

# The MUFG Bank UK Pension Fund ('the Fund')

## Annual Implementation Statement for the Year Ended 30 June 2024

### 1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 30 June 2024. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the subsequent amendments in The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (investment and Disclosure) (Amendment) Regulations 2019, The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 and guidance published by the Pensions Regulator.

Sections 2.1 and 2.2 of this statement sets out the investment objectives of the Fund and details of when the SIP was last reviewed.

Section 2.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit ("DB") Section and Defined Contribution ("DC") Section of the SIP (dated October 2023 and June 2024, respectively) have been followed. The Additional Voluntary Contributions ("AVCs") held with Prudential Assurance Company Limited are not covered by this statement.



A copy of the SIP is available at <https://www.mufgemea.com/governance/mufg-bank-uk-pension-fund/>

Section 3 includes information on key voting activities of the underlying equity and diversified growth fund managers of the Fund, and also includes the significant votes and engagement activity from the underlying equity and diversified growth fund managers within the default strategy of the DC Section of the Fund, where available. The DB Section of the Fund does not invest in equities and therefore the exercising of voting rights is not applicable to the DB Section.



### 2. Statement of Investment Principles

#### 2.1. Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the objectives they have set.



For the DB Section of the Fund, the Trustees' objective is to invest the Fund's assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives for the DB Section are set out below:

- To ensure the Fund's obligations to its beneficiaries can be met;
- To achieve an asset return above the return from gilts over the long term, whilst recognising the need to balance risk control and return generation;
- To ensure consistency between the Fund's investment strategy and the return assumptions used by the Fund Actuary;
- To pay due regard to the Company's interests in the size and incidence of employer contribution payments.

The objectives set out above and the risks and other factors referenced in the SIP are those that the Trustees determine to be financially material considerations.



For the DC section of the Fund, the Trustees recognise that individual members have differing investment needs and that these may change during the course of their working lives. The Trustees also recognise that members have differing attitudes to risk. The Trustees' objectives are therefore:

- To provide members with a range of investment options to enable them to tailor an investment strategy to their own needs. In particular, to make available vehicles which aim:
  - a. To maximise the value of members' assets at retirement.
  - b. To maintain the purchasing power of members' savings.
  - c. To provide protection for members' accumulated assets in the years approaching retirement against:
    - Sudden (downward) volatility in the capital value; and
    - Relative fluctuations in the (implicit and explicit) costs of retirement benefits.
- To establish a default investment strategy and lifestyle investment strategies reasonable for any member not wishing to make his/her own investment strategy decisions.
- To avoid over-complexity in investment strategy in order to keep administration costs and employee understanding to a reasonable level.

The objectives set out above and the risks and other factors referenced in the SIP are those that the Trustees consider to be financially material considerations in relation to the Fund as a whole. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent upon the member's age and when they expect to retire.

## 2.2. Review of the SIP



The Fund's SIP was reviewed and updated during the year to 30 June 2024 for the DC Section, to reflect a number of changes, including the illiquid assets policy. The Trustees reviewed the SIP for the Defined Benefit ("DB") Section in October 2023 to reflect changes to their Fund's asset allocation following the annual strategy review.

## 2.3. Assessment of how the policies in the SIP have been followed for the year to 30 June 2024

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Fund as a whole and the default investment arrangement.



**In summary, it is the Trustees' view that the policies in the SIP have been followed during the Fund Year.**



## Investment Mandates

### Securing compliance with the legal requirements about choosing investments



#### **Policy**

The Trustees have appointed a Fiduciary Manager who provides expert advice and chooses investment vehicles that can fulfil the Fund's investment objectives. In the Trustees' opinion, this is consistent with the requirements of Section 36 of the Pensions Act 1995. The Policy is detailed in Section 2 of the DB Section of the SIP.

#### **How has this policy been met over the Year?**

The Trustees have delegated day-to-day management of the MUFG Bank Pension Fund's assets (excluding AVCs) to Mercer Limited ("Mercer"). The Fund's assets are invested in multi-client collective investment schemes ("Mercer Funds"), domiciled in Ireland and managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. MGIE is responsible for the selection, appointment, removal and monitoring of the underlying asset managers. The underlying asset managers have full discretion to buy and sell investments on behalf of the Fund, subject to constraints Mercer have agreed with the managers.

The Trustees have a Cashflow Driven Financing ("CDF") strategy whereby the Fund invests in such a way that expected asset cashflows should broadly match a proportion of the Fund's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion of cashflows possible, subject to the level of expected return required).



#### **Policy**

As required by legislation, the Trustees consult a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant. The policy is detailed in Section 1.1 (Process for choosing investments) of the DC Section of the SIP.

#### **How has this policy been met over the Year?**

The default investment strategy (including the additional defaults) are monitored on a bi-annual basis, with the Trustees reviewing investment reports at Trustees' meetings to ensure the net of fees returns are consistent with the aims of the strategy. The investment consultant attends all meetings to provide advice as required.

Over the year to 30 June 2024, the Trustees received formal advice (following the manager selection exercise conducted in the previous Fund year) for implementing changes to the underlying components and allocation composition of the Moderate Growth Fund and Cautious Growth Fund. The allocation to the Invesco Global Targeted Returns fund was replaced with allocations to the Ruffer Diversified Return and Nordea Diversified Return funds. The changes were implemented in February 2024.

