

June 2024

Morgan Group Senior Staff Pension and Life Assurance Scheme

Private and Confidential

Introduction

This Implementation Statement (the "Statement") has been prepared by the Trustee of the Morgan Group Senior Staff Pension and Life Assurance Scheme ("the Trustee") and relates to the Morgan Group Senior Staff Pension and Life Assurance Scheme ("the Scheme"). This statement covers the Scheme year from 1 April 2023 to 31 March 2024.

Under regulatory requirements, the Scheme is required to produce an Implementation Statement setting out:

- a) How voting and engagement policies set out in the Statement of Investment Principles ("SIP") in respect of the Scheme year from 1 April 2023 to 31 March 2024 have been followed; and
- b) A description of any voting behaviour by or on behalf of the Scheme Trustee during the Scheme year.

From 1 October 2022, further Department of Work and Pensions ("DWP") guidance on the reporting of stewardship activities through Implementation Statements came into effect. This Statement aligns with the latest guidance, and with the DWP's updated stewardship expectation for the relevant period.

Overall, the Trustee is comfortable that the policies set out in the SIP have been properly adhered to over this period.

Changes to the SIP over the period:

The Scheme's SIP was last updated in March 2024 to include further detail on and reflect the Trustee's chosen stewardship themes and agreed stewardship actions. To best channel its stewardship efforts, the Trustee has decided to focus on four key themes, which were selected by assessing their relevance to the Scheme and the financially material risks they pose. The four key themes were communicated to the Scheme's investment managers and have been set out below (as included within the SIP):

- Climate change (environmental theme)
- Water use (environmental theme)
- Diversity, Equality and Inclusion (social theme)
- Safety (social theme)

The Stewardship section of the SIP was also reviewed and updated to ensure it aligns with the DWP's latest guidance on stewardship policies. This included:

- The addition of the Trustee's voting expectations of the Scheme's managers; and
- A definition of a significant vote, which the Trustee will adopt when assessing voting on behalf of the Scheme by managers.

The Scheme's latest SIP can be found [here](#).

How the Trustee has implemented its investment policies:

Governance

There were no changes to the Scheme's governance structure over the year to 31 March 2024.

Investment Strategy and Risk Management

Over the financial year, the Scheme has continued to target full funding on a gilts + 0.5% p.a. basis. Over the year, the Scheme's investment strategy was largely unchanged (although some further information on less material changes are noted below), taking an appropriate level of investment risk relative to the liabilities (expected investment return broadly equivalent to gilts + 1.0% p.a. over the year).

- The Scheme previously submitted a full redemption from the BlackRock UK Property Fund. Over the year to 31 March 2024, the Scheme received partial distribution proceeds and following advice from the Scheme's investment adviser, these proceeds were invested into the Scheme's LDI portfolio which very marginally reduced risk and return.
- During the year, a quarterly sweep process was set up to assist the Scheme in meeting short-term cash requirements, funded from the LDI portfolio to the Trustee Bank Account.

In accordance with the SIP, on a quarterly basis the Trustee receives written reports from its investment adviser on the performance of the Scheme's investment managers against their relevant benchmarks using information provided by the investment managers, and also on the performance of the Scheme's investment strategy and position against agreed objectives, including risk, return and liquidity metrics.

Stewardship, engagement and voting behaviour

The Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term.

Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more "active" in their approach to stewardship, the Trustee has updated its engagement policy in the SIP with a view to align with the new guidance, and the Scheme's chosen stewardship themes. The updated policy in the SIP states that:

"The Trustee expects investment managers to engage with issuers to maintain or enhance the long-term value of investments. The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset."

Where initial engagement has made little progress, the Trustee expects investment managers to escalate engagement accordingly.”

The Scheme’s investment adviser assesses a manager’s ability to factor in environmental, social and governance (“ESG”) risks into the decision-making process and the ability of a manager to carry out effective stewardship to promote the long-term success of investments. Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme’s investment managers. The Trustee recognises that its ability to influence investment managers’ stewardship activities will depend on the nature of the investments held. As the Scheme’s assets are wholly invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights over the underlying assets – the Trustee has less scope to influence managers’ stewardship activities.

The Scheme’s investment adviser continues to regularly monitor the Scheme’s existing managers, with financially material ESG considerations in mind. Regular updates regarding this are relayed to the Trustee.

Over the period, the Trustee did not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, in line with the SIP.

All the Scheme’s investment managers are signatories of the UK Stewardship Code. The code sets out a clear benchmark for stewardship as the responsible allocation, management, and oversight of capital to create long-term value. The Scheme’s managers have not flagged any non-compliance with the principles of the code and the Trustee is comfortable they provide good quality and transparent reporting of their approaches to stewardship.

