Implementation Statement

Tube Lines Pension Scheme (the "Scheme")

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 ('the Regulations'). The Regulations require that the Trustee Directors ('the Directors') produce an annual statement called an Implementation Statement ("IS") which outlines the following:

- A description of any review and changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Directors have fulfilled the objectives and policies included in the SIP over the Scheme year;
- Describe the voting behaviour by or on behalf of the Directors (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

The IS has been prepared by the Directors covering the Scheme year from 1 April 2021 to 31 March 2022.

Executive summary

Supported by their investment adviser, the Directors are of the opinion that they have successfully adhered to all the policies outlined in the SIP during the Scheme year. They are also satisfied that the investment managers are exercising their voting rights and engaging with the investee companies where appropriate. The Directors will continue to monitor the investment managers' activities in these areas.

1. Review and changes made to the SIP over the year

The Trustees have a policy to review the SIP formally at least every three years, or after any significant change in investment policy or member demographics.

The Statement of Investment Principles ("SIP") was not reviewed during the year to 31 March 2022 and was last updated in September 2020.

The latest version of the SIP is available for members to view via the Scheme website here: https://tfl.gov.uk/corporate/publications-and-reports/tube-lines-pension-scheme-documents

2. Meeting the objectives and policies outlined in the SIP

The Directors outline in their SIP a number of key objectives and policies. These are noted below, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2022:

Reviewing the investment strategy

The Directors, with assistance from their investment advisers, formally reviewed the Scheme's investment strategy including the default arrangement during the year. This review was completed on 10 September 2021.

In conducting the review, the Trustees considered their objectives and the membership profile and, in light of these, analysed the degree to which the investment strategy is suitable. The Trustees also considered changes in the investment conditions, products and techniques available in the marketplace which may be appropriate for the Scheme.

On the basis of the review's findings, the Directors determined that it would be appropriate to replace the Invesco fund and the Emerging Market Equity fund used the Scheme including within the default strategy. This change is expected to improve risk adjusted return and ultimately lead to improved member retirement outcomes.

The Directors are working with the investment adviser to implement this change and expects the process to be completed in the 2022/23 Plan year. The SIP will be reviewed and updated as part of this process.

Scheme Investment Objective: In investing the assets of the Scheme in a prudent manner, the Trustee Directors' key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

The investments currently available to members have been in place since 2018. Based on advice provided by the investment adviser during the year, the Directors are comfortable that they have made available a comprehensive selection of investment options including three lifestyle strategies and a range of standalone self-select funds.

This range of investments was put in place following the Scheme's investment strategy review undertaken in 2018 during which the Directors commissioned analysis of the Scheme's membership in order to better understand members' circumstances, objectives and attitudes to risk. This was reaffirmed in the course of undertaking the 2021 strategy review.

Accordingly, the Directors are satisfied that this policy has been fully adhered to over the year.

Default Investment Objective: The Trustee Directors' objectives for the default strategy are as follows:

- *Aim for significant long term real growth while members are further away from retirement.*
- *Manage down volatility in fund values as members near retirement.*
- *Target an end point portfolio that is appropriate and consistent with how members may take their benefits when they retire.*

The default strategy used by the Scheme during the year invests in equities while members are further away from retirement. Equities are expected to deliver significant long term real growth.

As members near retirement, the default strategy invests in a diversified portfolio of assets and funds which, taken together, are expected to be less volatile than equities.

The end portfolio of the default strategy is highly diversified and is designed to be appropriate and consistent with how members may take their benefits when they retire.

Overall, the Directors are satisfied that the default strategy is appropriate given their objectives. This view is backed by their investment adviser.

Other Investment Options Policy: It is the Trustee Directors' policy to provide suitable information for members so that they can make appropriate investment decisions. The range of other investment options was chosen by the Trustee Directors after taking advice from their investment adviser. In choosing the Scheme's investment options, it is the Trustee Directors' policy to consider:

- *A full range of asset classes.*
- *The suitability of the possible styles of investment management and the need for manager diversification.*
- *The suitability of each asset class for a defined contribution scheme.*
- *The need for appropriate diversification.*

An investment guide is available to members which provides details of all the investment options and information about how members can access suitable professional investment advice. Additionally, the member website provides access to the factsheets for each of the funds available in the self-select range and used within the lifestyle strategies.

The investment options available to members during the year were selected following advice the Directors obtained from their investment adviser. This advice included consideration of the full range of asset classes and manager styles that would be suitable for the Scheme and how appropriate diversification (including across managers) could be put in place.