The default investment option was also subject to its formal triennial review, during the year, which took place in March 2024. The investments (fund type, management style and asset allocations) used in the default investment strategy were reviewed as part of this exercise. The Trustees, upon advice from their investment consultant, decided to transition the allocations to actively managed equity portfolio allocation within the Moderate Growth Fund and Cautious Growth Fund (and 50% of the allocation to the High Growth Fund) to a passively managed alternative (BlackRock MSCI World Tracker).



## Investment Mandates

### Realisation of Investments



#### **Policy**

The Trustees, on behalf of the Fund, hold shares in Mercer funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third-party asset managers appointed by MGIE have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation. This Policy is set out in Section 9 of the DB Section of the SIP.

#### **How has this policy been met over the year?**

The Trustees received quarterly reports from Mercer which include details on disinvestments over the year as well as the liquidity breakdown of the Fund's investments. Where disinvestments were requested during the year the policies stipulated within the relevant appointment documentation have been followed.



#### **Policy**

The Trustees delegate the responsibility of the realisation of investment assets to the investment managers.

The Trustees' administrators will realise assets following member requests on retirement or earlier where required.

Further details of the policy are set out in the Section 3.1 (Default Lifestyle Strategy) and 10 (Realisation of investments) in the SIP.

#### **How has this policy been met over the year?**

All funds utilised by the DC Section are daily dealt pooled investment vehicles, accessed by an insurance contract and realisable based on member demand. It was confirmed that there were no liquidity issues within the Fund year.



## Strategic Asset Allocation

**Kinds of investments to be held, the balance between different types of investments and expected return on investments**



### **Policy**

A range of asset classes are included within the Fund's investment portfolio including: Bonds (gilts and investment grade corporate bonds) and Liability Driven Investment ("LDI") funds which invest in bond-like investments in order to provide interest rate and inflation protection and reduce funding level risk.

The Trustees have adopted a long-term investment strategy whereby the discount rate used to value the liabilities is linked to the yield available on the investments.

This is outlined in Sections 5 and 6 of the SIP.

### **How has this policy been met over the year?**

The Trustees have delegated the implementation of the desired investment strategy to Mercer. Over the year to 30 June 2024, the Trustees held shares in the Mercer Funds.

The holdings in Mercer Funds comprised investments in Investment Grade credit within the Fund's "Non-Hedge Management Portfolio", and Passive Gilts and LDI within the Fund's Hedge Management portfolio. The return achieved has been compared with the expected return on investments for this period. The discount rate has been updated to reflect the expected return on assets over the year, reflecting the yield available on the underlying investments.



### **Policy**

Members can combine the investment funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude towards, and tolerance of risk. This is outlined in Section 2 (Investment objectives) and Section 5 (Self-Select Investment options) of the SIP.

Within the Default Investment Option, the strategic asset allocation is set to achieve the expected return required, taking into consideration the risk, to meet the objective of the defaults.

### **How has this policy been met over the year?**

The range of funds/types of investments available to members continues to be appropriate and provides members with options across the risk/return spectrum.

The Trustees reviewed the investment default arrangement and made changes to the MUFG Moderate Growth Fund (default growth fund) during the Fund year. As a result, the actively managed equity portfolio allocation was changed for the Moderate Growth Fund, High Growth Fund and Cautious Growth Fund; the allocation changes have been outlined further in the statement.

When making these decisions, the kinds of investments that would be suitable to achieve the objectives was considered in the construction of the blended funds.

During the Fund year, the Trustees were notified by Invesco of the closure of the Global Targeted Return strategy as a result of significant redemptions and performance issues. Whilst a decision had been made by the Trustees prior to the announcement to remove the allocations to the Invesco mandate within the Moderate Growth Fund and Cautious Growth Fund, the strategy still formed part of the self-select fund range. As a result, the Trustees decided to move the members invested in the Invesco Global Targeted Return strategy on a self-select basis into the default investment option. The subsequent transition concluded in February 2024.

The investment performance report, produced twice a year, includes how each investment manager is delivering against their specific mandates.



## Strategic Asset Allocation

### Risks, including the ways in which risks are to be measured and managed



#### **Policy**

The Trustees recognise that there are various risks to which any pension scheme is exposed, such as those arising from a mismatch between the Fund's assets and its liabilities, a lack of diversification of investments and Environmental, Social and Governance issues. Section 4 of the DB Section of the SIP sets out the policies on risk management.

#### **How has this policy been met over the year?**

The level of risk has been reviewed by the Trustees on a quarterly basis as part of reporting provided by Mercer. In addition, risk levels were considered as part of the annual investment strategy review.

The Trustees maintained a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions.



#### **Policy**

The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the self-select funds and the default investment option. Details of how the Trustees consider risk management can be found in Section 3.1 (Default Lifestyle Strategy) and Section 6 (Risk management and measurement) of the SIP.

#### **How has this policy been met over the year?**

The Trustees maintained a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions. The risk register is reviewed at Trustees' meetings and the relevant risk ratings are adjusted as required.

