

# *Implementation Statement, covering the Scheme Year from 1 January 2022 to 31 December 2022*

The Trustee of the Castle Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the year. This is provided in Section 1 below.

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 their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 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.

## **1. Introduction**

No changes were made to the voting and engagement policies in the SIP during the year.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the year.

## **2. Voting and engagement**

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. These policies are listed in the link below for the Scheme’s only investment manager which held listed equities at year end, LGIM:

- [LGIM Vote Disclosures \(issgovernance.com\)](#)

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.

In May 2022, the Trustee reviewed LCP’s responsible investment (RI) scores for the Scheme’s managers and funds, along with LCP’s qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the managers’ approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP’s ongoing manager research programme, and it is these that directly affect LCP’s manager and fund recommendations. The manager scores and red flags are based on LCP’s Responsible Investment Survey 2022. These scores are also summarised in the Scheme’s quarterly performance monitoring reports.

The Trustee was satisfied with the results of the review and no further action was taken. The Trustee continues to monitor the manager and fund level scores on a quarterly basis.

Following the introduction of DWP’s guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with its investment managers on specific ESG factors. In November 2022 the Trustee received training on the DWP Stewardship Guidance, and discussed and agreed stewardship priorities for the Scheme which were: Pollution, Human Rights and Remuneration.

The Trustee communicated these priorities to its managers in March 2023. The Trustee’s quarterly investment report has been updated to include examples of Stewardship activities related to its priorities undertaken by its investment managers.

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

In addition to the above, as part of the Trustee's quarterly review of the Scheme's investments, the investment advisor, LCP, highlights to the Trustee whether there have been any developments in this area that require the Trustee's attention.

A sub-set of Group Trustees sit on a Joint Investment Sub-Committee ("JISC") comprising of Trustees from three schemes associated with the sponsoring employer. Over the year under review the JISC has received training in relation to a wide range of climate-related topics. This has included training on: the new Task Force on Climate Related Financial Disclosure ("TFCD") requirements for large pension schemes; the types of climate risks and opportunities facing pension schemes; how to identify, assess and manage climate risks; and the metrics schemes can use to monitor their climate exposures.

The JISC regularly invites the Scheme's investment managers to present at Trustee meetings. Over the year, the JISC met with Baillie Gifford and IFM discuss the Scheme's investments, including how they used voting, engagement and their influence with seats on portfolio boards (where applicable) to improve outcomes for their portfolios.

### **3. Description of voting 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 year. However, the Trustee monitors managers' voting and engagement behaviour on a quarterly basis and will challenge managers if their activity has not been in line with the Trustee's expectations.

In this section we have 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 held equities over the year as follows:

- LGIM World Equity Index Fund;
- LGIM World (ex UK) Developed Equity Index Fund;
- LGIM UK (World) Equity Index Fund;
- LGIM World Emerging Markets Equity Index Fund; and
- Baillie Gifford Diversified Growth Fund.

We note that the allocations to the Baillie Gifford Diversified Growth Fund, LGIM World (ex UK) Developed Equity Index Fund, LGIM UK (World) Equity Index Fund and LGIM World Emerging Markets Equity Index Fund were fully redeemed during the year. However, our interpretation of the guidance is that information for these allocation should still be included. As voting information was not available for the part periods in which the Scheme was invested, we have included voting information which covers the entire year for these funds.

The underlying holdings of the IFM Global Infrastructure fund are primarily private equity investments rather than public listed equities. However, IFM may invest in listed equity assets from time-to-time to help gain long-term strategic positions. IFM holds board seats for all investments in their fund (including listed equity assets) and uses these positions to help influence their portfolio companies. We have omitted data relating to IFM's listed equity investment on materiality grounds since they are only a small proportion of the Scheme's total equity holdings and given IFM's position on the board of these companies.

In addition to the above, the Trustee contacted the Scheme's other asset managers that don't hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. The Scheme's other investment managers confirmed that there were no voting opportunities for their funds over the period.

#### **3.1 Description of the voting processes**

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place. The Trustee reviews its manager's stewardship activities in relation to their stewardship priorities on a quarterly basis and is comfortable that actions taken by the managers over the year were aligned with the Trustee's views.

