

Menzies Pension Fund - Implementation Statement

Statement of Compliance with the Menzies Pension Fund's Stewardship Policy for the year ending 31 March 2021

Introduction

This is BESTrustees Limited as Trustee of the Menzies Pension Fund's implementation statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Fund's Stewardship Policy during the period from 1 April 2020 to 31 March 2021.

Stewardship policy

The Trustee's Stewardship Policy sets out how the Trustee will behave as an active owner of the Fund's assets which includes the Trustee's approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Fund's Stewardship Policy is included within the Fund's Statement of Investment Principles (SIP). The last review of the Stewardship Policy was completed in August 2020 where the following statements were added:

- *"Where relevant, the Trustee has reviewed the voting policies of their investment managers and determined that these policies are appropriate. The Trustee will request their investment managers to provide details of any change in their house policies on a regular basis."*
- *"Where necessary, investment managers are expected to notify the Trustee of any issue on which may be beneficial for the Trustee to undertake further engagement."*
- *"Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors."*
- *"The Trustee separately considers any conflicts of interest arising in the management of the Fund and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustee."*

The Fund's Stewardship Policy, which can be found within the SIP, is available to view online at <https://menziesaviation.com/wp-content/uploads/2020/09/SIP-2020-August-MPF.pdf>

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Fund's investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

Policy implementation

The Trustee's own engagement activity is focused on its dialogue with its investment managers which is undertaken in conjunction with its investment advisers. The Trustee meets with its managers on an annual basis, or more

frequently if any matter requires more urgent discussion, and the Trustee considers managers' exercise of their stewardship responsibilities during these meetings.

The Trustee is satisfied that it has complied with the Fund's Stewardship Policy over the Fund year ending 31 March 2021.

Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustee also monitors investment managers' voting on particular companies or issues that affect more than one company.

The Fund invests in equity assets through pooled equity funds managed by LGIM and Longview. The Fund also has exposure to equity assets through the Ruffer and Schroders multi-asset funds. The investment managers have reported on how votes were cast in each of these mandates as set out in the tables below as at 31 March 2021:

Fund name	LGIM UK Equity Index Fund	LGIM Emerging Markets Equity Index Fund	Longview Global Equity Fund	Ruffer absolute return portfolio	Schroders Diversified Growth Fund
Proportion of Fund assets	3.1%	2.9%	11.5%	6.6%	8.6%
No. of equity holdings	598	1,882	34	30	1,210
No. of meetings eligible to vote at during the year	943	3,998	31	34	Not disclosed
No. of resolutions eligible to vote on during the year	12,574	36,036	435	460	18,366
% of resolutions voted	100%	100%	100%	96%	94%
% of resolutions voted with management	93%	85%	95%	93.0%	91.7%
% of resolutions voted against management	7%	13%	4.5%	5.4%	8.0%
% of resolutions abstained	0%	2%	0.5%	1.6%	0.3%
% of meetings with at least one vote against management	3%	5%	39%	32%	Not disclosed
% of votes contrary to the recommendation of the proxy advisor	1%	0%	Not disclosed	11%	Not disclosed

Note: Longview and Ruffer consider abstaining as a vote against management.

The resolutions which the managers voted against management or abstained the most over the year to 31 March 2021 were mainly in relation to:

- General governance; including remuneration policies and auditor selection
- Election of Boards of Directors and Senior Management

Significant votes

The Trustee has asked its managers to report on – in the manager’s opinion – the most significant votes cast within the funds they manage on behalf of the Trustee. The managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote.

While the term ‘significant votes’ hasn’t been defined, guidance suggests that a vote should be considered significant if it relates to situations where there is disagreement between the manager (on behalf of investors) and the company; including matters such as shareholder rights, corporate governance, corporate strategy and corporate behaviour. However, some resolutions which may be significant from an investment point of view, such as uncontroversial mergers and takeovers, may not be included.

