

Carter Thermal Industries Pension Scheme Implementation Statement for the year ended 31/12/2020

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustees of the Carter Thermal Industries Pension Scheme ("the Scheme") have followed their policy in relation to the exercising of rights (including voting rights) attached to the Scheme's investments, and engagement activities during the year ended 31/12/2020 ("the reporting year"). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

In 2019, the Trustees received training on Environmental, Social and Governance ("ESG") issues from their Investment Adviser, XPS Investment ("XPS") and discussed their beliefs around those issues. This enabled the Trustees to consider how to update their policy in relation to ESG and voting issues which, up until that point, had simply been a broad reflection of the investment managers' own equivalent policies. The Trustees' new policy was documented in the updated Statement of Investment Principles dated September 2020.

The Trustees' updated policy

The Trustees believe that there can be financially material risks relating to ESG issues. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Manager selection exercises

One of the main ways in which this updated policy is expressed is via manager selection exercises: the Trustees seek advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

During the reporting year, the Trustees invested into the Legal & General Investment Management ("LGIM") Buy and Maintain Credit Fund. The fund was recommended by XPS, using various criteria. One of the criteria - in acknowledgement of the Trustees' updated ESG policy - was that the investment manager had been found to have a credible ESG capability, with decisions linked to that capability applied to the fund to an acceptable degree.

Ongoing governance

The Trustees, with the assistance of XPS, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this statement. Further, the Trustees have set XPS the objective of ensuring that any selected managers reflect the Trustees' views on ESG (including climate change) and stewardship.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry and, at least partly, on a review of data relating to the voting and engagement activity conducted annually. Stewardship and ESG matters are therefore regularly discussed at Trustees' meetings.

Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

Voting activity

The main asset class where the investment managers will have voting rights is equities. The Scheme has specific allocations to public equities, and investments in equities will also form part of the strategy for the diversified growth funds in which the Scheme invests. Therefore, a summary of the voting behaviour and most significant votes cast by each of the relevant investment manager organisations is shown below. Based on this summary, the Trustees conclude that the investment managers have exercised their delegated voting rights on behalf of the Trustees in a way that aligns with the Trustees' relevant policies in this regard.

Barings

Voting Information
Barings Dynamic Asset Allocation Fund
The manager voted on 97.1% of resolutions of which they were eligible out of 1,049 eligible votes.
Investment Manager Client Consultation Policy on Voting
They do not consult clients before voting unless specifically requested to.
Investment Manager Process to determine how to Vote
Barings policy is to vote in line with their voting provider recommendations unless it is determined not in the clients best interest to do so. Barings generally do not vote when shareblocking applies.
How does this manager determine what constitutes a 'Significant' Vote?
Barings reviews their votes for the year and look at the ones they deem most significant
Does the manager utilise a Proxy Voting System? If so, please detail
Barings uses ISS for vote recommendations, research and vote processing (They used Glass Lewis up until 1st July 2020).

Top 5 Significant Votes during the Period			
Company	Voting Subject	How did the Investment Manager Vote?	Result
Doric Nimrod	re-election of Charles Wilkinson, Geoffrey Hall, Suzie Procter and Andreas Tautscher	For	For
No significant concerns have been identified.			
JPEL Private Equity	Re-election of Chris Spencer, John Loudon, Tony Dalwood and Sean Hurst	For	For
No significant concerns have been identified.			
East Japan Railway Company	Appointment of director	Against	Against
The Board is deemed not sufficiently independent.			
Toyota	Appointment of director	Against	Against
The Board is deemed not sufficiently independent.			
Tui AG	Board remuneration	Against	Against
Questionable remuneration for incoming CEO.			

Legal & General Investment Management

Voting Policy

Investment Manager Client Consultation Policy on Voting

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 all their clients. Their voting policies are reviewed annually and take into account feedback from their 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 they continue to develop their voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

Investment Manager Process to determine how to Vote

All decisions are made by LGIM's Investment Stewardship team and in accordance with their 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 their 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.

How does this manager determine what constitutes a 'Significant' Vote?

As regulation on vote reporting has recently evolved with the introduction of the concept of 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure they continue to help their clients in fulfilling their reporting obligations. They also believe public transparency of their vote activity is critical for their clients and interested parties to hold them to account.

For many years, LGIM has regularly produced case studies and/ or summaries of LGIM's vote positions to clients for what they deemed were 'material votes'. They are evolving their approach in line with the new regulation and are committed to provide their clients access to 'significant vote' information.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). 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: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

LGIM will provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications.

Does the manager utilise a Proxy Voting System? If so, please detail

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. Their use of ISS recommendations is purely to augment their 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 they receive from ISS for UK companies when making specific voting decisions

To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which they believe all companies globally should observe, irrespective of local regulation or practice.

LGIM retain the ability in all markets to override any vote decisions, which are based on their 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 their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular

manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

Voting activity of funds over reporting year

Voting Information

Legal and General Investment Management UK Equity Index Fund

The manager voted on 100% of resolutions of which they were eligible out of 12,468 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
International Consolidated Airlines Group	Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020.	LGIM voted against the resolution.	28.4% of shareholders opposed the remuneration report.
LGIM will continue to engage closely with the renewed board.			
Pearson	'Resolution 1: Amend remuneration policy' was proposed at the company's special shareholder meeting, held on 18 September 2020.	LGIM voted against the amendment to the remuneration policy.	At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO.
Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.			
SIG plc.	'Resolution 5: Approve one-off payment to Steve Francis' proposed at the company's special shareholder meeting held on 9 July 2020.	LGIM voted against the resolution.	The resolution passed. However, 44% of shareholders did not support it. LGIM believe that with this level of dissent the company should not go ahead with the payment.
LGIM intend to engage with the company over the coming year to find out why this payment was deemed appropriate and whether they made the payment despite the significant opposition.			