The Trustees also considered the majority of these risks as part of their regular investment performance monitoring during the year, as well as during the triennial investment strategy review. These reviews were provided by the Fund's investment consultant.



## Environmental, Social and Governance (“ESG”)

### Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments



#### **Policy**

The Trustees consider financially material considerations in the selection, retention and realisation of investments. The Trustees’ consideration of such factors, including environmental, social and governance factors, is delegated to Mercer who in turn delegate this to the appointed underlying investment managers.

Investment managers are expected to evaluate these factors, including climate change considerations, and exercise stewardship obligations (where relevant) attached to the investments in line with their own corporate governance policies and current best practice. Section 10 of the SIP outlines the Trustees’ beliefs on ESG factors (including climate change).

#### **How has this policy been met over the year?**

ESG ratings assigned by Mercer’s (and its affiliates’) global manager research team on the underlying investment managers have been included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE during the quarterly monitoring processes, with a more comprehensive review performed annually – which seeks evidence of positive momentum on ESG integration and the Mercer funds overall ESG rating with the appropriate universe of strategies in Mercer’s Global Investment Manager Database (GIMD). Engagements are prioritised with managers where their strategy’s ESG rating is behind that of their peer universe.



#### **Policy**

The Trustees consider financially material considerations in the selection, retention and realisation of investments. The Trustees keep their policies under regular review at least triennially. The Trustees may consider non-financial issues such as ethical considerations.

Section 11 (Environmental, Social and Governance Considerations) of the SIP outlines the Trustees’ beliefs on ESG factors (including climate change). Section 12 (Investment Manager Appointments) & 13 (Monitoring Investment Managers) of the SIP outlines the Trustees’ policies on appointing, monitoring and retaining investment managers.

#### **How has this policy been met over the year?**

The investment performance report was reviewed twice during the year and includes ratings (both general and specific ESG) from Mercer’s global manager research team. Most of the managers remained generally highly rated during the year.

Where managers were not highly rated from an ESG perspective the Trustees continue to monitor them. When implementing a new manager, the Trustees consider the ESG rating of the manager alongside the rating assigned to expectations of future performance.

The Trustees discussed and considered manager ESG ratings scores as part of the formal investment strategy review undertaken during the Fund year.

Decisions taken over the year for selecting new investments have taken account of a long-term time horizon.

The Trustees have received training from Mercer on the DWP’s regulations during the November 2023 meeting, regarding the requirement for pension scheme trustees to agree upon a definition of “most significant votes” and provide the necessary voting disclosures within the annual Implementation Statement.





## Voting and Engagement Disclosures

**The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments** (including the methods by which, and the circumstances under which, the Trustees would monitor and engage with relevant persons about relevant matters).

### Policy

Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice. Details on the Trustees' policies are outlined in Section 10 of the DB and Section 11 (Environmental, Social and Governance Considerations) of the DC Section of the SIP. Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.

### How has this policy been met over the year?



Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds have, ultimately, been delegated to the third-party investment managers appointed by MGIE. Due to the nature of the investment strategy of the DB Section (fixed income orientated with no equity holdings), there were no voting rights exercised in respect of the Fund's holdings over the year.



The Trustees have delegated the exercise of voting rights to the DC investment managers through the contract with Phoenix Life and the subsequent contracts that Phoenix Life hold with the investment managers themselves, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The Trustees expect that the Fund's investment managers will vote on the Fund's UK shares in accordance with the guidelines set down by the UK Stewardship Code and UK Corporate Governance Code and encourages them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds. The investment managers have full discretion to vote in favour of actions outside these guidelines but will be expected to report to the Trustees with an explanation of its actions. The Trustees will review the investment managers' policies and engagement activities (where applicable) periodically.

Voting and engagement activities of investment managers are included in section 3 of this statement. Some investment managers delegate the voting activities to a proxy voter (e.g. ISS), and of those managers, some agreed with the proxy voter their voting principles so that the final votes align with their ESG and ethical principles.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote":

- A significant vote is defined as one that is linked to the Fund's stewardship priorities/themes.
- A vote could also be significant for other reasons, e.g. due to size of holdings.
- Trustees are to include details on why a vote is considered significant and rationale for the voting decision.

Section 3 includes examples of engagement activity undertaken by the Fund's investment managers within investments in equities and diversified growth funds and sets out a summary of voting activity and the most significant votes cast on behalf of the Trustees by the Fund's investment managers with investments in equities and diversified growth funds. The Trustees have decided to consider any vote to be significant which has a holding size of above 1%, and concerns:



- **Climate change:** low-carbon transition and physical damages resilience
- **Pollution & natural resource degradation:** air, water, land (forests, soils and biodiversity)
- **Human rights:** modern slavery, pay & safety in workforce and supply chains and abuses in conflict zones
- **Diversity, Equity and Inclusion (DEI):** inclusive & diverse decision making



## Monitoring the Investment Managers

### Incentivising asset managers to align their investment strategies and decisions with the Trustees' policies



#### **Policy**

As Mercer manages the Fund's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees' overall investment strategy. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer or MGIE fail to align its investment strategies and decisions with the Trustees' policies, it is open to the Trustees to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

Appointment of underlying asset managers within the Mercer funds is delegated to MGIE. The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

Section 11 of the SIP outlines the Trustees' policies on appointing, monitoring and retaining investment managers.

