

Implementation Statement

KCA Drilling Pension Scheme

Purpose of this statement

This implementation statement has been produced by the Trustees of the KCA Drilling Pension Scheme (**"the Scheme"**) to set out the following information over the year to 31 December 2022:

- 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
- how the Trustees' policies on exercising rights (including voting rights) and engagement activities have been followed over the year.

How voting and engagement policies have been followed

Based on the information provided by the Scheme's investment managers, the Trustees believes that its 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 undertook Sustainability monitoring review of the stewardship and engagement activities of the current managers at their 29 November 2022 meeting, and were satisfied that their policies were reasonable and no remedial action was required at that time.
- Annually the Trustees receive and review voting information and engagement policies from both the asset managers and our investment advisors, which we review to ensure alignment with our own policies. The Trustees believe that the voting and engagement activities undertaken by the asset managers on their behalf have been in the members' best interests. This exercise was undertaken at the 29 November 2022 Trustees' meeting.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustees use ESG ratings information 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.

Stewardship policy

The Trustees' Statement of Investment Principles (SIP) in force from 8 February 2023 describes the Trustee's stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in February 2023 and has been made available online here:

[KCA Drilling Pension Scheme Statement of Investment Principles](#)

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.

The Trustees have delegated the stewardship and exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities to the Scheme's investment managers. 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.

**Prepared by the Trustees of the KCA Drilling Pension Scheme
March 2023**

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 2022.

The Scheme's Liability Driven Investment ("LDI") and cash holdings with LGIM, as well as the Scheme's holdings in the TwentyFour Absolute Return Credit and the Strategic Income Fund have no voting rights and limited ability to engage with key stakeholders given the nature of the mandate.

In November 2022, the Scheme fully disinvested from the Columbia Threadneedle Dynamic Real Return Fund. As the Scheme was invested in this fund for most of the year, we have still included it in the table below.

Manager	LGIM	Baillie Gifford	Columbia Threadneedle
Fund name	All World Equity Index GBP currency hedged Fund	Multi Asset Growth Fund	Dynamic 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.		
No. of eligible meetings	6645	89	48
No. of eligible votes	67139	933	696
% of resolutions voted	99.87%	95.61%	100%
% of resolutions abstained	1.29%	1.23%	3.30%
% of resolutions voted with management¹	78.85%	97.76%	86.35%
% of resolutions voted against management¹	19.86%	3.48%	10.34%
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.	Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies.	Columbia Threadneedle vote in line with their in-house policy and not with the proxy voting providers' policies.
% of resolutions voted against proxy voter recommendation	10.38%	n/a	n/a

¹ As a percentage of the total number of resolutions voted on

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 Trustees over the year to be set out. The guidance does not currently define what constitutes a "significant" vote, so for this Implementation Statement the Trustees have asked the investment managers to determine what they believe to be a "significant vote". Baillie Gifford and Columbia Threadneedle have provided a selection of 10 votes which they believe to be significant. LGIM provided information on 639 significant votes, more details of these votes are available on request. In the interest of concise reporting the tables below show 3 of these votes for each fund.

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

LGIM, All World Equity Index GBP currency Hedged Fund¹

	Vote 1	Vote 2	Vote 3
Company name	Apple Inc.	Amazon.com, Inc	Alphabet Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	3.85%	1.71%	1.11%
Summary of the resolution	Resolution 9 – Report on Civil Rights Audit	Resolution 1f – Elect Director Daniel P. Huttenlocher	Resolution 7 - Report on Physical Risks of Climate Change
How the manager voted	For	Against	For
Rationale for the voting decision	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies.	Human rights: A vote against is applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.
Outcome of the vote	53.6% of shareholders supported the resolution.	93.3% of shareholders supported the resolution.	17.7% of shareholders supported the resolution.
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.		
Criteria on which the vote is considered "significant"	LGIM views gender diversity as a financially material issue for their clients, with implications for the assets LGIM manages on their behalf.	LGIM pre-declared its vote intention for this resolution, demonstrating its significance.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