Significance of stewardship in appointment and monitoring of investment managers:

The Scheme Trustee and the Joint Board meet with investment managers when required to discuss relevant matters, including sustainable investment, and voting and engagement aspects.

Over the year, the Scheme has not appointed any new investment managers.

Engagement

The Trustee delegates responsibility for engaging with individual issuers to the Scheme’s investment managers. The Trustee understands that engagements carried out by investment managers are likely to vary in nature by asset class. Regardless, engagement is also considered to be of importance for all the Scheme’s investment managers. The Trustee has highlighted engagement examples from managers in the appendix.

As part of aligning with the DWP’s stewardship expectations, the Trustee considered both how best to assess the engagement activities of the Scheme’s managers and how best to engage with the managers where necessary.

The Trustee’s expectation remains that the Scheme’s investment managers integrate all material ESG factors into their investment approach and stewardship work, with a particular focus on the Scheme’s chosen stewardship themes. Focussing on these key stewardship themes provides a way for the Trustee to understand the activity across its managers and is a basis for the Trustee to take greater ownership of stewardship matters by holding its managers to account. The Trustee’s expectations can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of positive engagement outcomes relating to the key themes;
- Provision of tailored reporting on stewardship activities and outcomes; and
- Participation as appropriate in public policy debates and the development of best practices.

The Trustee's updated expectations (reflecting an increased focus on the Scheme's stewardship priorities), were communicated to the Scheme's managers. In particular, Amundi and Schroders confirmed that some of the Scheme's stewardship priorities align with their own core themes, reflecting a heightened focus on these in terms of their decision-making. An assessment as to whether the Scheme's investment managers are practising effective stewardship that is best aligned with the Trustee's long-term interests will be made through the material they provide to help complete the annual Implementation Statement. If the Trustee believes there are areas where managers' stewardship activities could be improved to better align with its expectations, it will seek an open discussion on how this could be achieved.

Having reviewed managers' engagement activities over the period, and in particular those relating to the Scheme's key stewardship themes, the Trustee is satisfied that its managers have followed its engagement policy, as contained in the SIP, over the reporting period.

Voting

As set out above, the Trustee delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's Investment managers. The Trustee is not aware of any material departures from the managers' stated voting policies. Given the nature of these mandates and the fact that voting activities appear to be undertaken in line with the managers' voting policies, the Trustee is comfortable that the voting policies for the Scheme have been adequately followed over the period.

The Trustee meets its managers periodically, where the managers are required to present on these activities and the Trustee holds the managers accountable to the standards expected by the Trustee. Over the period, the Trustee met with Schroders, the manager that manages the majority of the Scheme's assets, including its LDI investments.

The relevant Scheme managers provided details of their voting behaviour in line with the Pensions and Lifetime Savings Association's Vote Reporting Template. Their responses are summarised in the appendix to this document; information is sourced directly from the managers unless otherwise stated. In addition to voting information, examples of the Scheme's investment managers' engagement with debt issuers have been included.

Under the updated DWP guidance, it is the Trustee's responsibility to define the significance of votes placed on its behalf, and to be transparent with stakeholders and beneficiaries regarding outcomes. The Trustee has therefore defined significant votes as votes which meet one or more of the following criteria. Please note that the more of these criteria a vote meets, then the more significant the vote will be deemed:

- Votes relating to the key stewardship themes;
- Votes relating to an issuer to which the Scheme has a large £ exposure (defined as the top-10 largest holdings);

- Votes which may be inconsistent between investment managers; and
- Votes identified due to potential controversy, driven by the size and public significance of a company, the nature of the resolution, and the weight of shareholder vote against management recommendation.

In line with the above, the Trustee has asked its voting managers to provide significant votes and, in particular, any which relate to the Scheme's key stewardship themes, which took place at one of the fund's top 25 largest holdings (proxying where the Scheme itself has most exposure) and which the managers themselves deem to be significant. The managers' voting statistics are summarised in the appendix.

Looking ahead

It is the Trustee's belief that the policies set out in the SIP regarding the exercise of rights attaching to investments and the undertaking of engagement activities in respect of the investments have been followed over the year to 31 March 2024, and is appropriate for the circumstances of the Scheme.

In accordance with the DWP's updated guidance which places a greater emphasis on asset owner stewardship, the Trustee has considered how best to assess the stewardship activities of the Scheme's managers and how best to engage with the Scheme's managers where necessary. The changes in the Trustee's approach, as mentioned above, have been taken with regard to the Scheme's governance constraints and in the best interest of the Scheme's members. The Trustee will continue to engage with the Scheme's managers to ensure they are practising effective stewardship that is best aligned with the Trustees' long-term interests.

