

Implementation Statement

Institution of Mechanical Engineers Staff Pension and Life Assurance Scheme

How voting and engagement policies have been followed

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 an initial review of the stewardship and engagement activities of Legal & General and Insight in the August 2019 meeting, and were satisfied that their policies were reasonable and no remedial action was required at that time.

The Trustees receive and review voting information and engagement policies from the asset managers from time to time, and ask the managers to give updates on these policies as part of their regular presentations to the Trustees.

The Trustees also receive an annual ESG monitoring report from their investment advisors in order to demonstrate compliance with their voting and engagement policies.

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.

Voting Data

Manager	LGIM	LGIM	LGIM	LGIM	LGIM
Fund name	UK Equity Index Fund	Europe (ex UK) Equity Index Fund (hedged and unhedged)	Japan Equity Index Fund (hedged and unhedged)	North America Equity Index Fund (hedged and unhedged)	Asia Pacific (ex Japan) Developed Equity Index Fund (hedged and unhedged)
Structure	Pooled	Pooled	Pooled	Pooled	Pooled
Ability to influence voting behaviour of manager	Limited*	Limited*	Limited*	Limited*	Limited*
Number of company meetings the manager was eligible to vote at over the year	894	635	547	804	515
Number of resolutions the manager was eligible to vote on over the year	12468	10402	6538	9634	3634
Percentage of resolutions the manager voted on	100.00%	99.88%	100.00%	100.00%	100.00%
Percentage of resolutions the manager abstained from	0.00%	0.35%	0.00%	0.00%	0.00%
Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on	93.12%	84.19%	86.68%	72.31%	73.20%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	6.87%	15.47%	13.32%	27.65%	26.77%
Percentage of resolutions voted contrary to the recommendation of the proxy advisor	0.77%	0.35%	0.24%	0.28%	0.17%

*The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.

Significant votes

For the first year of implementation statements we have delegated to the investment managers to define what a “significant vote” is. Note that across the LGIM equity funds, LGIM provided 16 significant votes. A small selection of the data they have provided is set out below.

LGIM Equities

	Vote 1	Vote 2	Vote 3
Company name	The Procter & Gamble Company (P&G)	Rank Group	Whitehaven Coal
Date of vote	13/10/2020	11/11/2020	22/10/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	Not provided	Not provided	Not provided
Summary of the resolution	Report on effort to eliminate deforestation	Approve the remuneration report and approve the remuneration policy	Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.
How the manager voted	LGIM voted in favour of the resolution	LGIM supported both resolutions	LGIM voted for the resolution
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	N/A	N/A	N/A
Rationale for the voting decision	Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt that it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies we invest our clients' assets in are	LGIM decided to support the remuneration report, which looks back at the remuneration earned during the financial year. They noted the remuneration committee's decision to apply a 20% deduction and cancel the planned increase of salaries of the executives and fees of the board members. No annual bonus was granted, given the performance of the company. LGIM was comfortable that the impact of COVID-19 had been appropriately reflected in the remuneration of the executives and therefore decided to support the remuneration report.	LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

	Vote 1	Vote 2	Vote 3
	not contributing to deforestation.	Regarding the remuneration policy, LGIM's direct engagement with the company allowed them to better understand the rationale for the proposed changes to the LTIP. They took into account their concerns around retention, and the fact that there would be a substantial gap in the vesting of any long-term incentives if this plan was not approved. Notably, that the structure of the proposed LTIP was in line with LGIM's remuneration principles.	
Outcome of the vote	The resolution received the support of 67.68% of shareholders (including LGIM). LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.	90.79% of shareholders supported the resolution to approve the remuneration report and 96.4% supported the resolution. However, it should be noted that a majority shareholder owned 56.15% of the voting rights shortly before the time of the vote.	The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in 'significant environmental harm'. As the company is on LGIM's Future World Protection List of exclusions, many of our ESG-focused funds – and select exchange-traded funds – were not invested in the company.
Implications of the outcome	LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.	Our engagement with the company on the topic of remuneration led to an informed vote decision by LGIM.	LGIM will continue to monitor this company.
Criteria on which the vote is considered "significant"	It is linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest.	It illustrates the complexity of remuneration practices and the importance of engagement. The media also expected this shareholder meeting would trigger a substantial amount of votes against.	The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.

Fund level engagement

Manager	LGIM	Insight
Fund name	Applicable for all funds	Insight UK Broad Market Bond Fund

Manager	LGIM	Insight
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes
Number of engagements undertaken at a firm level in the year	891	56

Examples of engagements undertaken with holdings in the fund

1) Barclays AGM - In March 2020, Barclays published its ESG report and issued a statement, outlining its plans to shrink its carbon footprint to net zero by 2050. LGIM has played a role in private discussions with and between the Barclays board, ShareAction, the Investor Forum and other large investors to secure an outcome that the company, investors and the shareholder proponents are able to support.

2) DTE Energy - LGIM has had regular engagement calls with the company over the last three years, and have encouraged the company to put a lead independent director in place, as well as to separate the role of CEO and board chair in order to increase the independence and risk oversight at board level.

1) TOTAL - In November 2020 TOTAL guided that the company was considering to issue transition bonds on the back of new ESG strategy. We had an ESG-centric call with TOTAL IR during one of the energy conferences to discuss in further detail ESG strategy as well as provide feedback on potential transition bond idea.

2) Deutsche Bank - Deutsche Bank had several severe controversies regarding AML controls, allegations of anti-competitive behaviour, and aiding tax evasion in US. Engagement covered improvements in governance and the green bond framework and the use of proceeds.