Baillie Gifford, Multi Asset Growth Fund

	Vote 1	Vote 2	Vote 3
Company name	Galaxy Entertainment Group Ltd	Greggs Plc	Royal Caribbean Cruises Ltd

	Vote 1	Vote 2	Vote 3
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.06%	0.25%	0.07%
Summary of the resolution	Amendment of Share Capital	Remuneration	Appoint/Pay Auditors
How the manager voted	Against	Against	Against
Rationale for the voting decision	Baillie Gifford opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	Baillie Gifford voted against the remuneration report due to concerns over executive pay increases and misalignment of pension rates.	Baillie Gifford opposed the appointment of the external auditor due to concerns with the length of tenure.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	Baillie Gifford have opposed similar resolutions in previous years and will continue to advise the company of their concerns and seek to obtain proposals that they can support.	Following casting a vote, Baillie Gifford reached out to the Company to provide reasons for their opposition on the remuneration report and ask for clarification on pay setting for the CEO. The Company acknowledged their feedback on pensions and pay increases for one executive and explained how the new CEO's salary was set.	The existing auditor has been in place since 1989, and Baillie Gifford had previously raised this excessive tenure with the company. As no change in auditor has taken place, Baillie Gifford chose to oppose.
Criteria on which the vote is considered "significant"	This resolution is significant because it received greater than 20% opposition.	This resolution is significant because Baillie Gifford opposed remuneration.	This resolution is significant because Baillie Gifford opposed the election of auditors.

Columbia Threadneedle, Dynamic Real Return Fund

	Vote 1	Vote 2	Vote 3
Company name	General Motors Company	Alphabet Inc.	Amazon.com, Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.01%	0.64%	0.51%
Summary of the resolution	Report on the Use of Child Labor in Connection with Electric Vehicles	Report on Climate Lobbying	Report on Lobbying Payments and Policy
How the manager voted	For	For	For
Rationale for the voting decision	Supporting better ESG risk management disclosures		
Outcome of the vote	Fail	Fail	Fail
Implications of the outcome	Active stewardship (engagement and voting) continues to form an integral part of Columbia Threadneedle's research and investment process.		

	Vote 1	Vote 2	Vote 3
Criteria on which the vote is considered "significant"	Vote against management on certain environmental or social proposals & >20% dissent		

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.

Manager	LGIM	Baillie Gifford	Columbia Threadneedle	TwentyFour AM	
Fund name	All World Equity Index GBP currency Hedged Fund	Multi Asset Growth Fund	Dynamic Real Return Fund	Absolute Return Credit Fund	Strategic Income Fund
Number of entities engaged on behalf of the holdings in this fund in the year	Data not available	24	148 ¹	80	200
Number of engagements undertaken at a firm level in the year	1308	1255	177	469	

Examples of engagement activity undertaken over the year to 31 December 2022

LGIM, Firm Level

Deforestation campaign

In the fourth quarter of 2022, LGIM continued their deforestation engagement campaign with portfolio companies. Having initially with around 3033 companies in deforestation-critical sectors, they followed up with direct engagements where requested. For instance, they met Colgate-Palmolive and Sime Darby Plantation to discuss their deforestation policies. As communicated in LGIM's deforestation policy, they will be sanctioning companies for not meeting their minimum expectations of having a deforestation policy or programme from 2023 onwards. They will continue to work on achieving their milestones as part of the COP26 commitment on eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which they signed in 2021.

Baillie Gifford, Multi Asset Growth Fund

MP Materials Corporation sustainability engagement

¹ This number is an estimation, based on firm level numbers.

MP Materials Corporation engages in the ownership and operation of integrated rare earth mining and processing facilities - the company delivers approximately 15% of the global rare earth supply with a long-term focus on Neodymium-Praseodymium, a crucial input to the green energy revolution. Miners can prove divisive on sustainability grounds but given MP Materials role in the transition to a greener future, BG continually engage to ensure the company is doing all it can to aid that transition.