Overall, the Directors are satisfied that their choices of investment options are aligned with their policies and that suitable information is provided to enable members to make appropriate investment decisions. This view is backed by their investment adviser.

Risk Measurement and Management Policy: The Trustee Directors recognise that members experience risk associated with the Scheme's investment options including the default strategy. The Trustee Directors take account of this in the selection and monitoring of the investment managers and the choice of funds offered to members…

The investment options available to members during the year were selected following advice the Directors obtained from their investment adviser. This advice included consideration of the risks members might experience and ways these could be appropriately managed and mitigated.

During the year, the Directors received quarterly monitoring reports which considered the performance of the investment managers and funds over time as well as the performance the default investment strategy as whole.

The Directors also received reporting detailing the impact realised performance and the changing financial outlook would have on expected member retirement outcomes.

In the course of this monitoring, no material issues were identified during the year and the Directors are comfortable that the risks have been considered, managed and monitored appropriately given their objectives.

Governance Policy: The Trustee Directors of the Scheme have ultimate responsibility for the investment of the Scheme assets. The Trustee Directors take some decisions and delegate others. When deciding which decisions to take and which to delegate, the Trustee Directors have taken into account whether they have the appropriate training and expert advice in order to take an informed decision…

…The Trustee Directors' policy is to review their investments and to obtain written advice about them at regular intervals. When deciding whether to make any new investments or terminate any investments, the Trustee Directors will obtain written advice from their investment adviser.

Over the year, the Directors undertook relevant training and obtained professional support and advice from their advisers. For example, the Directors received training in relation to the review of the Scheme's investment strategy.

Aon has continued to support the Directors throughout the year and, in particular, provided training, advice and updates on the Scheme's investments and fund managers.

The training, support and advice the Directors have received has enabled them to make informed decisions over the course of the year.

During the year, the Directors continued to delegate, to the fund managers, responsibility for the day-to-day management of the investments including responsibility for ensuring the funds perform in line with their objectives. This is on the basis that the Directors consider the fund managers to be best placed to make day-to-day investment decisions and meet the fund objectives.

The Directors, with support from their investment adviser, have monitored the fund managers to ensure they are appropriately fulfilling the responsibilities delegated to them. This monitoring is supported by quarterly reporting that Aon has provided and which includes a review of the performance of the fund managers against their objectives and highlights any developments which may impact the ability of the fund managers to fulfil their objectives or responsibilities in future.

This monitoring has not identified any material issues that would lead to the Directors changing the Scheme's investments.

The Directors are satisfied that this policy has been fully adhered to over the year.

Responsible Investment Policies

Environmental, Social and Governance Considerations: The Trustee Directors consider [financially material] risks by taking advice from their investment adviser when setting the Scheme's investment strategy, when selecting managers and when monitoring their performance.

The Directors obtained professional investment support and advice from their investment adviser, Aon, when setting and reviewing the Scheme's investment strategy, selecting managers and in monitoring their performance. Consideration of financially material risks was an integral part of this support and advice.

Members' Views and Non-Financial Factors: The Trustee has made the Ethical and Shariah funds available to members who would like to invest in funds with these specific considerations. The funds that make up the default strategy and other investment options do not apply purely ethical or moral judgements as the basis for investment decisions.

The Directors considered member feedback when updating the default strategy and range of funds as part of the investment strategy review and it was member feedback that led to the implementation of the Ethical and Shariah funds which have been available to members throughout the year.

<u>Stewardship – Voting and Engagement</u>: The Trustee Directors regularly review the continuing suitability of the appointed managers and take advice from their investment adviser in this regard. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If a manager is found to be falling short of the standards that the Trustee Directors expect, they will engage with the manager and seek a more sustainable position.

The Trustee Directors will review and report on the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee Directors will review the alignment of the investment managers' policies with their own and ensure the manager uses its influence as a major institutional investor to carry out the Trustee Directors' rights and duties as a responsible shareholder and asset owner. This will include voting, along with engaging with underlying investee companies and issuers of debt to promote good corporate governance and accountability.

The support Aon provided during the year included updating the Directors on manager developments and whether there was anything that impacted their continued suitability. This advice included consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Directors and Aon have also engaged with the fund managers to better understand their approach to stewardship and their exercise of voting rights.

Aon's manager research team discuss the engagement policies of fund managers as part of their fund rating review. Aon's views of managers are communicated within the quarterly reporting they provided to the Directors.

