

Phoenix Medical Supplies Pension Scheme

Implementation Statement

Scheme year ended 31 March 2021

This Statement sets out how the Trustees of the Phoenix Medical Supplies Pension Scheme (“the Scheme”) approached the implementation of the environmental, social and governance (“ESG”) policies set out in the Statement of Investment Principles over the year to 31 March 2021. This Statement also specifically considers:

- How the Trustees’ policies on exercising rights (including voting rights) and engagement activities have been followed; and
- The voting behaviour of the Trustees (or of the managers on the Trustees’ behalf) over the year.

At the start of the reporting period, the Scheme was invested in two diversified-growth style funds, the Standard Life Global Absolute Return Strategies Fund and the iFunds Orange Strategy. As the Trustees made the strategic decision to disinvest from these funds shortly after the start of the reporting period (May 2020), these holdings have not been considered in the subsequent sections of this Statement.

How voting and engagement policies have been followed

The Trustees consider their voting and engagement policies to have been met in the following ways:

- At the Scheme year-end, the managers appointed to manage assets on behalf of the Scheme were Legal & General Investment Management (“LGIM”), Columbia Threadneedle Investments and Newton Investment Management. The Trustees consider the performance of the Scheme’s funds and any significant developments at least twice a year.
- The Scheme invests entirely in pooled funds and as such the Trustees delegate responsibility for carrying out voting and engagement activities to the Scheme’s managers. Investment rights (including voting rights) have been exercised by the managers in line with the managers’ general policies on corporate governance. The Trustees also expect the managers to have engaged with the companies in which they invest in relation to ESG matters.
- The Scheme appointed two new diversified growth fund (“DGF”) managers over the year (Columbia Threadneedle Investments and Newton Investment Management) and ESG considerations were considered as part of the manager selection exercise, alongside all other material factors. In particular, at their May 2020 meeting, the Trustees received presentations from three potential DGF managers which explicitly covered the managers’ approaches to ESG. In particular, the Fund managed by Newton (the BNY Mellon Sustainable Real Return Fund) has a specific focus on avoiding investments with poor ESG scores, as rated by the manager’s Responsible Investment Team, and does not invest in companies that are incompatible with ‘a 2 degree world’. The Trustees are comfortable that these managers are suitable for the Scheme across all criteria considered.
- Prior to the Scheme year, it was agreed that LGIM should be appointed to manage a Liability Driven Investment (“LDI”) portfolio on behalf of the Scheme and this portfolio was subsequently implemented in June 2020. However, the Trustees are of the view that there is less scope for the consideration of ESG issues to improve risk-adjusted returns within LDI due to of the nature of the instruments used within the

funds. The fund used as the collateral pool to the LDI portfolio (the LGIM Absolute Return Bond Fund) is considered to have acceptable ESG practices by the Trustees.

- At the same time as agreeing LGIM would manage the LDI portfolio, it was agreed that they would also manage the Scheme's equity holdings. As part of determining which equity funds to invest in, consideration was given to funds with a specific focus on ESG issues, however the Trustees decided not to go down this route due to a number of factors. As a result, the Scheme invested in two global passive equity funds over the year, however the ESG practices of these funds were still considered to be above an acceptable level by the Trustees.
- The Scheme's Statement of Investment Principles was reviewed over the year to take account of these changes to the investment strategy.
- At their December 2020 meeting, the Trustees requested that the managers be asked to provide information on their policies for delegating voting rights. The Scheme's Investment Consultant subsequently provided a summary of these policies based on literature provided by the managers.
- Going forwards, the Trustees will annually receive and review voting and engagement information from the managers, which they will review to ensure alignment with the Scheme's policies.
- Having reviewed the above, the Trustees are comfortable that the actions of the managers are in alignment with the Scheme's policies.

Voting data

The voting data collated for the Scheme is given over the year to 31 March 2021.

There are no voting rights attached to the LGIM LDI funds or the LGIM Absolute Return Bond Fund, therefore these funds are not included in the tables below. The voting data shown for LGIM has been taken from the un-hedged version of the All World Equity Index Fund, however as the hedged and un-hedged versions invest in the same underlying holdings, the voting data will be the same for both funds.

Manager	LGIM	Columbia Threadneedle	Newton
Fund name	All World Equity Index Fund	Dynamic Real Return Fund	BNY Mellon Sustainable Real Return Fund
Structure	Pooled	Pooled	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.		
Number of company meetings the manager was eligible to vote at	6,779	358	100
Number of resolutions the manager was eligible to vote on	70,672	4,659	1,383
Percentage of resolutions voted on for which the manager was eligible	>99%	99%	100%
Percentage of resolutions voted with management**†	83%	91%	85%
Percentage of resolutions voted against management**†	16%	6%	15%
Percentage of resolutions abstained from**†	1%	2%	0%
Percentage of resolutions voted contrary to the recommendation of the proxy advisor*	<1%	Data not provided	9%

*As a percentage of the resolutions on which the investment manager voted.

