Grafton UK Pension Scheme

Engagement Policy Implementation Statement for the year ended 31 December 2023

During the year ending 31 December 2023, the Scheme's investment policies were implemented in line with the principles set out in the Scheme's Statement of Investment Principles (SIP).

The SIP was reviewed and updated in November 2021.

The Trustee's policy is to permit PMC to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to its investment manager, LGIM and to encourage LGIM to exercise those rights in accordance with the Statement of Investment Principles. The Scheme invests through pooled fund arrangements and so acknowledges that the investment manager exercises those rights in accordance with its own corporate governance policies on behalf of all investors in its funds. In doing so LGIM takes account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee has considered LGIM's stewardship activities in relation to the specific funds the Scheme holds having received specific training from LGIM on the topic. The Trustee reviewed LGIM's approach to stewardship and are comfortable with the activity taken on the Scheme's behalf.

The Trustee concludes that, based on these considerations, LGIM has followed the requirements of the SIP.

Voting behaviour

All 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 ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

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 clients. Our 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 (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continues to develop its voting and engagement policies and define strategic priorities in the years ahead.

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 it does not outsource any part of the strategic decisions. LGIMs 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 (IVIS) 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 our 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 which it believes 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 its service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

Examples of LGIM's engagement activities during the 12 months to 31 December 2023:

Active ownership, which is a broader topic than voting in isolation, forms a key part of how LGIM conducts responsible investing. This is reflected in the following activities conducted on behalf of the Scheme.

- Company engagement
- Using voting rights globally, with one voice across all active and index funds
- Addressing systemic risks and opportunities
- Seeking to influence regulators and policymakers
- Collaborating with other investors and stakeholders

The examples below demonstrate some of the specific initiatives undertaken by LGIM in this regard during the year.

Decarbonising European Chemical Companies

As part of a collaboration of approximately 35 investors organised by Share Action, representing over US$7 trillion, LGIM has been engaging with a number of leading global chemical companies to encourage them to implement credible decarbonisation strategies. The engagements have included 13 of the largest European chemical companies, including Koninklijke DSM, Air Liquide and BASF. The collaboration has requested that the companies formulate strategies to electrify chemical production processes, increase their use of renewable energy sources, phase in non-petrochemical feedstocks, and set Scope 3 targets aligned with a 1.5°C pathway. Progress has been made, with some companies confirming plans to reach net zero by 2050. Nevertheless, there is still much progress to be made, and the collaboration will continue this year focusing on clear plans to make the transition happen. Letters have been sent out to targeted companies and engagements started to take place at the end of the first quarter.

Policy dialogue

UK highlights: UK Sustainable Disclosure Requirements

LGIM responded to the FCA's consultation on the proposed Sustainable Disclosure Requirements (SDR) regulations regarding labelling, naming and marketing for the financial sector. LGIM has long been supporters of the FCA's goal of developing an ambitious, appropriate and robust regime, and believe that it must also use its voice as an asset manager to identify those areas of the proposals which they believe to be incompatible with how the sustainable investment market currently operates, and with its clients' objectives. It is particularly keen to promote international alignment of regulations. Through its continued collaboration with the Aldersgate Group, is also maintains its pressure on the UK Government for the updated Green Finance Strategy to include mandatory climate transition plans for large UK companies.

International highlights: UN Water Conference

In February, in an initiative co-ordinated by the Carbon Disclosure Project ('CDP'), LGIM co-signed an open letter to governments on the water crisis, ahead of the UN 2023 Water Conference. This letter, signed by investors with over US$3 trillion in assets under management, highlights the severity of the global water crisis, the hurdles presented by a lack of global commitments, investment and standardised disclosures, and set out recommendations for action, including implementation of domestic policies to incentivise investment in water solutions, and alignment with target 15 of the new Global Biodiversity Framework. The UN Water Conference at the end of March was the first such conference since 1977 and an opportunity for much-needed international action and coordination on these vital issues, and for making progress towards the goal of living in harmony with nature by 2050. By increasing public pressure on governments strategically and in collaboration with its peers, LGIM aims to drive the development of a regulatory backdrop which enables and encourages water security around the world.