Voting statistics and engagement information covering the year to 31 March 2022 are included later in this statement. This information has been reviewed by the Directors and Aon and will continue to be reported, through the IS, on an annual basis.

Having engaged with the asset managers and reviewed their activities and policies, the Directors are satisfied that the asset managers have fulfilled the standards the Directors expect and are promoting good corporate governance and accountability. The Directors are supported in this view by Aon.

<u>Policies on Costs and Transparency</u>: The Trustee Directors believe that net of all costs performance assessments provide an incentive for investment managers to manage costs efficiently. As such, the Trustee Directors believe it is important to understand the different costs and charges which are paid by members.

… The Trustee Directors collect information on … member-borne costs and charges on an annual basis, where available, and sets these out in the Annual Chairman's Statement regarding DC Governance, which is made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee Directors expect its investment adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chairman's Statement exercise.

The quarterly reporting the Directors have received from Aon during the year includes a net of all cost performance assessment which informs the Directors views on the continued appropriateness of the investment / asset managers used by the Scheme.

The member-borne costs and charges of all the investments used by the Scheme were collected and presented in the Chair's Statement which is available on a publicly accessible website.

In the course of producing the Chair's Statement, Aon reviewed the costs and charges and highlighted where they seemed higher than expected. Where this was the case, Aon sought and obtained a suitable explanation from the asset manager.

<u>Policies on Arrangements with Asset Managers</u>: The Trustee Directors monitor those investments used by the Scheme to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee Director's policies as set out in the Statement of Investment Principles, including those on non-financial matters.

The Trustee Directors also monitor those investments available through the Scheme but not included in the default strategy…

…The Trustee Directors are supported in this monitoring activity by its investment consultant.

Before appointment of a new investment, the Trustee Directors review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee Directors' policies. Where possible, the Trustee Directors will seek to express its expectations to the asset managers to try to achieve greater alignment.

…Where asset managers are considered to be making decisions that are not in line with the Trustee Director's policies, expectations, or the other considerations…, the Trustee Director's will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

During the year, the Director's received analysis from Aon detailing how the investment strategy was performing and how it was expected to perform in future in terms of the retirement outcomes of members. The Directors have also obtained quarterly reporting from Aon which details the performance of the investments and managers used by the Scheme. This quarterly reporting covered investments in the default strategy, the other lifestyle strategies and the standalone self-select options.

This reporting, in conjunction with ongoing engagement with the asset managers and support from Aon, has enabled the Directors to consider the extent to which the investment strategy and decisions of the asset managers are aligned their policies.

No new managers were appointed during the year but the Directors have maintained ongoing engagement with the current asset managers and this dialogue includes expressing their expectations of the managers. This ongoing engagement, along with the monitoring undertaken during the year, mean the Directors are satisfied that the asset managers have been making decisions in line with the Directors' policies, expectations and other considerations. The Directors are supported in this view by Aon.

The asset managers were also formally reviewed during the year as part of the strategy review which was completed in September 2021. The review concluded that, the Scheme's investment strategy, including the default arrangement, continues to be appropriate given the Trustee Directors' objectives and understanding of the Scheme members' requirements. However, the Directors did conclude that it would be appropriate to replace the Invesco fund and the Emerging Market Equity fund with a view to improving risk adjusted returns.

Overall

Given the approach and actions undertaken during the year, the Directors are satisfied that their responsible investment policies have been fully adhered to.

3. Voting and engagement activity undertaken over the year

Executive summary

The Scheme invests in pooled funds across a range of asset classes, and the Directors have delegated responsibility for the selection, retention and realisation of investments to the Scheme's fund managers in whose funds they invest.

As part of the production of this statement, the Directors– supported by their investment advisers, Aon – have reviewed the voting and engagement activities carried out on their behalf by the Scheme's fund managers. Where the stewardship of managers is found to be falling short of the standards set out by the Directors (exercising votes and engaging in order to create long-term financial value), they may take further action – for example by meeting with the manager in question or requesting that Aon engage on their behalf.

All of the Scheme's fund managers have provided commentary on their approach to voting, including the use of any proxy voting services provided (relevant for equity managers only) as well as their approach to engaging with underlying security issuers. The Directors acknowledge that the concept of stewardship may be less applicable with respect to its fixed income investments, particularly for short-term money market instruments and gilt investments. As such, these investments have not been covered in this statement.