#### **How has this policy been met over the year?**

The Trustees reviewed performance of the Mercer funds on a quarterly basis over the Year. In addition, the Trustees, with advice from Mercer, carried out an annual review of investment strategy during the year.

MGIE has monitored the underlying asset managers of the Mercer funds over the year and continue to believe that they are incentivised to make decisions that align with the Trustees' policies. MGIE has been satisfied with the performance of the managers and has not made any terminations within the funds in which the Fund invests over the year.



#### **Policy**

In line with Section 12 (Investment Manager Appointments) of the SIP, managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

As the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

#### **How has this policy been met over the year?**

The Trustees are happy that the contractual arrangements in place with managers through the Phoenix platform continue to incentivise the managers to make decisions that align the investment strategy with the Trustees' policies.

All are remunerated through asset-based fees and the Trustees review managers who are underperforming expectations and discuss action accordingly.

Decisions were taken during the year that are consistent with this policy of this framework - for example, the Trustees decided to reduce the actively managed equity allocation within the High Growth Fund by 50% and replace it entirely within the Moderate Growth Fund.

The Invesco Global Targeted Return fund was also removed as an underlying component of the Moderate Growth Fund and Cautious Growth Fund, following a prolonged period of underperformance relative to target and Trustees' expectations and perceived likelihood that future performance would be similar.



## Monitoring the Investment Managers

### Evaluation of asset managers' performance and remuneration for asset management services



#### **Policy**

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Fund's funding level and the Mercer Funds in which the Trustees invest. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception (as applicable). The Trustees review the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustees' focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

#### **How has this policy been met over the year?**

Monitoring reports have been produced by Mercer on a quarterly basis and reviewed by the Trustees.



#### **Policy**

The Trustees recognise they have a long-term time horizon as set out in the SIP as such managers are assumed to be held for a suitably long time. Managers' performance net of fees is therefore reviewed over both short and long-time horizons. Remuneration is agreed upon prior to manager appointment and is reviewed on a regular basis. The Trustees' policy is set out in Section 13 (Monitoring Investment Managers) of the SIP.

#### **How has this policy been met over the Year?**

The Trustees reviewed the performance of the funds on a 6 month, 12 month, 3 year and 5 year basis in their performance reports at the 6-monthly Trustees' meetings. The fees paid to managers was reviewed in the annual value for members' assessment, which concluded that charges are reasonable relative to other funds available in the market, although there may be some room for improvement for some funds.



## Monitoring the Investment Managers

### Monitoring portfolio turnover costs



#### **Policy**

The Trustees do not have an explicit targeted portfolio turnover range but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing.

#### **How has this policy been met over the year?**

Performance has been reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE, over the year. The Trustees are satisfied that no unduly frequent trading or rebalancing was carried out over the year.



#### **Policy**

The portfolio turnover costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager. The Trustees' policy is set out in Section 14 (Portfolio Turnover Costs) of the SIP.

#### **How has this policy been met over the year?**

Transaction costs were reviewed by the Trustees and were disclosed as part of the annual Value for Members' Assessment and Chair's Statement. The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager. The Trustees are required to assess these costs for value on an annual basis for their DC Section. However, at present, the Trustees note a number of challenges in assessing these costs:

- No industry-wide benchmarks for transaction costs exist
- The methodology leads to some curious results, most notably "negative" transaction costs. The methodology reflects the difference between when trades are placed and when they are implemented – "negative costs" can occur when there are more trades that were implemented at a lower cost than when the trade was placed, due to values being more favourable at the time of trading.
- Explicit elements of the overall transaction costs are already taken into account when investment returns are reported, so any assessment must also be mindful of the return side of the costs.
- The Trustees will continue to monitor transaction costs on an annual basis and developments on assessing these costs for value.



## Monitoring the Investment Managers

### The duration of the arrangements with asset managers



#### **Policy**

The Trustees are long-term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

#### **How has this policy been met over the year?**

The Trustees reviewed performance of the Mercer funds on a quarterly basis over the year.



#### **Policy**

There is no set duration for the manager appointments. However, the appointments are regularly reviewed as to their continued suitability and could be terminated either because the Trustees are dissatisfied with the managers' ongoing ability to deliver the mandate promised or because of a change of investment strategy by the Trustees. The Trustees' policy is set out in Section 15 (Investment Manager Turnover) of the SIP.

#### **How has this policy been met over the year?**

A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range. Action was taken during the year to demonstrate this with the changes underlying the blended funds.

The investment performance of all funds is reviewed by the Trustees at each meeting – this includes how each investment manager is delivering against their specific targets.

During the Fund year, it was decided to terminate the appointment of the managers within the active equity portfolios of the Moderate Growth Fund (Baillie Gifford UK Equity Alpha, BlackRock UK Smaller Companies, Schroder Global Sustainable Equity, American Century Concentrated Global Equity and Acadian Global Managed Volatility) and the allocation to the Acadian Global Managed Volatility fund within the Cautious Growth Fund, due to some of the managers having underperformed expectations over the longer term and analysis conducted in a broader review completed in November 2023.

