

# Advice on the annual Implementation Statement

## Fenwick Limited Superannuation Fund

21 June 2024

*This note has been prepared for the Trustee of the Fenwick Limited Superannuation Fund (the “Fund”) in response to your request that we provide a draft Implementation Statement (“Statement”) for the Fund.*

### Background and introduction

There is a requirement for most trust-based defined benefit (“DB”) and defined contribution (“DC”) pension schemes to produce a Statement which covers the report and accounts year (which is the 12 months to 5 April for the Fund).

The Department for Work and Pensions (“DWP”) issued [Statutory Guidance](#) in June 2022 which applies to any Statement that trustees are required to prepare in respect of pension scheme year ends on or after 1 October 2022. The guidance gives an overview of the items which trustees “must”, “should”, are “encouraged”, “could” or “may” include in their Statement.

“Must” items are requirements imposed by legislation. “Should” items are expected to be followed, and if not followed, trustees should describe concisely the reasons for deviating from the guidance approach. For “could”, “may” and “encouraged” items, it is hoped that trustees will address them where possible but they are not expected to explain reasons if not followed. We have included all “must” and “should” items.

The guidance states that the Pensions Regulator is the primary audience for the Statement, but it should be written in plain English as far as possible so that members could reasonably interpret and understand the disclosures. Trustees are encouraged to consider producing member-facing summary versions of the Statement (with signposting to the full Statement). Please let us know if you would like us to prepare a “member friendly” summary version of the Statement.

The DWP has stated that it is important that trustees understand and consider financially material Environmental, Social and Governance (“ESG”) factors and stewardship approaches in their investment decisions.

For DB schemes without a DC section (such as the Fund), the Statement should set out how, and the extent to which, trustees have followed the **voting and engagement policies** in the Statement of Investment Principles (“SIP”) during the year. In addition, trustees should seek to demonstrate they have had regard to the Statutory Guidance.

The Statement is also required to include a description of the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.

The DWP’s guidance states: “*where trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager’s voting behaviour was aligned with the scheme’s stewardship priorities*”.

### Key points

We have produced the draft Statement in this note based on our understanding of the regulatory requirements and the DWP’s stewardship guidance. Ultimately it is the Trustee’s responsibility to produce a compliant Statement and the Pensions Regulator can impose fines for non-compliance. Therefore, **you may wish to obtain legal advice to ensure that all requirements have been met**.

There is interest in the Statement from the Pensions Regulator, policymakers, and the media; as such **please ensure you are comfortable with the content being in the public domain**.

In the section of the Statement on voting behaviour, we have included data on the Fund’s investment that holds equities as follows:

- LGIM Developed Markets Low Carbon Transition Fund

At the beginning of the year, the Fund was invested in LGIM Synthetic Equity Funds, which gain exposure to equity markets synthetically. LGIM and the Trustee did not have any voting rights in relation to the equities that the derivatives within these funds referenced.

We contacted the Fund's other managers to ask if any of the assets held by the Fund (which do not invest in listed equity) had voting opportunities over the period. The managers confirmed there were none.

### Next steps

We propose that you review the Statement and include it within your Report & Accounts ending 5 April 2024 to comply with the relevant regulations. The Report & Accounts need to be finalised within seven months of the end of the Fund Year, ie by 5 November 2024.

**You are required to publish your Statement on a website for public access as soon as reasonably practicable after the Report & Accounts are signed off.** We expect you will use the same location for the Statement as last year. It remains very important that the website is readily and publicly available. A web address for the location of the published materials must be included in members' Annual Benefit Statements.

Please let us know if you have any questions.

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# *Implementation Statement, covering the Fund Year from 6 April 2023 to 5 April 2024 (the “Fund Year”)*

The Trustee of the Fenwick Limited Superannuation Fund (the “Fund”) 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 Fund Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Fund 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**

The voting and engagement policies in the SIP were reviewed and updated during the Fund Year, in September 2023, to reflect additional wording on ESG and climate change, bringing the wording in line with DWPs latest best practice. Further detail and the reasons for these changes are set out in Section 2. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the Fund’s voting and engagement policies during the Fund 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 with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations. LGIM’s policy can be found at the following link: [Engagement Policy](#).

However, the Trustee takes ownership of the Fund’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 Fund’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to financially material considerations (including climate change and other ESG considerations).

The Trustee reviews Responsible Investment (“RI”) fund ratings for the Fund’s investments on a quarterly basis as part of their quarterly performance monitoring report. These ratings are based on managers’ approaches to ESG factors, voting and engagement and are based on LCP’s ongoing manager research programme. These ratings directly affect LCP’s manager and fund recommendations. The Trustee was happy with their review of the RI ratings over the year.

In the previous Fund year, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors, which were:

- Climate change
- Corporate transparency

The Trustee communicated these priorities to its managers during the previous Fund year, in March 2023.

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

The Trustee invested in a new pooled fund, the LGIM Low Carbon Transition Fund (“the LCTF”) during the Fund Year. The Trustee already held investments with LGIM and was comfortable with LCP’s RI assessments of the LGIM ahead of making the investment. In addition, the Trustee reviewed LCP’s RI assessment of the LCTF. The LCTF tracks an equity index that aims to provide broad exposure to global developed market equity markets, whilst

tilting away from stocks that have a high exposure to fossil fuels and towards stocks that focus on green revenues and dynamic decarbonation plans. The focus on climate risks and opportunities aligns with the Trustee's Stewardship priority of "climate change". This LCTF investment replaced the Fund's previous holdings in LGIM Synthetic Leveraged Equity Funds, which gain exposure to equity indices through derivatives. By switching from synthetic to physical equity exposure the Trustee now has voting rights in relation to the underlying equities, which are delegated to LGIM through the pooled fund mandate.