Climate impact pledge 2022

At LGIM, climate change and supporting a drive to net zero remain a priority. As such, LGIM has further expanded its dedicated climate engagement programme, the Climate Impact Pledge, by strengthening its climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally. LGIM has expanded the scope of its climate engagement programme in three main ways:

1. **Increased the number of sectors:** In 2016, LGIM's first iteration of the Climate Impact Pledge covered 6 sectors. In 2020 this increased to 15 and LGIM has now expanded coverage to 20 sectors. These companies are responsible for the majority of global carbon emissions from listed companies and also have been identified as the most carbon-intensive sectors within its portfolio.
2. **Increased the number of companies covered by data driven assessment:** By publishing its climate ratings on its dedicated website, LGIM enables companies to verify their progress and identify areas in their climate disclosures and strategies which need improvement. There may be voting implications for those companies not meeting LGIM's minimum standards.
3. **Increased the number of companies subject to direct engagement from 60 to over 100 companies:** In October 2022, LGIM began its next cycle of direct climate engagement with selected companies. These companies are influential in their sectors, but not yet leaders on climate change and sustainability; LGIM believes it can and should embrace the transition to net zero carbon emissions in the next few years. Complementing its data-driven approach, this qualitative approach enables LGIM's stewardship team sector experts to conduct an in-depth assessment of each company, based on the framework set out in the net zero sector guidelines published on its website – the sector and net zero guides have also been updated further details are available on the website or on request. This engagement aims to help companies remove roadblocks and encourage progress. LGIM expects these in-depth engagement companies to meet its published sector-specific red lines. There are potential voting and divestment implications for companies not meeting these after a certain period of engagement.

NA100 Collaboration

We are excited to announce that LGIM is a formal member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

Joining NA100 is an important part of acting on the commitments LGIM has made regarding collaboration and knowledge-sharing under the Finance for Biodiversity Pledge, as set out in its biodiversity policy.

Company specific

Kansai Electric Power: governance and climate

Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of LGIM's minimum expectations on board composition. LGIM believes that through its improvement, it could have a positive influence more broadly upon its sector in Japan. Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive but LGIM still observes some areas where it thinks improvements could be made, relative to its minimum expectations. Specifically, these include:

- Director independence and the presence of executives on committee which they think should be fully independent (e.g. the Remuneration Committee)
- Cross-shareholdings
- Limits to tenure of senior advisors to the board ('Komon')

The company now meets LGIM's expectations for gender diversity in Japan of 15% female representation on the board, which they also expect to increase over time. Regarding climate change and expectations under the Climate Impact Pledge, LGIM noted its lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation as an area for discussion. In its meeting with Kansai Electric Power, LGIM was able to discuss these areas in detail to better understand its approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

Significant votes for the Scheme during the year

In determining significant votes, LGIM takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) and the Scheme's SIP. This includes but is not limited to:

- 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
- Sanction vote as a result of a direct or collaborative engagement
- Vote linked to an LGIM engagement campaign

The Scheme was invested c.69.1% in growth assets utilising a range of underlying LGIM funds as at 31 December 2023. The most significant votes for the equity holdings during the year to 31 December 2023 have been summarised in the table below:

The Trustee deems this voting behaviour to be in line with the Scheme's stewardship priorities, which include but are not limited to climate change, biodiversity, diversity and ethnicity, remuneration and governance.

Company Name	Details of Vote
Progolis Inc.	**Date of vote:** 04/05/2023 **Approximate size of Fund's holding:** 0.34% **Summary of the resolution:** Resolution 1j - To elect Director Jeffrey L. Skelton **How LGIM voted:** Against **Rationale for voting decision:** Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board. Average board tenure: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Independence: A vote against is applied as LGIM expects the Chair of the Committee to have served on the board for no more than 15 years in order to maintain independence and a balance of relevant skills, experience, tenure, and background. Diversity: A vote against is applied as the company has an all-male Executive Committee.

