# Implementation Statement

# Highlands and Islands Airports Limited Pension Scheme

## Purpose of this statement

This implementation statement has been produced by the Trustees of the Highlands and Islands Airports Limited Pension Scheme ("the Scheme") to set out the following information over the year to 31 December 2024:

**Main body of the report**
How the Trustees' policies on exercising rights (including voting rights) and engagement activities have been followed over the year.

**Appendix 1**
A summary of 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 and examples of engagement with investee companies.

This statement does not report on the additional voluntary contributions ("AVCs") due to the relatively small proportion of the Scheme's assets that are held as AVCs.

## Conclusions

In reviewing the activities of the past year, the Trustees believe that the policies set out in the Statement of Investment Principles ("SIP") have been effectively implemented.

Based on the information received, the Trustees believe that the investment managers have acted in accordance with the Scheme's policies on exercising rights (including voting rights) and engagement activities. The Trustees are supportive of the key voting action taken by the applicable investment managers over the period to encourage positive governance changes in the companies in which the investment managers hold shares.

### Stewardship policy

The Trustees' Statement of Investment Principles (SIP) in force at 31 December 2024 describes the Trustees' stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in February 2025 and has been made available online here:

https://schemedocs.com/download/HIAL-statement-of-investment-principles.pdf?ver=2023

The Trustees decided not to exercise their voting rights directly, instead delegating the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities to the Scheme's investment managers.

The Trustees decided not to set stewardship priorities / themes for the Scheme. This reflects the ongoing investment strategy discussions alongside the triannual Actuarial Valuation. In addition, the Scheme solely invests 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 although they are mindful of the Sponsoring Employer's position on certain stewardship exposures when making strategic investment decisions.

However, the Trustees take the stewardship priorities, climate risk, and ESG factors into account at manager selection. The Trustees also review the stewardship and engagement activities of the investment managers annually through their implementation statement. Over the year to 31 December 2024, the Trustees, with assistance from their investment adviser, reviewed climate risk, stewardship and engagement activities of the investment managers through an annual sustainability monitoring report.

## How voting and engagement/stewardship policies have been followed

Based on the information provided by the Scheme's investment managers, the Trustees believe that the 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.
- The Trustees receive and review voting information and engagement policies from their asset managers, which they review to ensure alignment with the Trustees stewardship policies. The Trustees believe that the voting and engagement activities undertaken by the asset managers on their behalf have been reasonably aligned with their stewardship priorities and in the members' best interests. This exercise was last undertaken in March 2024.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustees use sustainability ratings 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. All the funds are considered to be adequately taking into account material ESG issues that could affect the performance of the fund and may be able to capture any benefit into performance or mitigation to risk that ESG awareness brings.

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.

**Prepared by the Trustees of the Highlands and Islands Airports Limited Pension Scheme**
**April 2025**

# Appendix 1 – Voting and engagement data

## 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 2024. The Scheme's investments with Baring Asset Management ("Barings"), Columbia Threadneedle and CQS have no voting rights and limited ability to engage with key stakeholders given the nature of the mandate.

| Manager | Legal and General Investment Manager ("LGIM") | Baillie Gifford |
|---|---|---|
| **Fund name** | LGIM Future World Global Equity Index Fund & LGIM Future World Global Equity Index Fund GBP Hedged | Diversified Growth Fund |
| **Structure** | Pooled | Pooled |
| **No. of eligible meetings** | 5,516 | 65 |
| **No. of eligible votes** | 55,469 | 766 |
| **% of resolutions voted** | 99.79% | 98.04% |
| **% of resolutions abstained**[1] | 0.88% | 0.93% |
| **% of resolutions voted with management**[1] | 80.96% | 96.01% |
| **% of resolutions voted against management**[1] | 18.16% | 3.06% |
| **Proxy voting advisor employed** | LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. | Whilst Baillie Gifford is cognisant of proxy advisers' voting recommendations, they do not rely upon their recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies. Baillie Gifford utilises two proxy advisers' voting research, ISS and Glass Lewis, for information only. Baillie Gifford also have specialist proxy advisors in the Chinese and Indian markets to provide them with more nuanced market specific information, ZD Proxy and IIAS respectively. |
| **% of resolutions voted against proxy voter recommendation**[1] | 9.95% | n/a |

[1] As a percentage of the total number of resolutions voted on. Totals may not add up to 100%. Numbers are subject to rounding.

