Implementation Statement

Lithgows Limited Pension Scheme

Purpose of this statement

This implementation statement has been produced by the Trustees of the Lithgows Limited Pension Scheme ("the Scheme") to set out the following information over the year to 5 April 2022:

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

The voting and engagement data is shown over the year to 31 March 2022, as it is provided on a quarterly basis by the Scheme's investment managers.

How voting and engagement policies have been followed

Based on the information provided by the Scheme's investment managers, the Trustees believe that their 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 Investment managers.
- As part of the Scheme's 2021 Actuarial Valuation, the Trustees reviewed the ESG practices incorporated within the Employer's business model. When considering the Scheme's investments, the Trustees are mindful that many of the Group's business interests revolve around renewable energy projects as well as incorporating other local community engagement initiatives. The Trustees take this into account when considering how to incorporate ESG into the Scheme's investments.
- Throughout the year Abrdn and Baillie Gifford attended a Trustees' meeting to present on ESG and stewardship. Around 90% of the Scheme's assets were invested with these managers. The Trustees had a discussion around switching to the sustainable version of each manager's funds but ultimately decided not to invest in any ESG-focussed funds at this stage.
- Annually the Trustees receive and review voting information and engagement policies from the asset managers. Based on the data currently available, which is presented below, the Trustees are comfortable the actions of their fund managers are in alignment with the Scheme's stewardship policies.

Stewardship policy

The Trustees' Statement of Investment Principles (SIP) describes the Trustees' stewardship policy on the exercise of rights (including voting rights) and engagement activities. It was last reviewed in September 2020 and has been made available online here:

https://schemedocs.com/download/lithgows-statement-of-investment-principles-2020-09.pdf

Prepared by the Trustees of the Lithgows Limited Pension Scheme
July 2022

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 March 2022. The Scheme's Liability Aware Equity Funds, Long Lease Property Fund and Total Return Credit Fund with Abrdn and the Strategic Income Fund with TwentyFour have no voting rights given the nature of the mandates.

Manager	Baillie Gifford	Baillie Gifford
Fund name	Global Alpha Pension Fund	Diversified Growth Fund
Structure	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	105	133
No. of eligible votes	1,307	1,537
% of resolutions voted	96.6%	88.1%
% of resolutions abstained from[1]	0.6%	0.6%
% of resolutions voted with management[1]	97.3%	96.0%
% of resolutions voted against management[1]	2.1%	3.4%

[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 the Implementation Statement the Trustees have asked the investment managers to determine what they believe to be a "significant vote". Baillie Gifford have provided a selection of ten votes which they believe to be significant, and in the interest of concise reporting the tables below show three of these votes for each fund.

A summary of the significant votes provided is set out below. Commentary within this section was provided by Baillie Gifford and is written from their perspective rather than the Trustees'.

Baillie Gifford, Global Alpha Growth Fund

	Vote 1	Vote 2	Vote 3
Company name	BHP GROUP PLC	TESLA, INC.	TESLA, INC.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	2.4%	1.8%	1.8%
Summary of the resolution	Shareholder Resolution - Climate	Two Shareholder Resolutions - Social	Shareholder Resolution - Governance
How the manager voted	For	Against (both resolutions)	Against
Rationale for the voting decision	We supported a resolution requesting the company to strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement. This was in line with management's recommendation.	We opposed a shareholder resolution requesting additional reporting on Tesla's diversity and inclusion efforts. We believe the company continues to make good progress in relation to their diversity, equality and inclusion approach and reporting, and believe this proposal does not warrant support at this time. We opposed a shareholder resolution requesting a report on the company's approach to human rights. We think Tesla's current policies and practices are reasonable and improving, making this proposal unnecessary.	We opposed a shareholder resolution requesting to declassify the board. We believe that full declassification of the board is not in the best interests of shareholders at this time, and have instead supported management's alternate proposal for partial declassification.
Outcome of the vote	Not Applicable	Pass (first resolution) Fail (second resolution)	Pass
Implications of the outcome	In advance of the AGM we engaged with the company on a number of climate related and shareholder resolutions. One resolution we engaged on was requesting the company to strengthen its review of industry	Over the last few years the company has developed their DEI approach and reporting, and has been responsive to our feedback. As such, we didn't believe this resolution warrants support.	We understand that in some situations this governance provision provides necessary protection to the board. The board argues that in order to effectively meet its mission to accelerate the world's transition