#### **A summary of LGIM's voting processes**

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 LGIM clients. LGIM's voting policies are reviewed annually and take into account feedback from clients. Every year, LGIM holds a stakeholder roundtable

event where clients and other stakeholders are invited to express their views directly to the members of the Investment Stewardship team.

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with LGIM's 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 LGIM's stewardship approach flows smoothly 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 electronic voting platform to electronically vote using clients' shares. All voting decisions are made by LGIM and no part of the strategic decision-making process is outsourced. 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 to supplement the research reports that it receives from ISS for UK companies when making specific voting decisions.

To ensure its proxy provider votes in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

LGIM retains the ability in all markets to override any vote decisions. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies.

As regulation on vote reporting has recently evolved with the EU Shareholder Rights Directive II, LGIM wants to ensure it continues to help its clients in fulfilling their reporting obligations. LGIM believes public transparency of its voting activity is critical for its clients and interested parties to hold them to account.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the PLSA guidance. This includes but is not limited to:

- a high profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- a sanction vote as a result of a direct or collaborative engagement; and
- a vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

It is vital that the proxy voting service are regularly monitored and LGIM does this through quarterly due diligence meetings with ISS. LGIM has its own internal Risk Management System (RMS) to provide effective oversight of key processes. Annually, as part of LGIM's formal RMS processes the Director of Investment Stewardship confirms that a formal review of LGIM's proxy provider has been conducted and that it has the capacity and competency to analyse proxy issues and make impartial recommendations.

Vote information is updated on a daily basis and with a lag of one day after a shareholder meeting is held. It also provides the rationale for all votes cast against management, including votes of support to shareholder resolutions.

### **3.1.2 Baillie Gifford**

Baillie Gifford's voting decisions are made by its Governance & Sustainability team in conjunction with investment managers. Baillie Gifford does not regularly engage with clients prior to submitting votes. Baillie Gifford considers thoughtful voting of its clients' holdings as an integral part of its commitment to stewardship. It believes that voting should be investment led, because utilisation of votes is an important part of the long-term investment process, which is why Baillie Gifford's strong preference is to be given this responsibility by its clients. The ability to vote its clients' shares also strengthens Baillie Gifford's position when engaging with investee companies. The Governance and Sustainability team oversees Baillie Gifford's voting analysis and execution in conjunction with its investment managers. Baillie Gifford does not outsource any part of the responsibility for voting to third-party suppliers and utilises research from proxy advisers for information only. Additionally, Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and endeavours to vote every one of its clients' holdings in all markets.

Whilst it is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), Baillie Gifford does not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on its clients' shares. All client voting decisions are made in-house. Baillie Gifford votes in line with its

in-house policy and not with the proxy voting providers' policies. Baillie Gifford also has specialist proxy advisors in the Chinese and Indian markets to provide it with more nuanced market specific information.

Baillie Gifford has stated that the list below is not exhaustive, but provides examples of significant voting situations:

- Baillie Gifford's holding had a material impact on the outcome of the meeting;
- the resolution received 20% or more opposition and Baillie Gifford opposed;
- egregious remuneration;
- controversial equity issuance;
- shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders;
- where there has been a significant audit failing;
- where Baillie Gifford has opposed mergers and acquisitions;
- where Baillie Gifford has opposed the financial statements/annual report; and
- where Baillie Gifford has opposed the election of directors and executives.

### 3.2 Summary of voting behaviour over the year

A summary of voting behaviour over the year is provided in the table below.