The mandates for these managers were significantly reduced in the High Growth Fund.

There remains no set duration for manager appointments.



### 3. Examples of Engagement Activity

#### **HSBC engages with Toyota**

HSBC engaged with Toyota on climate change and diversity, noting that the company had been slow in developing electric vehicles (“EVs”), with Toyota’s public policy positions also raising questions, including lobbying and their former CEO’s open skepticism about the rapid shift to EVs. HSBC discussed the alignment of Toyota’s new EV strategy with the 1.5°C scenario and challenged its reluctance to set more ambitious EV targets. Following the meeting, HSBC welcomed the inaugural report by Toyota on its lobbying and suggested improvements, with a scheduled visit to a UK plant to better understand the company’s work towards decarbonisation in the production process and challenges related to a shift in EVs.

#### **Baillie Gifford engages with Ryanair**

Baillie Gifford met with the Director of Sustainability and the Chief People Officer, focusing their engagement on Ryanair’s strategic need for sustainable aviation fuel in coming years. The management confirmed that contracts have been agreed with suppliers but that the 12.5% target remains stretching. Through their engagement, Baillie Gifford believe the company has set industry-leading targets with clear milestones to achieve its long-term objective, noting that it relies heavily on future technological improvements and the greater availability of sustainable aviation fuel. Baillie Gifford noted that they will actively monitor the company’s progress in signing further sustainable aviation fuel agreements with suppliers and the progress it makes integrating it into its fuel blend, and the ongoing decarbonisation of the business towards its 2026 and 2030 goals.

#### **Ruffer engages with BP**

Ruffer engaged with BP’s CFO on sustainability reporting, requesting additional reporting on low carbon or transition growth engines by business segment, for greater transparency. The CFO noted that given the scale and scope of BP and its existing asset base, the company would consider the topic raised by Ruffer over the coming eighteen months before announcing anything to the market. Since the CFO met with Ruffer and other investors, BP has released its annual report materials (reiterating its carbon reduction ambitions) and released additional communication which address the points about the likely total returns from renewable assets versus traditional oil and gas assets.

#### **Impax engages with Stericycle**

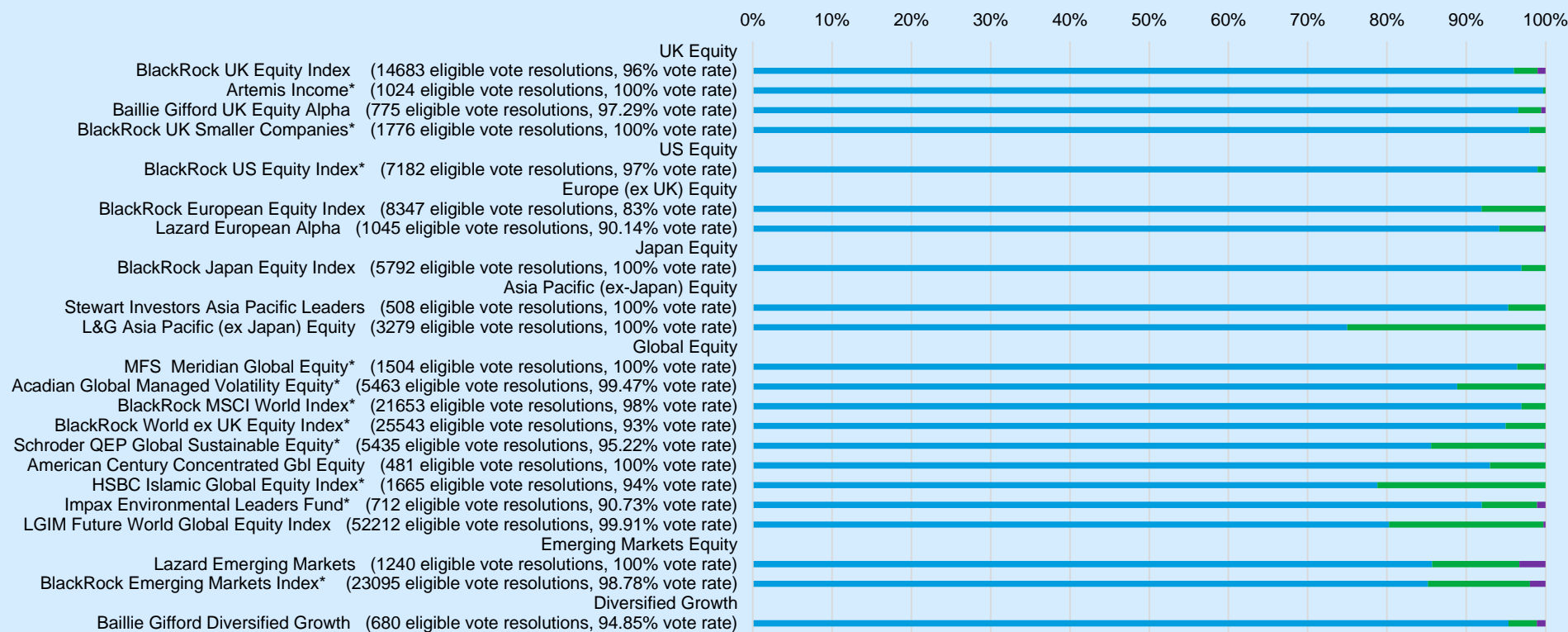
Over 2023, Impax have engaged with medical waste management provider, Stericycle, to discuss their progress in their climate risk management processes, target-setting and climate governance. The company began tracking its Scope 1 and 2 greenhouse gas emissions in 2020 as a first step and reported to Carbon Disclosure Project (a not-for-profit charity that runs the global disclosure system for companies and cities to manage their environmental impacts) in 2021. As part of their commitment to develop a decarbonisation plan for their UK operations, the company confirmed that it has set Scope 1 and Scope 2 emissions reduction targets to be published later in the year. The company also confirmed that climate-related issues are overseen at board level with active dialogue on these topics.