With the exception of Schroders, each manager responsible for managing equity assets on the Fund’s behalf provided the Trustee with a long-list of significant votes. From that long-list the Trustee has identified the following votes as being of greater relevance to the Fund:

LGIM

Pearson plc, UK, 18 September 2020

The company management put forward an amended remuneration policy at the company’s special shareholder meeting, held on 18 September 2020. LGIM voted against the amendment to the remuneration policy. We set out LGIM’s comments on the resolution below:

“Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company’s remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO. LGIM spoke with the chair of the board earlier this year, on the board’s succession plans and progress for the new CEO. LGIM also discussed the shortcomings of the company’s current remuneration policy. LGIM also spoke with the chair directly before the EGM, and relayed their concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO’s award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with our expectations for UK companies. In the absence of any changes, LGIM took the decision to vote 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.”

This vote was considered of greater relevance to the Fund as it evidenced the manager voting against company management on issues relating to remuneration and pay.

Barclays plc, UK, 5 May 2020

There are two climate change resolutions which LGIM voted on at the May 2020 AGM:

- Resolution 29: proposed by company management, this resolution sets out Barclays' commitment to tackling climate change. LGIM voted in favour of this resolution. The resolution was supported by 99.9% of shareholders.
- Resolution 30: a requisitioned proposal by ShareAction, an influential campaigning organisation with a particular focus on climate and responsible investment matters. Of particular relevance in resolution 30 is the goal to end Barclays provision of financing to the energy sector and gas and electric utility companies which are not aligned with the Paris Agreement. Resolution 30 was not supported by company management. LGIM voted in favour of this resolution. The resolution was supported by 23.9% of shareholders.

We set out LGIM's comments on the resolution below:

"The hard work is just beginning. Our 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. We 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.

We consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as our clients."

This vote was considered of greater relevance to the Fund as it evidenced the manager voting against company management on issues relating to climate change.

Longview

Company	Charter Communications Inc, USA	Fiserv Inc, USA	Oracle Corporation, USA
Resolution date	4 November 2020	27 April 2020	18 October 2020
% of fund represented by company	4.9%	3.7%	4.0%
Vote details	Shareholder Proposal Regarding Independent Chair	Shareholder Proposal Regarding Political Contributions and Expenditures Report	Shareholder Proposal Regarding Gender and Ethnicity Pay Equity Report.
Management recommendation	Against	Against	Against
Longview vote	For	For	For
Engagement	Longview engaged with management and made their voting intentions known before the vote	Longview engaged with management and made their voting intentions known before the vote	Longview engaged with management and made their voting intentions known before the vote
Why is it significant?	Longview has voted against management and >15% of total votes were against management.	Longview has voted against management and >15% of total votes were against management.	Longview has voted against management and >15% of total votes were against management.

Ruffer

Lloyds Bank plc, UK, 21 May 2020

The company management put forward an amended remuneration policy at the company's AGM, held on 21 May 2020. Ruffer voted against the amendment to the remuneration policy. The resolution was passed with 63.8% approval. We set out Ruffer's comments on the resolution below:

"We decided to vote against the proposed remuneration policy at the company as although it reduces the maximum pay-out at the time of the grant, it significantly relaxes the vesting criteria. Therefore, we did not think it sufficiently incentivises management to deliver shareholder value. We spoke to the company prior to the AGM to understand better the changes implemented in the revised voting policy and to communicate our concerns.

We spoke with the Chairman of Lloyds on this issue after we voted and since then the company has made some changes to the remuneration of the new CEO. Even though these do not address all of our concerns, it does make the remuneration criteria more aligned to shareholder interests."

This vote was considered of greater relevance to the Fund as it evidenced the manager voting against company management on issues relating to remuneration and pay.