	LGIM – World Equity Index Fund	LGIM – World (ex UK) Developed Equity Index Fund	LGIM – UK (World) Equity Index Fund	LGIM – World Emerging Markets Equity Index Fund	Baillie Gifford – Diversified Growth Fund
Manager name	Legal and General Investment Management (“LGIM”)	Baillie Gifford & Co			
Fund name	World Equity Index Fund	World (ex UK) Developed Equity Index Fund	UK (World) Equity Index Fund	World Emerging Markets Equity Index Fund	Diversified Growth Fund
Total size of fund at end of reporting period (£m)	£1,737.5m	£2,219.3m	£1,465.3m	£4,700.6m	£2,962.4m
Value of Scheme assets at end of reporting period (£m)	£12.2m	– <sup>1</sup>	– <sup>1</sup>	– <sup>1</sup>	– <sup>1</sup>
Number of equity holdings at end of reporting period (£m)	2,612	2,080	116	1,694	52
Number of meetings eligible to vote	3,113	2,346	144	4,180	106
Number of resolutions eligible to vote	38,295	29,158	2,691	35,615	1,140
% of resolutions voted	99.8%	99.8%	100.0%	100.0%	95.8%
Of the resolutions on which voted, % voted with management	78.9%	77.1%	95.7%	78.9%	95.7%
Of the resolutions on which voted, % voted against management	20.4%	22.7%	4.3%	18.8%	3.4%
Of the resolutions on which voted, % abstained from voting	0.7%	0.2%	0.0%	2.3%	0.8%
Of the meetings in which the manager voted, % with at least one vote against management	75.5%	81.8%	43.1%	53.9%	21.7%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	14.4%	15.4%	3.7%	6.8%	n/a <sup>2</sup>

<sup>1</sup>The Scheme fully disinvested from the LGIM World (ex UK) Developed Equity Index Fund, LGIM UK (World) Equity Index Fund, LGIM World Emerging Markets Equity Index Fund and Baillie Gifford Diversified Growth Fund in July 2022. The voting statistics shown for these funds pertain to the full year to 31 December 2022.

<sup>2</sup>Baillie Gifford does not delegate or outsource any of its stewardship activities or follow or rely upon proxy advisers' voting recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford votes in line with its in-house policy and not with the proxy voting providers' policies.

### 3.3 Most significant votes over the year

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

The Trustee did not inform its managers which votes it considered to be most significant in advance of those votes, noting its Stewardship Priorities were only set towards the end of the year. In March 2023, the Trustee informed its managers of its Stewardship priorities to help inform them of their stewardship priorities and highlight which votes it considers significant for the year ahead.

By informing its investment managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its investment managers will understand how it expects them to vote on issues for the companies they invests in on its behalf.

LGIM and Baillie Gifford have provided multiple examples of their most significant votes over the year. The Trustee has selected one vote per fund, based on the stewardship priorities set by the Trustee during the year. Where the Scheme was not invested in a fund for a full year, votes have been selected that were made during the Scheme's investment period.

#### LGIM, World Equity Index Fund

- **Twitter, Inc., September 2022.**
  - **Relevant stewardship priority:** Remuneration.
  - **Vote cast:** Against resolution.    **Outcome of the vote:** Passed.
  - **Summary of resolution:** Vote on Golden Parachutes.
  - **Rationale for the voting decision:** LGIM does not support the use of golden parachutes. As a long-term and engaged investor, LGIM entrusts the board to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business. Where this is not the case LGIM will use its vote.
  - **Approximate size of the fund's holding at the date of the vote:** 0.05%.
  - **The reason the Trustee considered this vote to be "most significant":** This vote relates to Remuneration, which is one of the Trustee's chosen stewardship priorities.
  - **Was the vote communicated to the company ahead of the vote:** Yes.
  - **Outcome and next steps:** In Twitter Inc.'s 2022 AGM, LGIM voted against their say on pay proposal, as did 42% of shareholders. LGIM will continue to engage with the investee company, publicly advocate its position on this issue and monitor company and market-level progress.

#### LGIM, World (ex UK) Developed Equity Index Fund

- **Amazon.com, Inc., May 2022.**
  - **Relevant stewardship priority:** Human Rights.
  - **Vote cast:** Against resolution.    **Outcome of the vote:** Passed.
  - **Summary of resolution:** Elect Daniel P Huttenlocher as Director.
  - **Rationale for the voting decision:** LGIM voted against the resolution as, at the time of the vote, the proposed director was a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.
  - **Approximate size of the fund's holding at the date of the vote:** 1.8%.
  - **The reason the Trustee considered this vote to be "most significant":** This vote relates to Human Rights, which is one of the Trustee's chosen stewardship priorities.