Note: segregated mandates allow the Trustees to engage with managers and influence their voting behaviour. Pooled fund structures result in limited scope for the Trustees to influence managers' voting behaviour.

## Significant votes

At this time, the Trustees have not set stewardship priorities / themes for the Scheme, but will be considering the extent that they wish to do this in due course, in line with other Scheme risks. 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 the Trustees are yet to develop a specific voting policy. In future, the Trustees will consider the most significant votes in conjunction with any agreed stewardship priorities / themes.

**LGIM** and **Baillie Gifford** have provided a selection of 808 and 10 votes, respectively, which they believe to be significant. In the absence of agreed stewardship priorities / themes and in the interest of concise reporting, the tables below show three of these votes for each fund. To represent the most significant votes, the votes of the largest holdings are shown below while covering a range of themes.

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

### LGIM, Future World Global Equity Index Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | Microsoft Corporation | Apple Inc. | Amazon.com, Inc. |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 4.87% | 4.51% | 1.82% |
| **Summary of the resolution** | Resolution 9: Report on AI Data Sourcing Accountability | Report on risks of omitting viewpoint and ideological diversity from Equal Employment Opportunities ("EEO") Policy | Resolution 6: Report on Customer Due Diligence |
| **How the manager voted** | For | Against | For |
| **Rationale for the voting decision** | Shareholder Resolution - Governance: A vote FOR this resolution is warranted as the company is facing increased legal and reputational risks related to | Shareholder Resolution - Environmental and Social: A vote AGAINST this proposal is warranted, as the company appears to be providing shareholders | Shareholder Resolution - Human Rights: A vote in favour is applied as LGIM view enhanced transparency over material risks to human rights as key to |

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| | copyright infringement associated with its data sourcing practices. While the company has strong disclosures on its approach to responsible AI and related risks, LGIM expect that shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models. | with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice. | understanding the company's functions and organisation. While the company has disclosed that they internally review these for some products and has utilised appropriate third parties to strengthen their policies in related areas, there remains a need for increased, especially publicly available, transparency on this topic. |
| **Criteria on which the vote is considered "significant"** | High Profile meeting: LGIM consider this shareholder resolution significant due to the relatively high level of support received. | Thematic - Diversity: LGIM views diversity as a financially material issue for their clients, with implications for the assets LGIM manage on their behalf. | Pre-declaration and High-Profile Meeting: LGIM believe this shareholder resolution is considered significant as one of the largest companies and employers not only within its sector but in the world, LGIM believe that Amazon's approach to human capital management issues has the potential to drive improvements across both its industry and supply chain. LGIM voted in favour of this proposal last year and continue to support this request, as enhanced transparency over material risks to human rights is key to understanding the company's functions and organisation. While the company has disclosed that they internally review these for their products (RING doorbells and Rekognition) and has utilised appropriate third parties to strengthen their policies in related areas, LGIM |

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| | | | believe there remains a need for increased, especially publicly available, transparency on this topic. Despite this, Amazon's coverage and reporting of risks falls short of LGIM's baseline expectations surrounding AI. In particular, LGIM would welcome additional information on the internal education of AI and AI-related risks. |
| **Outcome of the vote** | Fail | Fail | Fail |
| **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. | | |
| **If the vote was against management, did the manager communicate their intent to the company ahead of the vote?** | LGIM publicly communicates their vote instructions on their website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as LGIM's engagement is not limited to shareholder meeting topics. | | |

## Baillie Gifford, Diversified Growth Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | JLEN Environmental Assets Group Limited | Nextera Energy, Inc. | Nextera Energy, Inc. |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 1.21% | 0.98% | 0.98% |
| **Summary of the resolution** | Other | Shareholder Resolution – Climate | Appoint/Pay Auditors |