All of the Scheme's fund managers have also provided examples of significant votes. There are a number of different criteria under which fund managers can determine whether a vote is significant. Each manager has their own criteria, with examples including:

- a vote where a significant proportion of the votes (e.g., more than 20%) went against the management's proposal
- a vote where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to a wider engagement initiative with the company involved
- a vote that demonstrates clear and considered rationale;
- a vote that the client considers inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

The Directors definition of a significant vote is broadly consistent with the managers' definitions. As such, the examples given in the appendices below are also aligned with the Directors' definition of a significant vote.

Having reviewed the commentary provided by the investment managers, the Directors believe the stewardship carried out on their behalf over the Scheme year has been adequate, noting how the examples provided show the willingness and ability of the Scheme's investment managers to take proactive votes against management where appropriate.

The Directors recognise that they have a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Directors continue to expect improvements over time in line with the increasing expectations on investment managers and its significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

A summary of the eligible votes cast by each of the Scheme's equity and multi-asset managers can be found in the Appendix of this statement.

Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity and multi-asset investments held by the Scheme were:

Fund manager	Fund
Legal & General Investment **Management (LGIM)**	Developed Balanced Factor Equity Index Fund
	UK Equity Index Fund
	World (ex UK) Equity Index Fund
	World Emerging Market Equity Index Fund
	Europe (ex-UK) Equity Index Fund
	Japan Equity Index Fund
	Asia Pacific (ex-Japan) Developed Equity Index Fund
	Ethical Global Equity Index Fund
	North America Equities Index Fund
HSBC	Islamic Global Equity Index Fund
Invesco	Global Targeted Returns Pension Fund

LGIM

Voting policy

LGIM uses proxy voting adviser Institutional Shareholder Services (ISS) to execute votes electronically and for research. This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting example – Intel Corporation

In May 2021 LGIM voted for a shareholder resolution that asked Intel Corporation (an American multinational corporation and technology company) to report on its global median gender and racial pay gap. LGIM's vote was against the recommendation of the Intel Corporation management.

LGIM voted in this way to promote transparency: LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.

LGIM views gender diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf. For 10 years, it has been using its position to engage with companies on this issue.

As part of its efforts to influence its investee companies on having greater gender balance, LGIM expects all companies in which it invests globally to have at least one female on their board. LGIM also has stronger requirements in the UK, North American, European and Japanese markets, in line with its engagement in these markets.

Only 14.3% of shareholders supported this resolution, meaning it failed to pass. LGIM has stated that it will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Engagement policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues
2. Formulate the engagement strategy
3. Enhance the power of engagement
4. Public policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. It's top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf.

At the time of writing, LGIM was unable to provider engagement examples at a strategy level. The Director's investment adviser Aon has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this in the second half of 2022. The example provided below is at a firm level, i.e. it is not specific to the funds the Scheme is invested in.

Engagement example

LGIM has engaged with a number of water utility companies on the topic of anti-microbial resistance ("AMR"). LGIM states that the overuse of many antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents which can last for prolonged period of time. Existing water sanitation and management systems have not been designed to address AMR concerns.

LGIM reached out to 20 water utility companies through an open letter to understand if these investee companies were aware of this issue, and if they had plans to introduce effective monitoring systems to detect agents such as antibiotic-resistant bacteria and genes. In addition, LGIM hosted meetings with some of the companies, which highlighted that awareness of AMR is low in most countries. LGIM believe this is due to the lack of regulatory requirements and/ or little perception of potential business risks to the individual company.

Following continued engagements, LGIM found several investee companies are now considering AMR. In particular one utility company is seeking to understand what happens to emerging contaminants in the wastewater treatment process and has implemented a programme that will analyse the results to try to understand what improvements in their systems would be required to address it. Through the engagement, LGIM stressed it is important to promote a more enhanced and standardised approach to AMR through influencing the regulatory landscape. It is working on this with its peers within the Investor Action on Antimicrobial Resistance initiative[1].

[1] A coalition between the Access to Medicine Foundation, the FAIRR Initiative, the Principles for Responsible Investment and the UK Government Department of Health and Social Care to galvanise investor efforts to address global antimicrobial resistance

HSBC - Islamic Global Equity Index Fund

Voting policy

HSBC utilises the services provided by proxy voting advisor ISS to assist with the global application of its own voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene HSBC guidelines. HSBC then reviews voting policy recommendations for all active holdings, which enables it to ensure that ISS has applied the policy correctly and to determine whether there are company-specific reasons to depart from the policy.