Aena SME S.A., Spain, 29 October 2020

Aena SME is a state-owned company that manages general interest airports and heliports in Spain. Through its subsidiary company Aena Internacional it also participates in the management of 23 airports abroad. In October 2020, large activist hedge fund, TCI, raised a shareholder resolution, which was eventually backed by company management, to give shareholders an annual vote on the company's climate change policy. This is thought to be a world first. Ruffer voted in favour of the shareholder resolution, which was also supported by 99% of shareholders. We set out Ruffer's comments on the resolution below:

"We voted for three shareholder resolutions requesting that the company submits its climate transition plan to a shareholder advisory vote at its 2021 AGM and provides updates to its plan on an annual basis from 2022. We believe that climate change-related risks may be significant for the long-term performance of Aena, and therefore we supported these resolutions.

We are likely to see more 'Say on Climate' votes filed in 2021 and would expect to support them, particularly in cases where we believe there are long term performance implications from the business proactively addressing climate change related risks.

We believe this vote will be of particular interest to our clients. The shareholder resolutions aimed to increase the transparency of the company's climate transition planning and outcomes."

This vote was considered of greater relevance to the Fund as it evidenced the manager voting for a ground-breaking resolution related to climate change.

Schroders

Schroders provided the Trustee with a high-level breakdown of voting activity for the Diversified Growth Fund, however, were unable to provide case studies on votes which they deemed significant. The Trustee notes this level of disclosure is an expectation of its investment managers and will raise this point with Schroders at the next manager day meeting in Q4 2021.

Engagement activity

To comply with the Fund's Stewardship Policy the Trustee has committed to meeting with the Fund's investment managers at least once a year. The Trustee will usually do this through an annual 'manager day' meeting. The last manager day meeting took place on 2 December 2020 which included all relevant managers.

Prior to each manager meeting the Trustee and its investment advisor sets each manager a comprehensive agenda to assist the Trustee in holding each manager to account. The agenda covers a wide range of topics including review of short and long term performance in the market context, market outlook, risks and opportunities, and responsible investing. In addition, the Trustee's investment advisor prepared a paper prior to the meeting setting out the policies included within the SIP and how the Trustee could comply with the policies through the manager day meeting.

In addition to regular manager day meetings, the Trustee may also meet with the Fund's managers on an ad-hoc basis, for example to discuss any relevant market themes, concerns or opportunities.

The below table details the engagement meetings with managers over the year to 31 March 2021 and the relevant stewardship matters discussed. All engagement meetings were held on 2 December 2020.

Fund / meeting type	Stewardship / RI matters discussed	Outcome
Longview - annual engagement meeting	<p>Integration of responsible investment considerations in the investment process.</p> <p>Level of turnover within the portfolio.</p> <p>Engagement with stakeholders on ESG issues.</p> <p>Whether any assessments of the implications of climate change on the portfolio have been undertaken.</p>	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>The Trustee was content that portfolio turnover was within expectations for a concentrated active equity portfolio.</p> <p>Longview confirmed that they were in the process of assessing the carbon footprint of the portfolio and that a carbon footprint report will be available for investors shortly.</p> <p>Longview confirmed they have recently partnered with Sustainalytics, a leading independent global provider of ESG and corporate governance research and ratings to investors. This partnership is aimed at providing additional ESG research material to compliment the in-house proprietary research carried out by Longview.</p>
LGIM – annual engagement meeting	<p>Integration of responsible investment considerations in the investment process for the corporate bond fund.</p> <p>Engagement with stakeholders on ESG issues.</p> <p>Where material concerns with company management may lead to divestment within index funds.</p> <p>Whether any assessments of the implications of climate</p>	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices. LGIM provided case studies of where corporate bond issues were not invested in due to ESG concerns.</p> <p>LGIM confirmed that divestment from companies within index funds is possible, however is a last resort only taken when company management continuingly show disregard of ESG matters and reject investor engagement.</p> <p>LGIM are developing their climate risk reporting and this will be available to for investors shortly.</p>