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **How the manager voted** | Against | For | Against |
| **Rationale for the voting decision** | Baillie Gifford opposed a resolution concerning the discontinuation of the company in line with the board's recommendation. At present, they believe value is most likely to be generated through a continuation of the company. | Baillie Gifford supported the resolution on climate lobbying as they believe that clear and transparent support for Paris-aligned goals through lobbying is one-way shareholders look to demonstrate consistency with their climate targets. | Baillie Gifford opposed the ratification of the auditor because of the length of tenure. They believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls. |
| **Criteria on which the vote is considered "significant"** | Baillie Gifford consider this resolution is significant because it received greater than 20 per cent opposition. | | Baillie Gifford consider this resolution is significant because Baillie Gifford opposed the election of auditors. |
| **Outcome of the vote** | Fail | Fail | Pass |
| **Implications of the outcome** | A resolution concerning the discontinuation of the company received 92.73% opposition. Baillie Gifford were comfortable opposing this resolution, in line with the board's recommendation, because they believe value is most likely to be generated through a continuation of the company. | Baillie Gifford reached out to the Company to explain why they decided to support the resolution. While Baillie Gifford welcomed the real zero target set, they believe that the lobbying reporting could be improved with identification of misalignment between the company's lobbying activities and its Net Zero goal. | Baillie Gifford explained their dissent to the company and encouraged retendering the audit contract. |
| **If the vote was against management, did the manager communicate their intent to the company ahead of the vote?** | No | No | No |

## 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. Several examples of engagements over the year are summarised on the following pages.

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.

| | LGIM | Barings | Baillie Gifford | CQS |
|---|---|---|---|---|
| **Fund name** | Future World Global Equity Index Fund; Future World Global Equity Index Fund GBP Hedged | Global High Yield Credit Strategies Fund | Diversified Growth Fund | Credit Multi Asset Fund |
| **Number of distinct entities engaged with on behalf of the holdings in this fund in the year** | 1,282 | 84 | 10 | 89 |
| **Number of engagements undertaken at a firm level in the year** | 4,060 | 311 | 948 | 109 |

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

### LGIM, Future World Global Equity Index Fund

**Name of entity engaged:** APA

**Type of engagement:** Firm-level

**Topic:** Climate

**Rationale for engagement:** APA is Australia's largest energy infrastructure business. Under LGIM's Climate Impact Pledge campaign, they have been engaging with the company directly since 2022; as one of LGIM's selected 'dial mover' companies, they believe it has the scale and influence across its industry and value chain for its actions to have positive reverberations beyond its direct corporate sphere. In LGIM's engagements with the company, which are guided by their qualitative assessment criteria as set out in LGIM's multi-utilities sector guide, in terms of 'red lines' the company was identified as lagging their expectations on climate-related lobbying activities.

LGIM expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of Scope 1, 2 and material Scope 3 greenhouse gas (GHG) emissions and short, medium and long-term GHG emissions reduction targets consistent with the 1.5°C goal.

As a consequence, when APA Group brought its climate transition plan to a vote, LGIM were unable to support it: although the plan presented Scope 1 and 2 goals for the medium and long term on a path to achieving net zero emissions by 2050, no Scope 3 targets were included. The company noted that these would be finalised no later than 2025.

**Actions:** LGIM initiated engagement with the company after this vote, and met with them for the first time in early 2023 as part of their Climate Impact Pledge engagement, and they have continued to build the relationship, setting out LGIM's expectations as per their net zero guide, and working with the company to understand the hurdles it faces and the challenges to meeting these expectations.

**Outcomes and next steps:** In their meeting with the company in early 2024, APA confirmed that they will include a Scope 3 goal in the 2025 refresh of their Climate Transition Plan, and they outlined their proposed Scope 3 reduction pathway. The company noted that feedback from the 20% of investors, including LGIM, who voted against their proposed Climate Transition Plan in 2022, had solidified their decision to commit to a Scope 3 target.