†Figures may not sum due to rounding.

Source: Information provided by the investment managers.

LGIM's Investment Stewardship team uses the 'ProxyExchange' electronic voting platform provided by Institutional Shareholder Services (ISS) to electronically vote clients' shares. All voting decisions are made by LGIM and the manager does not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with LGIM's position on ESG, they have put in place a custom voting policy with specific voting instructions.

Columbia Threadneedle's voting decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS, Institutional Voting Information Service (IVIS) and Glass Lewis, as well as MSCI ESG Research. Proxy voting is effected via ISS.

Newton utilise ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings. Only in the event where Newton recognise a potential material conflict of interest do they follow the voting recommendations of ISS. All voting decisions are made by Newton.

Significant votes

The task of defining what a "significant vote" is has been delegated to the managers. A sample of significant votes across each of the relevant funds in which the Scheme invests over the year to 31 March 2021 is set out below.

LGIM, All World Equity Index Fund (both hedged and non-hedged versions)

	Vote 1	Vote 2	Vote 3
Company name	Barclays	Olympus Corporation	The Procter & Gamble Company (P&G)
Date of vote	7 May 2020	30 July 2020	13 October 2020
Approximate size of the Fund's holding as at the date of the vote (as % of portfolio)	<i>Data not provided</i>	<i>Data not provided</i>	<i>Data not provided</i>
Summary of the resolution	Approve Barclays' commitment in tackling climate change	Elect Director Takeuchi, Yasuo	Report on effort to eliminate deforestation
How the manager voted	For	Against	For
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management		
Rationale for the voting decision	The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers.	Last year, LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. LGIM voted against this resolution to signal that the company needs to take action on ensuring more women are appointed to the board.	P&G uses both forest pulp and palm oil as raw materials within its household goods products and these materials are considered leading drivers of deforestation and forest degradation. Deforestation is one of the key drivers of climate change. As such, LGIM engaged with P&G to hear its response to concerns raised over its sourcing of these materials. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could.
Outcome of the vote	Resolution supported by 99.9% of shareholders	Resolution supported by 94.9% of shareholders	Resolution supported by 67.7% of shareholders

	Vote 1	Vote 2	Vote 3
Implications of the outcome	<p>LGIM's focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. They plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum and other large investors to ensure a consistency of messaging and to continue to drive positive change.</p>	<p>LGIM will continue to engage on, and require, increased diversity on all Japanese company boards.</p>	<p>LGIM will continue to engage with P&G on this issue.</p>
Criteria on which the vote is considered "significant"	<p>There has been significant client interest in LGIM's voting intentions and engagement activities in relation to the 2020 Barclays AGM. They consider the outcome to be extremely positive for all parties; Barclays, ShareAction and their clients.</p>	<p>This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.</p>	<p>This vote is linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest.</p>

Source: Information provided by the investment manager.

Columbia Threadneedle, Dynamic Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	Amazon.com	Facebook	Kia Motors Corporation
Date of vote	27 May 2020	27 May 2020	22 March 2021
Approximate size of the Fund's holding as at the date of the vote (as % of portfolio)	1.61%	0.83%	0.18%
Summary of the resolution	Elect Director Thomas O. Ryder	Report on median gender/racial pay gap	Approve Financial Statements and Allocation of Income
How the manager voted	Against	For	Abstain
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	No	No	No
Rationale for the voting decision	The Director is an affiliate serving on a key committee.	Material social risk for the business, as well as it being in shareholders' interests.	ESG risk management concerns
Outcome of the vote	Passed	Failed	Passed
Implications of the outcome	Active stewardship (engagement and voting) continues to form an integral part of Columbia Threadneedle's research and investment process.		
Criteria on which the vote is considered "significant"	Vote against management.	Vote against management.	Vote against management.

Source: Information provided by the investment manager.

Newton, BNY Mellon Sustainable Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	Nestle	LEG Immobilien	Alibaba Group Holding Limited
Date of vote	23 April 2020	19 August 2020	30 September 2020
Approximate size of the Fund's holding as at the date of the vote (as % of portfolio)	0.94%	0.99%	0.96%
Summary of the resolution	Ratify Ernst & Young as auditors	Approve the remuneration policy	Elect Directors
How the manager voted	Against	Against	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	No	No	No
Rationale for the voting decision	Newton voted against the external auditor owing to excessive tenure, which in their view compromises its independence and objectivity.	Newton voted against the proposed pay arrangements on account of their lack of alignment with performance.	Newton voted against the two members of the governance committee who were seeking re-election given their concern surrounding the low level of independence on the board.
Outcome of the vote	1.2% voted against the auditor	22.2% voted against approving the remuneration policy	19.7% voted against electing Director 1 18.6% voted against electing Director 2
Implications of the outcome	Newton felt that given the debate in Europe surrounding auditor tenure is well developed, it was surprising that the company's long serving auditor received such overwhelming support.	Newton feel it is likely that the company will seek to address concerns in an effort to avoid similar or higher future dissent.	Newton will continue to demonstrate their concern formally through the exercise of voting rights and when engaging.
Criteria on which the vote is considered "significant"	<i>Data not provided</i>	Newton believe investor scrutiny of pay arrangements is increasing. They feel the significance of the high vote against is important to note given that a majority of pay proposals from companies rarely see such high levels of dissent.	Newton felt this vote highlighted an area of contention for the company's non-domestic shareholders and a matter where improvements could increase the company's attractiveness to foreign investors.