	Vote 1	Vote 2	Vote 3
	associations to ensure that it identifies areas of inconsistency with the Paris Agreement. This resolution had been put forward at the 2019 and 2020 AGMs however failed only receiving 27% and 22% support respectively. Previously we had opposed the resolution as we were comfortable management were making sufficient progress however this year management recommended support for the resolution, and as such we voted in favour. The resolution received over 98% support.	We believe that Tesla continue to make improvements in this area as noted in their Impact Report. Whilst we continue to encourage development in this area, we do not think it is necessary to support this resolution at this time.	to sustainable energy, that they require long-term focus, and believe the full declassification of the board leaves the company vulnerable to opportunistic short-term interests. However in response to this proposal, the company put forward a "superior" resolution in which they propose reclassifying the board into two classes, with directors serving 2 year terms as opposed to 3 years. We were supportive of the board's resolution for partial declassification, and as such we opposed the shareholder proposal.
Criteria on which the vote is considered "significant"	These resolutions are significant because they were submitted by shareholders and received greater than 20% support.		

Baillie Gifford, Diversified Growth Fund

	Vote 1	Vote 2	Vote 3
Company name	VONOVIA SE	GREGGS PLC	SIX FLAGS ENTERTAINMENT CORPORATION
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.6%	0.3%	0.2%
Summary of the resolution	Amendment of Share Capital	Remuneration - Report	Remuneration - Say on Pay
How the manager voted	Against	Against	Against
Rationale for the voting decision	We opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	We opposed the resolution to approve the Remuneration Report because of the Remuneration Committee's decision not to align executive directors' pensions with the workforce until four years after the Investment Association's guidance.	We opposed the executive's remuneration as several aspects are not in line with best practice.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	In advance of the AGM we contacted the company to see if they could provide an assurance they would not issue shares below Net Tangible	In line with the Investment Association's guidance, we expect companies to align the pension contributions of their executive team with that of the	We opposed executive compensation for a multitude of reasons however our primary concern was the size of the long-term incentive award paid

	Vote 1	Vote 2	Vote 3
	Asset (NTA). The company were not able to provide that assurance therefore we did not feel it was in our clients' interest to support the two equity issuance resolutions. We encourage the company to provide this additional assurance so we could consider supporting in future.	wider workforce by the stated deadline - end of 2022. Greggs stated in their annual report that the pensions of their current executives would not be aligned until the end of 2026 which we do not believe to be acceptable. Following the submission of our votes we communicated our concerns to the company who acknowledged our concerns and stated that they would review pension alignment at their next remuneration policy review, ahead of the 2023 AGM. We look to continue to engage on this issue.	to the CEO. In light of COVID-19, when reviewing proposals relating to executive compensation we assess whether executive pay is aligned with the experience of employees and shareholders. We felt we could not justify supporting a sizeable long-term incentive award for the CEO, which was equal to the previous year, when framed against a background of company-wide salary reductions and employee lay-offs. We communicated our concerns to the company following the submission of our votes and we will continue to engage on our concerns. Although this proposal was passed, 41% of shareholders opposed it.
Criteria on which the vote is considered "significant"	This resolution is significant because it received greater than 20% opposition.	This resolution is significant because we opposed remuneration.	This resolution is significant because it received greater than 20% opposition.

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 funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

Manager	Baillie Gifford	Baillie Gifford	Abrdn	TwentyFour
Fund name	Global Alpha Growth Fund	Diversified Growth Fund	Long Lease Property Fund; Total Return Credit Fund	Strategic Income Fund
Number of engagements undertaken on behalf of the holdings in this fund in the year	69	43	Data not available	133
Number of engagements undertaken at a firm level in the year	Data not available	Data not available	2,585	283

Examples of engagement activity undertaken over the year to 5 April 2022

Baillie Gifford, Global Alpha Growth Fund and Diversified Growth Fund

Name of entity: Amazon.com Inc.