Baillie Gifford arranged a meeting to find out more about the company's approach to sustainability as there is very little public environmental and social disclosure with no disclosed commitments to improve. This meeting was attended by one of Baillie Gifford's lead Fund Managers and ESG personnel. Given the materiality of certain environmental and social issues to the industry, Baillie Gifford were pleased to learn that the company is currently working on its inaugural sustainability report, supported by an external consultant, and following a sustainability consultation with some of the company's key stakeholders. Although early in its sustainability journey, Baillie Gifford were left with the impression that there is a willingness for the company to learn, to improve existing sustainability credentials and use this as a means by which to extend competitive advantage.

Following this engagement, Baillie Gifford have updated their proprietary ESG materiality assessment of the company and identified a number of ESG milestones to monitor, which included the timely publication of a credible sustainability report. Baillie Gifford were encouraged by their commitment to disclosure and transparency. The company has since published the sustainability report and Baillie Gifford have been in further contact to encourage them to include greater disclosure on their monitoring of scope 3 emissions, and to make explicit any ambitions for future emission reduction targets.

Columbia Threadneedle, Dynamic Real Return Fund

NextEra Energy climate change/social engagement

Columbia Threadneedle wanted more insight regarding the impact of the US Inflation Reduction Act, (IRA) as well as the implementation of forced labour rules on the solar supply chain in the US. Their utilities industry equity analyst organised a series of calls with US solar companies on the topic and also a call with NextEra that was joined by an RI analyst as well as portfolio managers.

The company sees the potential for a US supply chain to form in the next two to four years given manufacturing incentives from the IRA. In particular, community solar is likely to play a more significant role than rooftop solar in the evolution of the electric grid given its scale advantages and increasing popularity. The company also sees bright prospects for the adoption of renewables in the US with the tax incentives facilitating the addition of significant extra renewable capacity. NextEra expects that as a result of IRA the energy transition could happen twice as fast over the next decade. These calls provided valuable insight on the broader developments impacting the US solar industry and NextEra's position within this. Columbia Threadneedle concluded that the company is relatively insulated from the forced labour rules and very well positioned to seize the expansion and growth within solar energy in the US.

TwentyFour AM, Firm Level

Paragon climate change engagement

This engagement was part of TwentyFour's Carbon Emissions Engagement Policy. Following the UK Government's proposed regulation for buy-let-let properties to have a minimum EPC rating of C, they reached out to understand Paragon (a sponsor of Residential Mortgage Backed Securities) plans to reach this target. TwentyFour questioned how much of their £150 million green bond has been allocated to new green financing. Their ESG scoring provider Asset4 by Refinitiv scores Paragon very poorly on innovation. Innovation is a more challenging area for the

banking sector so TwentyFour questioned their progress on green mortgages and other environmental incentive products. This engagement is aligned with the SDG Climate Action goal.

In Q2 2022 TwentyFour spoke to Paragon who are currently in discussion with the UK government on how to meet the challenging EPC target. The lender is unable to force landlords to upgrade their properties, but they are actively communicating with their buy-to-let customers on this issue and encouraging action. With the launch of its green mortgage product, which offers reduced rates to new applicants with a property rated C or above, Paragon is aiming to lower the concentration of poorly rated properties in its mortgage portfolio. TwentyFour learned that some £142m of the £150m green bond proceeds have already been invested in eligible green loans – these are mainly in B rated EPC properties, with A rated EPCs still very rare in the UK. Paragon’s progress on innovation is not fairly captured in TwentyFour’s current ESG score for the bank and they will look to update this, reflecting its green mortgage offering and the extension of its motor finance policy to cover lending on battery electric vehicles.

TwentyFour see this as a useful engagement, and they were relatively pleased with the news on the green bond proceeds. They will continue to monitor Paragon’s progress on EPC ratings across its portfolio and the uptake on its green mortgage product, and update the issuer’s innovation score to reflect new information. The engagement gave TwentyFour additional comfort in the progress they are making and therefore remain invested.