HSBC state that it often provides feedback to ISS on its application of the policy - either to amend the recommendation for a particular meeting or for future meetings. A decision to depart from a policy recommendation will be made by the portfolio manager and/or a member of the Governance team. This could result from an investment insight into the company concerned that goes beyond the ISS analysis or from an engagement with the company which indicates that the governance concern is misplaced or will be addressed. Reasons for departures from policy are recorded and reviewed subsequently by a governance oversight group.

HSBC policy is applied at three levels: market-specific criteria for developed Europe; global 'good practice' standards for other developed markets; more flexible application for emerging and frontier markets.

Voting example - Rio Tinto

HSBC states that a significant vote was cast in relation to Rio Tinto plc, the mining conglomerate. HSBC voted against the company's remuneration report as it was concerned that Rio Tinto's out-going CEO received £5.7 million from vesting of 2016 long-term incentive plan. Although the remuneration committee had reduced vesting by £1 million and withheld his bonus due to the destruction of Juukan Gorge historic site, HSBC noted the total pay exceeded previous year. It believed that the remuneration committee should have exercised further discretion in light of the severity of the incident. HSBC considers the destruction to be a major failing of the company's governance and the renumeration has not been accurately adjusted to reflect the matter.

The renumeration package was ultimately not passed. HSBC states it will continue to engage with Rio Tinto on the issue and stated the vote has sent a strong signal to the board of Rio Tinto.

Engagement policy

HSBC states that it meets with companies on a range of ESG issues and has a clear set of engagement objectives which may include:

- Improving understanding of a company's business and strategy;
- Monitoring performance;
- Signalling support or raising concerns about company management, performance or direction;
- Promoting good practice.

HSBC undertakes a risk assessment on an annual basis, helping to identify ESG practices of concern in different regions and where it has the most exposure on an absolute and relative basis. It prioritises themes, sectors or key stocks on the basis of scale of client holdings, salience of the issues concerned and our overall exposure. This process results in the development of an annual engagement plan.

HSBC has developed a process for each formal equity engagement based on setting defined company specific objectives, tracking progress made, measuring company action and recording engagement. It meets with companies on a range of issues. Its active equity and credit analysts engage with issuers as part of the investment process, both before and during the period of investment and also cover ESG issues.

When analysing issuers, HSBC considers which specific ESG factors are generally material for the industry in which each company operates. It also uses proprietary sector-specific weighting for ESG factors to reflect the materiality of each set of issues to the sector. The factors included above are by no means exhaustive, and it can consider further unlisted ESG factors that may have meaningful impact on companies' future potential.

Engagement example - BHP

BHP is one of the world's largest producers of iron ore, mining a range of other minerals, including metallurgical and thermal coal, as well as maintaining oil & gas production. HSBC believed the company had been a leader in its sector in addressing the challenges of carbon transition but needed to make new commitments to meet rising investor expectations.

HSBC is the European lead investor with the company under Climate Action 100+[2] and met the company more than a dozen times over 2021, providing feedback on various aspects of its climate strategy, as well as co-ordinating support investors and engaging with other listed members of the controversial Minerals Council of Australia lobby group.

In the past months, HSBC has been meeting representatives from the company, including the Chairman, to discuss the feasibility of achieving net zero for scope 3 emissions[3]. The discussion is ongoing, regarding the use of metallurgical coal in steel production. New technologies are being investigated but a solution is not in sight at the moment. In addition to this, the company agreed to add a "say on climate" resolution at its next AGM, following HSBC's recommendation.

Invesco- Global Targeted Returns Fund

Voting Policy

Invesco has adopted and implemented a policy statement on Global Corporate Governance and Proxy Voting which it believes describes policies and procedures reasonably designed to ensure that proxies are voted in the best interests of its clients.

Invesco's proprietary proxy voting platform ("PROXYintel") facilitates implementation of voting decisions and rationales across global investment teams.

Invesco views proxy voting as an integral part of its investment management responsibilities. The proxy voting process focuses on protecting clients' rights and promoting governance structures and practices that reinforce the accountability of corporate management and boards of directors to shareholders. The voting decision lies with its portfolio managers and analysts with input and support from its Global ESG team and Proxy Operations functions. The final voting decisions may incorporate the unique circumstances affecting companies, regional best practices and any dialogue it has with company management.

Invesco's voting policy is publicly available on its website: https://www.invesco.com/corporate/about-us/esg.