Topic: Corporate Governance

Background: Baillie Gifford had a call with Senior Independent Director Jon Rubinstein. The focus of their discussion was the recent transition of CEO position from Jeff Bezos to Andy Jassy. This has been a carefully managed process, which the board has dedicated significant resource to over several years. Rubinstein explained his belief that Amazon has a deep succession plan down through the executive and management teams. Baillie Gifford also encouraged Rubinstein and the Amazon board to improve its disclosure of health and safety data.

Actions: The company has dedicated significant time and resource to improving financial and working conditions for its staff. However, its reporting of health and safety information is currently lacking, preventing shareholders from assessing the success of these investments and policies.

Outcome and next steps: Baillie Gifford will continue to engage with the company going forward.

Abrdn

Name of entity: Goldman Sachs Group (USA)

Topic: Diversity and inclusions

Background: At its AGM in April 2021, the company received a shareholder proposal requesting a racial equity audit to analyse potential adverse impacts. The resolution was drafted so as not to be too detailed and prescriptive in its requirements.

Actions: Abrdn engaged with the company to discuss its current approach to diversity and inclusion and were impressed by the steps it is taking and plans it has in place to address areas that are challenging. They believed that support of this resolution would help to bolster these efforts and demonstrate to shareholders the positive steps that the company is taking. Abrdn were therefore of the view that it would be appropriate for the company to measure the success of these strategies and a racial equity audit would support that assessment.

Outcome and next steps: Abrdn recognise that it is difficult for companies to measure diversity and inclusion in the services that they provide and that there are multiple factors driving these provisions which could be misconstrued as being racially motivated. However, in their view the resolution was not overly prescriptive and allowed an acceptable margin of freedom to address this challenge. Abrdn therefore voted in favour of the resolution, while reiterating their continued support and recognition of the positive work that the company is undertaking in this area. The resolution did not pass but received 25% support.

TwentyFour, Strategic Income Fund

Name of entity: National Express Group

Topic: Climate change

Background: TwentyFour engaged with National Express on a range of environmental issue as part of their Carbon Emissions Engagement Policy. Their desired outcome was to assess their carbon emissions reduction plan and other environmental objectives and if substandard, push for improvements. The engagement was in relation to the Climate Action SDG.

Action: This was a very detailed and largely successful engagement starting in Q3 2021 with the senior management at National Express with senior members of our Outcome Driven and Multi Sector Bond investment teams.

TwentyFour have identified specific data points which they will track and measure to ensure National Express continue to improve on their environmental credentials. They were pleased to hear they plan to publish new net zero Group targets very shortly which would align to a 1.5 degrees Celsius target, following the success they have had in reaching their 2 degrees Celsius targets.

The area which is holding back the decarbonisation of the UK Bus division is the lack of hydrogen infrastructure in the UK – they have currently submitted a bid together with Transport for West Midlands (TfWM) for funding as part of the Zero Emission Bus Regional Areas (ZEBRA) funding through the National Bus Strategy, for up to 200 Hydrogen vehicles. For National Express' coach business, electric vehicle (EV) technology doesn't currently work due to the high speed and long distance of these routes so a national hydrogen infrastructure will also be required for refuelling a national network. Despite the challenges National Express are facing in transforming their bus fleet, this is an area where TwentyFour must see change in order to meet carbon reduction targets and wider net zero targets.

TwentyFour were provided with a full breakdown of the fuel type of their bus fleet in North America, UK and Europe. Their current portfolio is very heavily weighted to diesel vehicles, particularly in their UK operations – TwentyFour fully expect this to improve and will monitor this closely. They learned that they may look to issue ESG labelled debt in the future. Additionally, in order to finance the transition to zero emissions vehicles, they may change their asset ownership model to something like the Rolling Stock Leasing company (ROSCO) model in the UK – this is certainly a positive from an ESG and credit perspective, and good for momentum. National Express has clear climate reduction targets with ambitious goals to operate a fully zero emission fleet - by 2030 in their UK bus business and by 2035 in the UK coach business.

Outcome and next steps: TwentyFour believe that public transport can be an important part of a path to Net Zero, and whilst currently all bus companies are struggling to move away from their reliance on diesel vehicles, they do think that National Express are making good efforts to move to a better carbon footprint. Whilst they, and others still have a long way to go, TwentyFour are happy to support them in their transition and maintain invested in their bonds.