Impax noted they will continue to monitor progress and will review the company’s “UK Carbon Reduction Plan” before the next engagement, which is planned for 2024.

## Voting Activity during the Fund Year

The Trustees have delegated their voting rights to the investment managers. The SIP states “Investment managers are granted discretion in evaluating ESG issues, including climate change, and exercise voting rights and stewardship obligations attached to the investments. The Trustees encourage the Fund’s managers to exercise best practice with respect to ESG integration, stewardship and climate change, including supporting the UK Stewardship Code and UN supported Principles for Responsible Investment.”

It is the Trustees’ view that the policy has been followed during the Fund year. The majority of voting activity will arise in public equity funds. However, voting opportunities may arise in other asset classes such as certain bonds, property, private equity and multi-asset funds. The Trustees have only received information relating to public equity funds this year. The assets of the Fund are invested via the Phoenix platform. Voting undertaken over the Fund year is summarised in the table below.



■ Of the resolutions on which you voted, what % did you vote with management? ■ Of the resolutions on which you voted, what % did you vote against management? ■ Of the resolutions on which you voted, what % did you abstain from voting?

Source: Phoenix, Investment Managers, data as at 30 June 2024.

\*Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.

Voting statistics for WS Lancaster Global Equity was not available at time of writing.



## Proxy Voting by the Managers

Manager	Use of Proxy Voting
<b>BlackRock</b>	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines. BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, as one among many inputs into their vote analysis process.
<b>LGIM</b>	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. 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.
<b>Ruffer</b>	Ruffer's proxy voting advisor is Institutional Shareholder Services (ISS). They have developed their own internal voting guidelines, however they take into account issues raised by ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although Ruffer are cognisant of proxy advisers' voting recommendations, they do not delegate or outsource their stewardship activities when deciding how to vote on clients' shares.
<b>Nordea</b>	In general, every vote Nordea cast is considered individually on the background of their bespoke voting policy, developed in-house based on their own principles. Nordea proxy voting is supported by two external vendors Institutional Shareholder Services and Nordic Investor Services to facilitate proxy voting, execution and to provide analytic input. These two vendors merged in 2021.
<b>BNY Mellon</b>	BNY Mellon utilises an independent voting service provider for the purposes of managing upcoming meetings and instructing voting decisions via its electronic platform, and for providing research. It is only in the event that BNY Mellon recognises a potential material conflict of interest that the recommendation of its external voting service provider will be applied.
<b>Artemis</b>	Artemis' voting is informed and carried out by Institutional Shareholder Services. Together, they have developed guidelines which take into account local, national and international standards. This ensures Artemis' expectations for corporate governance are appropriate to each business they invest in.
<b>Baillie Gifford</b>	Whilst Baillie Gifford are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of their stewardship activities or follow or rely upon the proxy advisers' recommendations when deciding how to vote on clients' shares. All client voting decisions are made in-house.
<b>Lazard</b>	Lazard currently subscribes to advisory and other proxy voting services provided by Institutional Shareholder Services Inc. (ISS) and Glass, Lewis & Co. ("Glass Lewis"). These proxy advisory services provide independent analysis and recommendations regarding various