[2] An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

[3] Greenhouse gas emissions are categorised into three groups of 'scopes'. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain. *Source: The Carbon Trust*

Voting example – SBM Offshore NV

In March 2021, Invesco voted in favour of a resolution to authorise the Board to exclude pre-emptive rights from share issuances[4] for the company SBM Offshore NV. A vote for this proposal was warranted because it is in line with commonly used safeguards regarding volume and duration of trades in shares executed. The vote passed, in line with Invesco's voting intention. And no immediate further action was taken as a result.

Engagement policy

At the issuer level, Invesco primarily seek to address problematic areas or opportunities for improvement from an ESG perspective. When engaging with other stakeholders, such as regulators or industry bodies, the goal is more towards creating an environment that would allow for optimal ESG outcomes in an efficient and fair manner, such as alignment with existing frameworks and reduced reporting burden.

While Invesco's engagement activity is based on the premise of a company's continual improvement, it is setting up an engagement reporting template that tracks engagement outcomes on a yearly basis based on clearly defined ESG objectives and goals. Invesco is also developing an escalation engagement framework to guide stewardship processes and achievements, for example, in 2022 it will be developing a Net-Zero engagement framework that will guide its climate related engagements.

Engagement example (firm level)

In 2021, Invesco engaged with Amazon Inc. by scheduling a meeting on the topic of ESG. Topics included:

- Disclosures around packaging: Invesco specifically expressed its desire for Amazon to report on packaging and set reduction targets at the corporate level. While Amazon would not specifically commit to this, it does plan to replace all plastic mailer envelopes with padder paper mailers by the end of 2022.
- The development and use of technologies such as "Recognition" and the app "Wickr" by Amazon Web Services (AWS); and
- The shareholder proposal on conducting a Racial Equity Audit (analysis of whether the way Amazon conducts business fuels racism and discrimination for its hourly workers), which gained significant votes (44% of votes in favour) at the 2021 AGM.

Overall, Invesco considered that Amazon did not take the feedback constructively. As such, Invesco are planning to follow up in the 2022 proxy season (pre-AGM) to discuss environmental and social proposals, such as those on packaging, Artificial Intelligence technology and racial equity.

[4] Pre-emptive rights give a shareholder the option to buy additional shares of a company before they are sold on a public exchange.

Engagement activity – Fixed income funds

Over the year, the material Fixed income investments held by the scheme were LGIM's Pre-Retirement Fund and the LGIM Investment Grade Corporate Bond All Stocks Index Fund.

The Directors recognise that stewardship may be less applicable or have a less tangible financial benefit for fixed income mandates compared to equity mandates, particularly gilts (fixed income securities issued by the UK government). Nonetheless, the Directors still expect its non-equity managers to engage with external parties if they identify concerns that may be financially material.

Fixed income managers still have significant capacity for engagement with issuers of corporate debt. Debt financing is continuous, and so it is in debt issuers' interests to make sure that investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, the downside risk mitigation and credit quality are critical parts of investment decision-making.

LGIM's approach to engagement has been noted earlier in this document.

Summary

Over the course of the year to 31 March 2022, the Directors are pleased to report that they have, in their opinion, adhered to the policies set out in the Scheme's SIP.

The Directors will continue monitoring the funds and managers the Scheme uses and will seek professional support and advice from its investment adviser as appropriate.

Appendix – Voting statistics

The table below sets out the voting statistics for the funds used by the Scheme over the year to 31 March 2022.

Fund manager	Fund	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
LGIM	UK Equity Index Fund	10,813	100.0%	6.9%	0.0%
	Developed Balanced Factor Equity Index Fund	11,660	99.8%	19.1%	0.2%
	World (ex UK) Equity Index Fund	34,024	99.8%	20.1%	0.9%
	World Emerging Markets Equity Index Fund	34,327	99.8%	16.7%	2.2%
	Europe (ex-UK) Equity Index Fund	9,447	99.8%	17.1%	0.7%
	Japan Equity Index Fund	6,109	100.0%	13.3%	0.0%
	Asia Pacific (ex-Japan) Developed Equity Index Fund	3,457	100.0%	26.4%	0.2%
	Ethical Global Equity Index Fund	15,785	99.9%	16.5%	0.3%
	North America Equities Index Fund	8,181	99.7%	29.5%	0.1%
HSBC	Islamic Global Equity Fund	1,642	94.5%	11.5%	0.2%
Invesco	Global Targeted Returns Pension Fund	4,942	98.1%	7.9%	0.3%

Source: LGIM, HSBC and Invesco. May not sum due to rounding.