	change on the portfolio have been undertaken.	
Schroders – annual engagement meeting	<p>Integration of responsible investment considerations in the investment process.</p> <p>Engagement with stakeholders on ESG issues.</p> <p>Whether any assessments of the implications of climate change on the portfolio have been undertaken.</p>	<p>The Trustee was comfortable with the Manager’s approach to responsible investment and their engagement practices. Schroders noted that around 2/3rds of the portfolio invested in internal Schroders funds which all share a consistent approach to voting and engagement.</p> <p>Schroders noted that the Fund’s equity allocation now also included holdings in in-house Schroders funds which have an explicit ESG or sustainability objective. Schroders were also considering the use of sustainable or ESG tilted indexes for synthetic and exchange traded fund (ETF) exposures.</p> <p>Schroders confirmed they use external research provided by Sustainalytics to supplement internal ESG research.</p>
Barings – annual engagement meeting	<p>Integration of responsible investment considerations in the investment process.</p> <p>Engagement with stakeholders on ESG issues.</p> <p>Whether any assessments of the implications of climate change on the portfolio have been undertaken.</p>	<p>The Trustee was comfortable with the Manager’s approach to responsible investment and their engagement practices.</p> <p>Barings noted that they had recently partnered with Sustainalytics to enhance their ESG research capabilities.</p> <p>Barings have recently launched carbon scoring for the portfolio to assess climate impact and this reporting will be shared with investors.</p>
ICG – annual engagement meeting	<p>Integration of responsible investment considerations in the investment process.</p> <p>Engagement with stakeholders on ESG issues.</p> <p>Whether any assessments of the implications of climate change on the portfolio have been undertaken.</p>	<p>The Trustee was comfortable with the Manager’s approach to responsible investment and their engagement practices.</p> <p>ICG noted they consider the borrowers line of business and will not lend to companies that derive a proportion of revenue from “sin” sectors (gambling, munitions, tobacco etc).</p> <p>ICG confirmed they do not currently offer climate change related reporting however this is something they may consider in the future.</p>

Following the engagement meetings, the Trustee did not identify any material breaches of its policies and will continue to engage with and monitor each manager against the policies.

Manager engagement activity

The Trustee expects its investment managers to engage with company management on the Fund’s behalf on relevant issues. As part of the manager day meeting each manager was asked to provide case studies of engagement activity on the Fund’s behalf. Of particular importance to the Trustee is the managers’ engagement framework which sets out how they identify companies to engage with, what format the engagement is in (i.e. meetings, letters, press releases) and how the managers then evaluate the impact of their engagement.

Following the manager day meeting on 2 December 2020 the Trustee is satisfied that each manager is carrying out their engagement responsibilities on behalf of the Fund.

Use of a proxy adviser

The Fund's investment managers have made use of the services of the following proxy voting advisers over the Fund year to 31 March 2021:

Manager	Proxy Advisor used
LGIM UK Equity Index Fund LGIM Emerging Market Equity Index Fund	LGIM use Institutional Shareholder Services ('ISS') electronic voting platform to carry out proxy voting. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure ISS votes in accordance with LGIM's position on ESG, the manager has put in place a custom voting policy with specific voting instructions.
Longview Global Equity Fund	Longview use Glass Lewis & Company to carry out proxy voting. All voting decisions are made by Longview and they do not outsource any part of the strategic decisions.
Ruffer absolute return portfolio	<p>Ruffer use ISS's electronic voting platform to carry out proxy voting. All voting decisions are made by Ruffer and they do not outsource any part of the strategic decisions. Ruffer has 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.</p> <p>Ruffer note that each research analyst, supported by Ruffer's responsible investment team, reviews the relevant issues on a case-by-case basis and exercises their judgement, based on their knowledge of the company. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer.</p>
Schroders Diversified Growth Fund	<p>Schroders use ISS's electronic voting platform to carry out proxy voting. ISS implements a custom Schroders voting policy which is in line with Schroders' published ESG policy, with only a few resolutions referred to Schroders for a final decision.</p> <p>Holdings are voted by applying Schroders' voting policy, using a variety of sources of information (including the company's statements, our centralised global research platform, analyst and portfolio managers, brokers' reports and research provided by ISS. Where material, portfolio managers and analysts are consulted for their views and decision on voting.</p>