Source: Information provided by the investment manager.

Fund level engagement

The managers may engage with their investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken by each of the Scheme's managers (for the relevant funds) during the year to 31 March 2021.

As the Trustees are of the view that there is little scope for the consideration of ESG issues (including engagement opportunities) within LDI portfolios, the Scheme's LDI holdings are not considered in the tables below.

Manager	LGIM	LGIM	Columbia Threadneedle	Newton
Fund name	All World Equity Index Fund	Absolute Return Bond Fund	Dynamic Real Return Fund	BNY Mellon Sustainable Real Return Fund
Does the manager perform engagement on behalf of the holdings of the Fund?	Yes	Yes	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors over the year?	Yes	Yes	Yes	Yes
Number of entities engaged with on behalf of the holdings in the Fund over the year	<i>Data not provided</i>	<i>Data not provided</i>	<i>Data not provided</i>	<i>Data not provided</i>
Number of entities engaged with at a firm level over the year	874*	874*	Approx. 300	153*

*LGIM and Newton provide the total number of companies engaged with on a quarterly basis. As such, it is not possible to discern whether a single company has been counted more than once within the above figures (e.g. this would be the case if the manager engaged with the same company in more than one quarter).

Source: Information provided by the investment managers.

Examples of engagement activities

The table below contains an example engagement activity for each applicable fund over the year to 31 March 2021.

Fund	Engagement example
LGIM (firm-level)	<p>This is a firm-level engagement as LGIM do not provide fund-specific engagement data.</p> <p>Company: Procter & Gamble (P&G)</p> <p>P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. In addition, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation and the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp.</p>

Fund	Engagement example
Columbia Threadneedle Dynamic Real Return Fund	<p>Palm oil and forest pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests.</p> <p>LGIM engaged with P&G to hear its response to the concerns raised and engaged with the Natural Resource Defence Counsel to fully understand these issues. LGIM will continue to engage with P&G on this issue.</p>
Newton BNY Mellon Sustainable Real Return Fund	<p>Company: Uber Technologies</p> <p>An assessment carried out via Columbia Threadneedle's Responsible Investment ratings model suggested enhanced ESG risk, including impending California legislation on employee classification potentially threatening to upend the company's business model.</p> <p>Columbia Threadneedle's Responsible Investment Team organised and led four video conferences, alongside fundamental analysts and portfolio managers, with company management, plus the chair of the board of Directors, each with a different primary focus and objective. They discovered that the company has recently placed considerable effort into initiatives and programs to manage and measure ESG risk, which will reduce the company's overall risk profile. Interest in investor feedback is high, as is sincerity in improving outcomes for employees and society.</p> <p>Columbia Threadneedle concluded the engagements with increased comfort in the company's prospects and business model, and the board's commitment to continue enhancements to ESG initiatives and executive compensation.</p> <p>Company: National Express</p> <p>During a meeting with the company's management, Newton sought confirmation of the company's efforts to take advantage of opportunities in 'greening' its fleet of vehicles. They also discussed the different leasing structures available that could to help the company make further progress.</p> <p>Newton were also approached by the company as part of its remuneration consultation surrounding pay arrangements for its chief executive officer (CEO) and chief financial officer (CFO). They were appreciative of the company's transparency and communication and acknowledged the adjustments to pay awards that were made throughout 2020 in the context of COVID-19. Newton were encouraged that the CEO's pension contributions were aligned with the contributions provided to the wider workforce and that the CFO's contributions would also be aligned from 2023. An area on which Newton sought further clarity was the use of discretion to adjust incentive pay-outs. The company has now confirmed that, should the remuneration committee seek to exercise discretion, it will seek shareholder feedback and provide clear explanations.</p>

Source: Information provided by the investment managers.

Summary

Based on the information received, the Trustees believe that the managers have acted in accordance with the Scheme's ESG and stewardship policies. The Trustees are supportive of the key voting action taken by the applicable managers over the period to encourage positive governance changes in the companies in which they hold shares.

The Trustees and their Investment Consultant are working with the managers to provide additional information in the future, including where indicated above, in order to enhance their ability to assess the managers' actions.

Approved by the Trustees of the Phoenix Medical Supplies Pension Scheme

September 2021