Appendix

Voting Disclosures and Significant Votes

The use of voting rights is applicable where physical equities are held: the Amundi Multi Strategy Growth Fund and Man Progressive Diversified Risk Premia Fund (Man PDRP). This appendix details voting behaviour and significant votes undertaken by these asset managers on behalf of the Scheme.

Summary of voting over the period

Voting Criteria	Amundi	Man
No. of meetings eligible to vote during the period	49	506
No. of resolutions eligible to vote during the period	877	6,125
% of resolutions voted	97.0	99.9
% of resolutions voted with management	75.0	78.5
% of resolutions voted against management	25.0	21.0
% of resolutions abstained	0.4	0.5
% of meetings with at least one vote against management	90.0	77.9
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	<p>“Amundi’s voting decisions are made in accordance with our Voting Policy. In this endeavour, Amundi’s Voting & Corporate Governance team utilizes services from various external providers. More specifically, Amundi uses an electronic platform provided by ISS – ProxyExchange – to monitor its voting positions and to send its voting instructions. Analysis from ISS, Glass Lewis, and Proxinvest are available to identify problematic resolutions more efficiently in forthcoming AGMs, while Amundi retains complete autonomy vis-à-vis their recommendations. ISS also provides customised voting recommendations based on Amundi’s Voting Policy. Such an approach enables the Voting & Corporate Governance team to make informed voting decisions, taking into account different viewpoints, the dialogue the team undertakes with companies, as well as the knowledge of internal experts, including the ESG team. All the votes are instructed via the voting</p>	<p>“Man Group appointed Glass Lewis as its proxy service provider. We use Glass Lewis’s voting platform ‘Viewpoint’ to vote our shares electronically, receive research reports and custom voting recommendations. We have monitoring controls in place to ensure that the recommendations provided are in accordance with our ESG Voting Policy and that our votes are timely and effectively instructed. Specifically, our voting framework employs screening to identify high-value positions and the Stewardship Team manually reviews the pre-populated votes for such positions. In addition to this manual check, we also have in place electronic alerts to inform us of votes against our policy, votes that need manual input and rejected votes that require further action.”</p>

	platform ProxyExchange, in accordance with Amundi's Voting Policy and with certain custom voting policies established for specific client mandates."	
% of resolutions which you voted contrary to the recommendation of your proxy adviser?	N/A	12.2

*Note: figures may not sum to 100% due to rounding.

Summary of Significant votes over the period

The following table provides a significant vote example for each relevant manager, relevant for the period 1 April 2023 to 31 March 2024. In practice, the managers vote on a wider range of topics than the examples listed below.

The significant votes for Amundi and Man are shown below.

	Amundi	Man
Company name	Microsoft Corporation	Chubu Electric Power Co Inc
Date of vote	31/05/2023	06/28/2023
Summary of the resolution	Report on Climate Risk in Retirement Plan Options	Shareholder Proposal Regarding Policy and Report on Capital Allocation Alignment with Net Zero by 2050 Pathway
Manager's vote	For	For
Outcome of the vote	Rejected 8.9% For	N/A
Rationale for the voting decision	Amundi consider the commitment requested by the proposal as useful for shareholders to assess progress towards Paris Agreement targets.	Favour increased disclosure.

Summary of engagement from the Scheme's managers over the year

As per the Scheme's SIP, the Trustee expects their investment managers to practice good stewardship and engagement. The Trustee expects the nature of engagement to vary between asset classes, and that it is not restricted to equity investments. The managers provided an overview of engagement activity, and the Trustee selected an example for each manager that they consider noteworthy.

To focus the examples of engagement to those that are most relevant to the Trustee, the examples from relevant managers were collected with a focus on the Scheme's chosen stewardship themes.

Note: all managers were not able to provide examples of engagement for change and the Trustee will explore further engagement on this.

Amundi:

Company: Home Depot

Focus of the engagement: Engaging on working conditions and deforestation.

Details of the engagement: Amundi engaged with Home Depot, which is a US based home improvement retailer, as the company is highly exposed to many issues such as deforestation (as they sell wood products), as well as working conditions and employee welfare with their direct employees. Given the range of environmental and social issues the Company faces, Amundi believe the inclusion of ESG-related performance criteria in the remuneration of the top management to be even more important. This would help to ensure executives are incentivised to adequately manage these risks and implement the sustainability strategy.