- **Was the vote communicated to the company ahead of the vote:** Yes.
- **Outcome and next steps:** LGIM will continue to engage with the investee company, publicly advocate its position on this issue and monitor company and market-level progress.

#### LGIM, UK (World) Equity Index Fund

- **Company name: Informa, June 2022**
  - **Relevant stewardship priority:** Remuneration.
  - **Vote cast:** Against resolutions. **Outcome of the vote:** Remuneration Report – Failed, Remuneration Policy - Passed
  - **Summary of resolution:** Approve Remuneration Report, Approve Remuneration Policy
  - **Rationale for the voting decision:** LGIM has noted concerns about the company's remuneration practices for many years. Due to continued dissatisfaction, LGIM has voted against the company's pay proposals at its December 2020 and June 2021 meetings. Despite significant shareholder dissent at the 2018 and 2020 meetings, and a failed Remuneration Report vote at the 2021 AGM, the company nonetheless implemented the awards under the plan and continued its practice of making in-flight changes to the existing Long-Term Incentive Plan ('LTIP') awards' performance measures. Since the 2021 AGM, the company has made various changes, with Stephen Davidson stepping down as Remuneration Committee Chair, replaced by Louise Smalley. However, he continues to sit on the Remuneration Committee. The Remuneration Policy is being put to a vote again with the main changes being the re-introduction of the performance-based LTIP. Although LGIM has seen a positive change, the post-exit shareholding requirements under the policy do not meet LGIM's minimum standards.
  - **Approximate size of the fund's holding at the date of the vote:** 0.4%.
  - **The reason the Trustee considered this vote to be "most significant":** This vote relates to Remuneration, which is one of the Trustee's chosen stewardship priorities.
  - **Was the vote communicated to the company ahead of the vote:** Yes.
  - **Outcome and next steps:** LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.

#### LGIM, World Emerging Markets Equity Index Fund

- **Company name: Abu Dhabi Islamic Bank, March 2022.**
  - **Relevant stewardship priority:** Human Rights
  - **Vote cast:** Against resolution. **Outcome of the vote:** Not disclosed.
  - **Summary of resolution:** Elect Directors (Cumulative voting)
  - **Rationale for the voting decision:** The Company demonstrated a lack of transparency in relation to Modern Slavery and is not currently compliant with the requirements of Section 54: which looks to improve transparency in supply chains.
  - **Approximate size of the fund's holding at the date of the vote:** 0.05%.
  - **The reason the Trustee considered this vote to be "most significant":** This vote relates to Human Rights, which is one of the Trustee's chosen stewardship priorities.
  - **Was the vote communicated to the company ahead of the vote:** Yes.
  - **Outcome and next steps:** While engagement with the company suggests it will be compliant with the requirements of section 54 by the end of this year, we considered this to be insufficient cause to change our vote. LGIM will continue to engage with the company and monitor progress.

## Baillie Gifford, Diversified Growth Fund

- **Company name: Booking Holdings Inc., June 2022.**
  - **Relevant stewardship priority:** Remuneration.
  - **Vote cast:** Against resolution. **Outcome of the vote:** Fail.
  - **Summary of resolution:** Approve remuneration policy.
  - **Rationale for the voting decision:** Baillie Gifford opposed the executive compensation proposal due to concerns with adjustments made to the plan and the granting of retention awards.
  - **Approximate size of the fund's holding at the date of the vote:** 5.8%.
  - **The reason the Trustee considered this vote to be "most significant":** This vote relates to Remuneration, which is one of the Trustee's chosen stewardship priorities.
  - **Was the vote communicated to the company ahead of the vote:** No.
  - **Outcome and next steps:** Baillie Gifford engaged with the company in advance of the AGM, specifically discussing executive compensation. It outlined its concerns that the adjustments to executive pay and the special payments do not align with shareholders' experience or provide appropriate incentives for management. Following that engagement Baillie Gifford decided to oppose the executive compensation resolution and communicated its decision to the company. It intends to re-engage with the company to learn how it intends to respond to the vote outcome and shareholders' concerns.