	Why was the vote significant? LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.
Royal Dutch Shell Plc	**Date of vote:** 23/05/2023 **Approximate size of Fund's holding:** 0.28% **Summary of the resolution:** Resolution 25 - Approve the Shell Energy Transition Progress Update **How LGIM voted:** Against **Rationale for voting decision:** Climate change: A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5°C trajectory. **Why was the vote significant?** LGIM is publicly supportive of so called "Say on Climate" votes. We expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan. **Outcome of the vote:** 80% of shareholders supported the resolution.
American Water Works Company, Inc	**Date of vote:** 10/05/2023 **Approximate size of Fund's holding:** 0.18% **Summary of the resolution:** Resolution 5 – Oversee and Report a Racial Equity Audit **How LGIM voted:** For (against management) **Rationale for voting decision:** Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies. **Why was the vote significant?** LGIM considers this shareholder proposal significant as we view racial and gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.
SSE Plc	**Date of vote:** 20/07/2023 **Approximate size of Fund's holding:** 0.17% **Summary of the resolution:** Resolution 17: Approve Net Zero Transition Report **How LGIM voted:**

	For **Rationale for voting decision:** Climate change: A vote in favour is applied as LGIM expects 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 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal. **Why was the vote significant?** LGIM is publicly supportive of so called "Say on Climate" votes. We expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.
Public Storage	**Date of vote:** 02/05/2023 **Approximate size of Fund's holding:** 0.17% **Summary of the resolution:** Resolution 5 - Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal **How LGIM voted:** For (against management) **Rationale for voting decision:** Climate change: A vote for is applied as LGIM expects 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 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal. **Why was the vote significant?** This shareholder resolution is considered significant due to the relatively high level of support received. **Outcome of the vote:** 35% of shareholders supported the resolution.
Toyota Motor Corp	**Date of vote:** 14/06/2023 **Approximate size of Fund's holding:** 0.16% **Summary of the resolution:** Resolution 4 – Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement **How LGIM voted:** For (against management) **Rationale for voting decision:** Climate Change: LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. We acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years. However, we believe that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity

	aligns with its own climate ambitions, and what actions are taken when misalignment is identified. **Why was the vote significant?** LGIM believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors including, for example, climate accountability and public health. In addition, we expect companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. **Outcome of the vote:** 15% of shareholders supported the resolution.
Eversource Energy	**Date of vote:** 03/05/2023 **Approximate size of Fund's holding:** 0.15% **Summary of the resolution:** Resolution 1.8 - Elect Director Joseph R. Nolan, Jr. **How LGIM voted:** Against **Rationale for voting decision:** Governance: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. **Why was the vote significant?** LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). **Outcome of the vote:** 71% of shareholders supported the resolution.
Amazon.com, Inc	**Date of vote:** 24/05/2023 **Approximate size of Fund's holding:** 0.12% **Summary of the resolution:** Resolution 13 – Report on Median and Adjusted Gender/Racial Pay Gaps **How LGIM voted:** For (against management) **Rationale for voting decision:** Diversity: A vote in favour is applied as 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 we believe 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. **Why was the vote significant?** LGIM views racial and gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf. **Outcome of the vote:** 29% of shareholders supported the resolution.

Ferrovial SA	**Date of vote:** 12/04/2023 **Approximate size of Fund's holding:** 0.11% **Summary of the resolution:** Resolution 12 – Reporting on Climate Transition Plan **How LGIM voted:** Against **Rationale for voting decision:** Climate Change: While the company's efforts are to be commended, a vote against is applied as LGIM expects net zero commitments, rather than carbon neutrality commitments. **Why was the vote significant?** LGIM is publicly supportive of so called "Say on Climate" votes. We expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.
Alphabet, Inc	**Date of vote:** 02/06/2023 **Approximate size of Fund's holding:** 0.10% **Summary of the resolution:** Resolution 18 - Approve Recapitalization Plan for all Stock to Have One-vote per Share **How LGIM voted:** For (against management) **Rationale for voting decision:** Governance: A vote in favour is applied as LGIM expects companies to apply a one-share-one-vote standard. **Why was the vote significant?** This shareholder resolution is considered significant due to the relatively high level of support received. **Outcome of the vote:** 31% of shareholders supported the resolution.

How many meetings were you eligible to vote at over the year	9,871
How many resolutions were you eligible to vote on over the year	101,264
What % of resolutions LGIM voted on where eligible	99.80%
Of the resolutions on which LGIM voted, the % voted with management was	76.59%
Of the resolutions on which LGIM voted, the % voted against management was	23.15%
Of the resolutions on which LGIM voted, the % abstained was	0.26%