statement the Trustees have asked the investment managers to determine what they believe to be a "significant vote". The Trustees have not communicated voting preferences to their investment managers over the period, as no specific voting policy has been developed.

LGIM have provided a selection of 2,279 votes for the Diversified Fund which they believe to be significant. In the absence of agreed stewardship priorities / themes, the Trustees have selected 3 votes from each manager, that cover a range of themes to represent what it considers the most significant votes cast on behalf of the Scheme. To represent the most significant votes, the votes of the largest holdings relating to each topic are shown below. LGIM did not provide any significant votes for the Buy & Maintain Credit Fund.

A summary of the significant votes provided is set out below.

LGIM, Diversified Fund

	Vote 1	Vote 2	Vote 3
Company name	Prologis, Inc.	Shell Plc	Alphabet Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.42%	0.30%	0.10%
Summary of the resolution	Elect Director Jeffrey L. Skelton	Approve the Shell Energy Transition Progress	Approve Recapitalisation Plan for all stock to have one-vote per share
How the manager voted	Against	Against	For
Rationale for the voting decision	<p>A vote against was applied as LGIM expects a company to have at least one-third of the board be women. The executive committee is currently all male.</p> <p>LGIM also expect a board to be regularly refreshed (with the chair serving for no more than 15 years) in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.</p>	<p>A vote against was applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remain 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 1.5C trajectory.</p>	<p>A vote in favour was applied as LGIM expects companies to apply a one-share-one-vote standard.</p>
Outcome of the vote	Data not provided	Pass	Fail

	Vote 1	Vote 2	Vote 3
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM continues to undertake extensive engagement with Shell on its climate transition plans	In light of the vote not passing, LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.
Criteria on which the vote is considered "significant"	Diversity - LGIM views gender diversity as a financially material issue for their clients, with implications for the assets LGIM manage on their behalf.	Climate - LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant.	High Profile meeting - This shareholder resolution is considered significant due to the relatively high level of support received.

Fund level engagement

The investment managers may engage with investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken by each manager during the year for the relevant funds.

Engagement activities are limited for the Scheme's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown. As with the voting data, engagement data for the LGIM Diversified Fund is shown to the quarter end of disinvestment (i.e. Q4 2023).

Manager	LGIM	LGIM
Fund name	Diversified Fund	Buy & Maintain Credit Fund
Number of engagements undertaken on behalf of the holdings in this fund in the year	1,874	154
Number of engagements undertaken at a firm level in the year	2,486	

Examples of engagement activity undertaken over the year to 31 December 2023

LGIM

Volkswagen

As part of their programme of engagement, LGIM are looking to:

1. Understand how governance practices are enforced at Volkswagen's new plant, opened in Xinjiang via a joint venture. The new plant faced a number of controversies following concerns around the use of forced labour by multinational corporations operating in China.
2. Work with the company as they identify a solution to obtain the removal of a red flag applied by MSCI in response to allegations of forced labour at their operations in Xinjiang.

3. Determine long-term solutions to prevent future governance controversies relating to human rights or labour-related practices.

LGIM have maintained a regular and continuous dialogue with the company for many years regarding strategic direction and other governance questions, e.g. following the 'Diesel-gate' scandal in 2015. Since MSCI assigned a red flag controversy in late 2022, LGIM increased dialogue with the company further, and have engaged on the question of human rights and the company's presence in Xinjiang with senior management and investor relations specialists. Communication has taken place via multiple channels, including in person, conference calls and written correspondence.

LGIM's engagement with Volkswagen has been well received and they are happy that the company has taken the issue very seriously and acted to attempt to resolve the situation in a proactive and pragmatic manner. Following multiple discussions with investors, Volkswagen commissioned an independent audit of its new joint venture plant in Xinjiang, which was conducted in December 2023. This audit was conducted by a high profile and well-respected body and addressed the main concerns around operations at the plant. The completion of the audit resulted in MSCI subsequently removing its red controversy flag.