Barclays	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.	Resolution 29 - supported by 99.9% of shareholders Resolution 30 - supported by 23.9% of shareholders (source: Company website)
<p>The hard work is just beginning. LGIM's focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. They plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.</p>			
Rank Group	Resolution 2 Approve the remuneration report; and resolution 3 Approve remuneration policy.	LGIM supported both resolutions.	90.79% of shareholders supported resolution 2 and 96.4% supported resolution 3. However, it should be noted that a majority shareholder owned 56.15% of the voting rights shortly before the time of the vote. This remains an interesting outcome given the recommendation of a vote against both resolutions by influential proxy voting agency ISS.
<p>LGIM's engagement with the company on the topic of remuneration led to an informed vote decision by LGIM.</p>			

Voting Information

Legal and General Investment Management North America Equity Index Fund

The manager voted on 100% of resolutions of which they were eligible out of 9634 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Medtronic plc	Resolution 3 - Advisory Vote to Ratify Named Executive Officers' Compensation.	LGIM voted against the resolution.	The voting outcome was as follows: For: 91.73%; against: 8.23%.
<p>LGIM will continue to monitor this company.</p>			

Amazon	Shareholder resolutions 5 to 16	Of 12 shareholder proposals, LGIM voted to support 10.	Resolution 5 to 8, and 14 to 16 each received approx. 30% support from shareholders. Resolutions 9 and 10 received respectively 16.7 and 15.3% support. Resolution 11 received 6.1% support. Resolution 12 received 1.5 % support. Resolution 13 received 12.2% support. (Source: ISS data)
<p>LGIM looked into the individual merits of each individual proposal, and there are two main areas which drove their decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14). Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. LGIM's engagement with the company continues as they push it to disclose more and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.</p>			
Cardinal Health	Resolution 3, Advisory Vote to Ratify Named Executive Officers' Compensation.	LGIM voted against the resolution.	The resolution encountered a significant amount of oppose votes from shareholders, with 38.6% voting against the resolution and 61.4% supporting the proposal.
<p>LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.</p>			
ExxonMobil	Resolution 1.10 - Elect Director Darren W. Woods	LGIM voted against the resolution	93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. Approximately 30% of shareholders supported the proposals for independence and lobbying. (Source: ISS data)
<p>LGIM believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company. Their voting intentions were the subject of over 40 articles in major news outlets across the world, including Reuters, Bloomberg, and Nikkei, with a number of asset owners in Europe and North America also declaring their intentions to vote against the company.</p>			
The Procter & Gamble Company (P&G)	Resolution 5 Report on effort to eliminate deforestation.	LGIM voted in favour of the resolution.	The resolution received the support of 67.68% of shareholders (including LGIM).
<p>LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.</p>			

Voting Information

Legal and General Investment Management Europe (ex UK) Equity Index

The manager voted on 99.88% of resolutions of which they were eligible out of 10402 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Lagardere	Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments).	LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G).	Even though shareholders did not give majority support to Amber's candidates, it's proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)
LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.			
There were no other significant votes over the period			

Voting Information

Legal and General Investment Management Japan Equity Index Fund

The manager voted on 100% of resolutions of which they were eligible out of 6538 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Olympus Corporation	'Resolution 3.1: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020.	LGIM voted against the resolution.	94.90% of shareholders supported the election of the director
LGIM will continue to engage with and require increased diversity on all Japanese company boards.			
Fast Retailing Co. Limited.	Resolution 2.1: Elect Director Yanai Tadashi.	LGIM voted against the resolution.	Shareholders supported the election of the director.
LGIM will continue to engage with and require increased diversity on all Japanese company boards, including Fast Retailing.			
There were no other significant votes over the period			

Voting Information

Legal and General Investment Management Asia Pacific (ex Japan) Developed Equity Index

The manager voted on 100% of resolutions of which they were eligible out of 3634 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Qantas Airways Limited	Resolution 3 Approve participation of Alan Joyce in the Long-Term Incentive Plan Resolution 4 Approve Remuneration Report.	LGIM voted against resolution 3 and supported resolution 4.	About 90% of shareholders supported resolution 3 and 91% supported resolution 4. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration, in their view.
LGIM will continue their engagement with the company.			
Whitehaven Coal	Resolution 6 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.	LGIM voted for the resolution.	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 their ESG-focused funds and select exchange-traded funds were not invested in the company.
LGIM will continue to monitor this company.			
There were no other significant votes over the period			

Voting Information

Legal and General Investment Management World Emerging Markets Equity Index Fund

The manager voted on 99.87% of resolutions of which they were eligible out of 34537 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
There were no significant votes made in relation to the securities held by this fund during the reporting period.			

Voting Information

Legal and General Investment Management Dynamic Diversified Fund

The manager voted on 99.86% of resolutions of which they were eligible out of 81093 eligible votes.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Qantas Airways Limited	Resolution 3 Approve participation of Alan Joyce in the Long-Term Incentive Plan Resolution 4 Approve Remuneration Report.	LGIM voted against resolution 3 and supported resolution 4.	About 90% of shareholders supported resolution 3 and 91% supported resolution 4. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration, in their view.
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Approved by the Trustees of the Carter Thermal Industries Limited Pension Scheme on 23 July 2021.