Amundi started actively engaging with Home Depot in 2022 on the key topics described above, both collectively with other institutions, and individually. Regarding ESG linked KPIs in executive pay, the company still had not made any progress on that as of May 2023 in advance of their annual AGM.

Amundi decided to escalate the issue by asking a question at the 2023 AGM regarding this topic. Home Depot had a public reply to Amundi's question, stating "Our executive compensation program focuses on pay per performance, which is inherently in all shareholders' interests. And in addition, our core values, including taking care of associates, are embedded in our performance management processes. Our leadership development and compensation committee of the board assesses the structure of our compensation program at least annually and considers whether to include additional criteria in any incentive structures we develop. We appreciate your input and will communicate it to the committee". Amundi finds the inclusion of clear and quantitative ESG KPIs to be an essential step to help drive change and accelerate momentum on their ESG strategy overall (including the key topics Amundi engage on) so Amundi expect the Committee to review their practices.

In addition to asking the question during the meeting, Amundi alerted the Company they would oppose again the Ratification of Named Executive Officers' Compensation (supported by 95% of shareholders) as well as vote against the re-election of remuneration committee members (received more than 95% support).

Outcome of the engagement: The Company replied to Amundi's alert, stating that the topic of ESG KPIs had been discussed internally but they wanted to make sure that they had solid metrics that made sense and that have a real impact in the context of compensation. Amundi did not find this argument convincing as they believe companies, especially large ones, have had many years to develop sustainability strategies, including rigorous KPIs.

Amundi will continue to follow up on this topic with the Company going forward in 2024.

Man Group

Company: United Parcel Service Inc

Focus of the engagement: Shareholder Proposal – Diversity and Inclusion Report

Details of the engagement: United Parcel Service Inc is a package delivery company that provides transportation and delivery, distribution, contract logistics, ocean freight, airfreight, customs brokerage, and insurance services in the US and globally. Man Group supported the shareholder resolution requesting that the company reports to shareholders on the effectiveness of the Company's diversity, equity, and inclusion efforts as they believe it is crucial for companies to address such issues. Man Group think that undertaking the requested report would enhance disclosure allowing shareholders a better understanding of how the issue of diversity was being managed and overseen.

Outcome of the engagement: The resolution received 24.5% of shareholder support. Although it did not pass, the significant level of support is indicative of the diversity focus and interest from shareholders.

TwentyFour

Company: Lloyds Bank

Focus of the engagement: Engagement on the steps that Lloyds are taking to reduce scope 3 emissions and broader firmwide environmental policy.

Details of the engagement: In May 2023 TwentyFour had an engagement with Lloyds led by the ABS team, but on behalf of all their investment teams, as Lloyds is widely held across the strategies. They spoke to the investor relations team, who provided a lot of information on their targets for reduction in financed emissions and reduction in the carbon intensity of their residential mortgages.

Lloyds have also set targets for affordable housing and diversity in their workforce. During TwentyFour's engagement they highlighted that the key challenges lie within mortgages and agriculture – they only have a limited exposure to fossil fuels. Their climate transition plan consists of target setting for both the bank financed emissions covering a major proportion of their lending (including oil & gas and power generation but mostly focussed on the motor and residential mortgages division) and the emissions financed through Scottish Widows.

Their plan to tackle the residential mortgages division consists of (1) educate customers on the energy transition and (2) offer green products such as cash back products for EPC with A or B upgrades and retrofitting products which create incentives for borrowers to make energy improvement.

On disclosures they report their finance emission per division but not for the entire book of mortgages and do not have the financed emission numbers for their new prime RMBS deal. They are looking to breakdown the financed emission into more sectors within motor, mortgages and commercial banking sectors - TwentyFour have emphasised that this is something that is important and would be very useful for them.

Outcome of the engagement: TwentyFour stated that the engagement met their stated objective, and it was a very comprehensive response from Lloyds. They will continue to monitor ESG developments and whether they are meeting their targets in terms of carbon emission reduction. Importantly, they will also continue engagement to monitor progress on emissions disclosures for ABS deals rather than only for each lending division.

BlackRock

Company: Oakhill Industrial Estate

Focus of the engagement: Sustainable refurbishment.

Details of the engagement: BlackRock was involved in the comprehensive refurbishment of a 41,800 sq. ft. industrial unit on Oakhill Industrial Estate. The works transitioned the building from a gas to an electric heating system, improved the insulation by installing new windows and loading doors, and included the installation of LED lighting on PIRs. EV charging points were also installed as part of the works.

Outcome of the engagement: The works improved the building's EPC rating from an C to a B. The building was let shortly after completion of the refurbishment at a new headline rent on the estate for that size unit.