### Barings, Global High Yield Credit Strategies Fund

**Name of entity engaged:** European Telecoms Group

**Type of engagement:** Fund-level

**Topic:** Governance - Stakeholder Management & Industry/Policy Engagement

**Rationale for engagement:** Barings holds an investment in the debt structure of a European telecoms group that provides internet and television services. The group has put in place an initial sustainability plan including 2030 Scope 1-3 emissions reduction targets and a shift to green electricity sourcing that are key sector considerations. Following various interactions with senior management on sustainability plans, Barings was invited by the company to participate is its latest data gathering exercise on sustainability topics. This included collection of feedback for its 2024 Double Materiality assessment required as part of EU Corporate Sustainability Reporting Directive requirements.

**Actions:** The intention is for this data to be incorporated into the company's future sustainability strategy and planned additional sustainability disclosure. Barings has built a positive relationship with the company and views management's active intention to interact with large debt stakeholders as positive. This is an encouraging market development if replicated by other issuers.

**Outcomes and next steps:** Barings continues to hold the issuer in a number of global portfolios.

### Baillie Gifford, Diversified Growth Fund

**Name of entity engaged:** Brookfield Renewable Corporation

**Type of engagement:** Fund-level

**Topic:** Environmental

**Rationale for engagement:** To follow up on the wildfire risk exposure questions Baillie Gifford sent to the company recently and to discuss how it approaches and mitigates physical climate risks regarding its ownership and operation of a portfolio of hydroelectric, wind and solar power assets, primarily in the United States, Europe, Colombia and Brazil. Baillie Gifford specifically sought to address the themes of (1) risk exposure, (2) preventative measures and accountability, and (3) cost recovery and liability.

**Actions:** There are clear links between the company's effective physical climate risk mitigation, health and safety performance, and the well-being of the local communities in which it operates, as well as with its achievement of operational and financial goals. The key takeaways from this meeting were that the company's geographic and technological diversification aim to minimise the business interruption and the potential associated financial implications from any one given acute extreme weather event. Baillie Gifford discussed with the team, including the company's Director of Portfolio Management and Risk and its Vice President of ESG Management, how acute physical climate risks are managed at the asset level and the operations team's ongoing monitoring of changes to chronic risks. Examples of representative risk management measures to reduce the risk of wildfires include vegetation management, installing and managing firebreaks and infrastructure hardening. Similarly, hydro flooding risk is managed via monitoring of inflows relative to capacity levels, updating of flood map studies and adaptation measures such as inflow design reviews for assets deemed at higher risk.

**Outcomes and next steps:** Baillie Gifford deem the company's approach to physical climate risk management to be appropriate. They will continue to track this for both acute and chronic physical climate risks in relation to flooding and wildfires.

### CQS, Credit Multi Asset Fund

**Name of entity engaged:** American Steel manufacturer

**Type of engagement:** Fund-level

Topic: Environment - Climate change; Environment - Natural resource use/impact (e.g. water, biodiversity); Environment - Pollution, Waste; Strategy, Financial and reporting – Reporting (e.g. audit, accounting, sustainability reporting)

**Rationale for engagement:** As a producer of steel, CQS identified this company as a higher emitter with a higher fund WACI contribution score. CQS sought to ensure that the business is being proactive and thoughtful in reducing their carbon footprint. This engagement can be mapped to UN SDGs 12 and 13.

**Actions:** During this engagement, the company disclosed that it will look into reducing emissions of their recent acquisition by leveraging their current industry leading technologies. They highlighted that they have achieved their 2030 GHG reduction target and revised their targets in May of this year. These targets include updated

Scope 1,2 &3 GHG emissions reduction targets by 2035, and a long-term target alignment with the Paris Agreement's 1.5 degrees Celsius scenario to reduce all three scopes to near net zero by 2050.

They also expressed that they could achieve lower than industry metrics due to the use of lower carbon fuels like natural gas, consuming higher amounts of recycled materials, purchasing renewable energy and utilizing HBI (Hot Briquetted Iron).

**Outcomes and next steps:** CQS were pleased to see that the company plans to apply best practices and has made significant progress so far in achieving their 2030 GHG reduction targets well in advance. CQS will continue to monitor metric trends going forward.