Manager	Use of Proxy Voting
	companies' proxy proposals. While this research serves to help improve our understanding of the issues surrounding a company's proxy proposals, Lazard's Portfolio Manager/Analysts and Research Analysts are responsible for providing the vote recommendation for a given proposal except when the Conflicts of Interest policy applies.
<b>Stewart Investors</b>	Stewart Investors do not outsource voting decisions. However, they use Glass Lewis as a third-party provider to assist with proxy voting operations and to collate all ballot information applicable to company meetings. Stewart Investors also use Glass Lewis' centralised platform to instruct them on how they wish to vote in particular company meetings
<b>MFS</b>	MFS have entered into an agreement with Institutional Shareholder Services, Inc. (ISS) to perform various proxy voting-related administrative services, such as vote processing and recordkeeping functions. MFS analyzes all proxy voting issues within the context of the MFS Proxy Policies, which are developed internally and independent of third-party proxy advisory firms.
<b>Acadian</b>	Acadian utilise Institutional Shareholder Services (ISS) as their proxy provider, which casts votes according to agreed-on principles relating to such issues as board structure, accounting policy, share issuance, and others. Acadian also reserves the right to override vote recommendations under certain circumstances but will only do so if they believe that voting contrary to the proxy voting agent's recommendation is in the best interest of clients.
<b>Schroders</b>	Institutional Shareholder Services (ISS) act as Schroder's service provider for the processing of all proxy votes in all markets. ISS delivers vote processing through its Internet-based platform Proxy Exchange. Schroders receives recommendations from ISS in line with their own bespoke guidelines, in addition, they receive ISS's Benchmark research. This is complemented with analysis by Schroder's in house ESG specialists and where appropriate with reference to financial analysts and portfolio managers.
<b>American Century</b>	American Century subscribe to the proxy voting services of Institutional Shareholder Services (ISS), including their proxy voting platform, voting advisory services, and vote disclosure services. While American Century review and consider ISS's research, analysis, and recommendations, they vote proxy using the ISS voting platform in accordance with the American Century's proxy voting policies, which can differ from those of ISS.
<b>HSBC</b>	HSBC use the leading voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of their voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene HSBC's guidelines.
<b>Impax</b>	Impax reviews the vote recommendations provided by Glass Lewis & Co. but assesses every meeting and resolution individually, based on Impax's own proprietary ESG analysis of the companies. Ultimately Impax makes its own voting decisions, based on its ESG and voting policies.

Source: Phoenix, Investment Managers



## Significant votes





Resolution not passed







Resolution passed



A “Significant Vote” is defined as one that is related to the Fund’s beliefs and stewardship priorities, which refers to voting in relation to in climate change, pollution, human rights and DEI priorities and/or it is a significant because of the size of the Fund’s holdings portfolio. The votes included below are those that the Trustees believe to be the most significant based on the Trustees’ beliefs and stewardship priorities, and accounts for at least 1% of the fund’s holdings. We have included significant vote information for each of the equity and multi- asset funds within the default where information is available and falls under the Trustees definition of a significant vote.

Fund	Company	Size of holding (%)	Date	Summary of the Resolution	How the manager voted	If against the company, was the intent communicated ahead of the vote?	Rationale for the voting decision	Why Vote is Significant for the Trustees	Final outcome following the vote	Next Steps
American Century Concentrated Global Equity	Microsoft Corporation	7.0	06/12/2023	Report on Risks of Weapons Development	Against	Not provided	In Microsoft's Human Rights Annual Report, the company explains its commitment to respecting and promoting human rights. In the Human Rights Annual Report, Microsoft states that it is committed to providing grievance mechanisms and access to remedy in situations where the company may have caused or contributed to an adverse human rights impact.	The Trustees had deemed votes related to <b>human rights</b> to be a significant vote.		The American Century Sustainable Research team will continue, in concert with investment and proxy voting teams, to implement its active ownership policy and support well-rounded, material ESG proxy voting resolutions.
	Amazon.com, Inc.	5.0	22/05/2024	Report on Efforts to Reduce Plastic Use	Against	Not provided	Amazon has disclosed a reduction in single-use plastic year-over-year and emphasizes the importance of eliminating additional packaging entirely, as demonstrated by their elimination of all plastic packaging in Euclid, Ohio.	The Trustee had deemed votes related to <b>pollution</b> to be a significant vote.		

Fund	Company	Size of holding (%)	Date	Summary of the Resolution	How the manager voted	If against the company, was the intent communicated ahead of the vote?	Rationale for the voting decision	Why Vote is Significant for the Trustees	Final outcome following the vote	Next Steps
L&G Asia Pacific (ex-Japan)	National Australia Bank Limited	2.1	15/12/2023	Approve Transition Plan Assessments	For	N/A	While LGIM acknowledge the Company's disclosures on sector policies and emissions reduction targets in this regard, they believe that additional reporting on how this is assessed in practice and any timelines associated with this in light of the Company's existing commitments is considered beneficial to shareholders.	The Trustee had deemed votes related to <b>climate change</b> to be a significant vote.		LGIM will continue to engage with their investee companies, publicly advocate their position on these issues and monitor company and market-level progress.
	Westpac Banking Corp	1.8	14/12/2023	Approve Climate Change Position Statement and Action Plan	Against	Not provided	LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. While they positively note the company's net-zero commitments and welcome the opportunity to voice their opinion on the bank's climate transition plan, they highlight some concerns with the scope of targets and disclosures.	The Trustee had deemed votes related to <b>climate change</b> to be a significant vote.		
MFS Meridian Global Equity	Alphabet Inc.	2.3	07/06/2024	Publish Human Rights Risk Assessment on the AI-Driven Targeted Ad Policies	Against	Not provided	MFS believe the growing use of artificial intelligence to drive advertising presents new and unconsidered risk, and the board currently has limited oversight on this topic. Further investigation and disclosure would be beneficial in understanding this risk.	The Trustee had deemed votes related to <b>human rights</b> to be a significant vote		MFS will continue to monitor how the company considers its human rights risks, specifically through targeted AI advertising, and the steps it takes to mitigate any future concerns.
HSBC Islamic Global Equity	NVIDIA Corporation	7.8	26/06/2024	Elect Director Stephen C. Neal	Against	No	HSBC voted against this Nomination Committee Chair as they have concerns about insufficient gender diversity of the board.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		HSBC will likely vote against a similar proposal should they see insufficient improvements
	Amazon.com, Inc.	6.3	22/05/2024	Elect Director Jonathan J. Rubinstein	Against	No	HSBC voted against this Nomination Committee Chair as they have concerns about insufficient gender diversity of the board.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		