### 3. Description of voting behaviour during the Fund 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 Fund Year. However, the Trustee monitors managers' voting and engagement behaviour on an annual basis.

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 Fund's fund that hold equities:

- LGIM Developed Markets Low Carbon Transition Fund

This fund is offered by LGIM in both a GBP hedged and unhedged version, both of which the Fund is invested in.

In addition to the above, the Trustee contacted the Fund's asset managers that do not hold listed equities, to ask if any of the assets held by the Fund had voting opportunities over the Fund Year. None of the other funds that the Fund invested in over the Fund Year held any assets with voting opportunities.

#### 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.

#### LGIM

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with its 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 helps ensure LGIM's stewardship approach is consistent throughout the engagement and voting process, and that engagement is fully integrated into the voting decision process, which aims to provide consistent messaging to companies.

Every year, LGIM holds a stakeholder roundtable event where clients are invited to express their views directly to the members of LGIM's Investment Stewardship team. The views expressed by attendees during this event form a key consideration in developing LGIM's voting and engagement policies. LGIM also take into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

LGIM's Investment Stewardship team uses Institutional Shareholder Services' ("ISS") "ProxyExchange" electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. The use of ISS' recommendations is to supplement LGIM's 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 received from ISS for UK companies when making specific voting decisions.

To ensure LGIM's proxy provider votes are in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice.

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

### 3.2 Summary of voting behaviour

A summary of voting behaviour over the Fund Year is provided in the table below. The Trustee invested in the Developed Markets Low Carbon Transition Equity Funds (GBP hedged/unhedged) during the Fund year, but LGIM were unable to provide part period voting data. As such, voting data for the full year to 31 March 2024 has been provided below.

	LGIM
Fund name	Developed Markets Low Carbon Transition Fund
Total size of fund at end of the Fund Year	£1,838m (unhedged) £2,133m (hedged)
Value of Fund assets at end of the Fund Year	£7.2m (unhedged) £7.3m (hedged)
Number of equity holdings at end of the Fund Year	1,416
Number of meetings eligible to vote	1,607
Number of resolutions eligible to vote	22,507
% of resolutions voted	99.8%
Of the resolutions on which voted, % voted with management	78.0%
Of the resolutions on which voted, % voted against management	21.8%
Of the resolutions on which voted, % abstained from voting	0.2%
Of the meetings in which the manager voted, % with at least one vote against management	81.3%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	16.3%

Note: the voting statistics for the hedged and unhedged versions of the Developed Markets Low Carbon Transition Fund are the same, so the Funds have been grouped for this table. Figures may not sum due to rounding. Voting data is for the year to 31 March 2024, as LGIM were unable to provide part period voting data to the 5 April 2024.

### 3.3 Most significant votes

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

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria<sup>1</sup> for creating this shortlist. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to mean those that:

- align with the Trustee's stewardship priorities;
- the investment manager believes to represent a significant escalation in engagement; and
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor.

The hedged and unhedged versions of the Fund invest in the same underlying securities so they have been grouped for the purpose of displaying significant votes. The Trustee has reported on three of these significant votes

<sup>1</sup> [Vote reporting template for pension scheme implementation statement – Guidance for Trustees \(plsa.co.uk\)](https://www.plsa.co.uk/vote-reporting-template-for-pension-scheme-implementation-statement-guidance-for-trustees). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.



for the Fund. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee.

## LGIM Developed Markets Low Carbon Transition Fund

### 1. Amazon.com, Inc., 24 May 2023.

- **Summary of resolution:** Report on median and adjusted gender/racial pay gaps.
- **Relevant stewardship priority:** Corporate transparency.
- **Approx size of the holding at the date of the vote:** 2.0%
- **Fund manager vote:** For.  
**Company management recommendation:** Against.
- **Rationale:** LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.
- **Was the intention communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** Resolution failed with 29% of the vote For. LGIM will continue to engage with the company and monitor progress.

### 2. JPMorgan Chase & Co., 16 May 2023.

- **Summary of resolution:** Report on Climate Transition Plan describing efforts to align financing activities with GHG targets.
- **Relevant stewardship priority:** Climate change.
- **Approx size of the holding at the date of the vote:** 0.8%
- **Fund manager vote:** For  
**Company management recommendation:** Against.
- **Rationale:** LGIM generally supports resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published targets. LGIM believes detailed information on how a company intends to achieve the 2030 targets they have set and publishing to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on them.
- **Was the intention communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** Resolution failed with 35% of the vote For. LGIM will continue to engage with the company and monitor progress.

### 3. The Coca-Cola Company, 25 April 2023.

- **Summary of resolution:** Report on congruency of political spending with company values and priorities.
- **Relevant stewardship priority:** Corporate transparency.
- **Approx size of the holding at the date of the vote:** 0.5%
- **Fund manager vote:** For.  
**Company management recommendation:** Against.
- **Rationale:** LGIM expects companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. While LGIM appreciates the level of transparency Coca-Cola provides in terms of its lobbying practices, it is unclear whether the company systematically reviews areas of misalignment between its lobbying practices and its publicly stated values. LGIM believes that the company may be leaving itself exposed to reputational risks related to funding organisations that take positions that are contradictory to those of the company's stated values. Producing a report on the congruency of political spending with company values and priorities may help the company to identify and question its previous political spending priorities.

- **Was the intention communicated to the company ahead of the vote:** Yes.
- **Outcome of the vote and next steps:** Resolution failed with 29% of the vote For. LGIM will continue to engage with the company and monitor progress.