Fund	Company	Size of holding (%)	Date	Summary of the Resolution	How the manager voted	If against the company, was the intent communicated ahead of the vote?	Rationale for the voting decision	Why Vote is Significant for the Trustees	Final outcome following the vote	Next Steps
	Broadcom Inc.	2.5	22/04/2024	Elect Director Eddy W. Hartenstein	Against	No	HSBC voted against this Nomination Committee Chair as they have concerns about insufficient gender diversity of the board.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		
	Exxon Mobil Corporation	1.8	29/05/2024	Report on Median Gender/Racial Pay Gaps	For	No	HSBC believe that the proposal would contribute to improving gender inequality.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		
Impax Environmental Leaders	Linde Plc	4.0	24/07/2023	Elect Hugh Grant	Against	No	Impax vote against nominating governance committee members when there are less than three women on the board of directors, unless more than 30% of the directors are women. Company has also failed to provide sufficient disclosure of racial/ethnic minority demographic information at an overall board aggregate or individual director level in its proxy statement.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		Impax will continue to engage with their investee companies.
				Elect Joe Kaeser						
				Elect Victoria E. Ossadnik						
	Applied Materials Inc.	2.0	07/03/2024	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	For	No	Impax are supportive of Gender and Racial Pay Equity disclosures	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		
LGIM Future World Global Equity	Apple Inc.	4.5	28/02/2024	Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy	Against	Not provided	LGIM believe a vote against this proposal is warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.	The Trustee had deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote.		LGIM will continue to engage with their investee companies, publicly advocate their position on these issues and monitor company and market-level progress.

Fund	Company	Size of holding (%)	Date	Summary of the Resolution	How the manager voted	If against the company, was the intent communicated ahead of the vote?	Rationale for the voting decision	Why Vote is Significant for the Trustees	Final outcome following the vote	Next Steps
Ruffer Diversified Return	Amazon	1.1	22/05/2024	Independent report, assessing Amazon's customer due diligence process to determine whether customers' use of its products contributes to human rights violations	For	No	Ruffer's support for the resolution is based on the belief that such a report may highlight some concerning issues that may protect Amazon from future reputational damage.	The Trustee had deemed votes related to <b>human rights</b> to be a significant vote.		Ruffer will continue to monitor the company and may seek to engage if no progress is seen.
				Report on Median Pay Gaps across Race and Gender			Amazon has recently faced lawsuits and fines concerning its hiring and pay practices. Publishing the pay gap statistic could increase accountability for diversity efforts and would provide shareholders with useful information about how effectively management is assessing and mitigating risks that may arise from inequitable worker treatment.	The Trustees have deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote		
				Disclosure of all material Scope 3 GHG Emissions			Amazon currently only discloses scope 3 emissions for its own brand products while peers, such as Walmart and Target, disclose scope 3 emissions for all product sales.	The Trustees have deemed votes related to <b>pollution &amp; natural resource degradation</b> to be a significant vote		
				Audit of Working Conditions in Amazon Warehouses			Amazon has recently been charged with multiple workplace safety violations which, combined with negative media attention, expose the company to severe reputational risk. Shareholders would benefit from a third-party review of the company's working conditions within its facilities.	The Trustee had deemed votes related to <b>human rights</b> to be a significant vote.		

Fund	Company	Size of holding (%)	Date	Summary of the Resolution	How the manager voted	If against the company, was the intent communicated ahead of the vote?	Rationale for the voting decision	Why Vote is Significant for the Trustees	Final outcome following the vote	Next Steps
Nordea Diversified Return	Mastercard Incorporated	1.5	18/06/2024	Report on Gender-Based Compensation and Benefit Inequities	For	Yes	Nordea believe additional disclosure of the company's direct and indirect lobbying related expenditures would help shareholders better assess the risks and benefits associated with the company's participation in the public policy process.	The Trustees have deemed votes related to <b>diversity, equity and inclusion</b> to be a significant vote		Nordea will continue to support shareholder proposals on these issue as long as it is needed.
	Alphabet Inc.	4.7	07/06/2024	Publish Human Rights Risk Assessment on the AI-Driven Targeted Ad Policies	For	No	Nordea believe an independent human rights assessment on the impacts would help shareholders better evaluate the company's management of risks related to the human rights impacts of its targeted advertising policies and practices.	The Trustee had deemed votes related to <b>human rights</b> to be a significant vote.		
	Microsoft Corporation	4.5	07/12/2023	Report on Risks of Operating in Countries with Significant Human Rights Concerns	For	No	Nordea believe increased disclosure regarding how the company is managing human rights-related risks in high-risk countries helps investors in their assessment of the company.	The Trustee had deemed votes related to <b>human rights</b> to be a significant vote.		

Source: Phoenix, Investment Managers