

Menzies Pension Fund - Implementation Statement

Statement of Compliance with the Menzies Pension Fund's Stewardship Policy for the year ending 31 March 2023.

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 Scheme's Stewardship Policy during the period from 1 April 2022 to 31 March 2023.

Stewardship policy

The Trustee's Stewardship Policy sets out how the Trustee will behave as an active owner of the Scheme'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 Scheme's Stewardship Policy is included within the Scheme's Statement of Investment Principles (SIP). The last review of the Stewardship Policy was completed in August 2022 as part of the review of the Statement of Investment Principles.

The Scheme's Stewardship Policy, which can be found within the SIP, is available to view online at <https://menziesaviation.com/wp-content/uploads/2022/09/Menzies-Pension-Fund-Statement-of-Investment-Principles-August-2022.pdf>

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme'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 Scheme's Stewardship Policy over the Scheme year ending 31 March 2023.

Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and where appropriate, to monitor manager voting patterns. The Scheme invests in equity assets through pooled equity funds managed by LGIM and Longview. The Scheme also had exposure to equity assets through the Schroders diversified growth fund. The investment managers have reported on how votes were cast in each of these mandates as set out in the tables below in the 12 months to 31 March 2023:

Fund name	LGIM Emerging Markets Equity Index Fund	Longview Global Equity Fund	Schroders Diversified Growth Fund
Proportion of total Scheme assets	0.9%	7.1%	3.4%
No. of equity holdings	1,679	30	1,059
No. of meetings eligible to vote at during the year	4,231	33	1,270
No. of resolutions eligible to vote on during the year	36,506	531	15,662
% of resolutions voted	100%	100%	95%
% of resolutions voted with management	80%	91%	90%
% of resolutions voted against management	18%	9%	10%
% of resolutions abstained	2%	0%	1%
% of meetings with at least one vote against management	54%	61%	53%
% of votes contrary to the recommendation of the proxy advisor	7%	0%	Not disclosed

Note: Longview 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 2023 were mainly in relation to:

- Climate change; including lack of progress, failure to meet minimum expected standards or lack of appropriate targets
- Lack of independence between Board Chair and CEO roles
- Lack of gender diversity at board level

Significant votes

The Trustee has asked their managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee. Managers were asked to explain the reasons why votes 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.

With the exception of Schroders, each manager responsible for managing equity assets on the Scheme's behalf provided the Trustee with a long list of significant votes. From that long list, the Trustee has disclosed the top 10 votes based on the size of holding within each of the Scheme's mandates:

LGIM World Emerging Markets Equity Index Fund

Date of vote	Company name	% of fund	Vote details	Management vote	LGIM vote	Why is it significant?	Outcome
18-May-22	Meituan	1.3%	Resolution to elect company director	For	Against	LGIM views diversity as a financially material issue for clients, with implications for the assets LGIM manage on their behalf.	Proposal approved
23-Jun-22	China Construction Bank	1.1%	Resolution to elect company director	For	Against	LGIM considers this vote to be significant as it is applied under the manager's Climate Impact Pledge, targeting some of the world's largest companies on their strategic management of climate change.	Proposal approved
23-Jun-22	Industrial & Commercial Bank of China	0.8%	Resolution to elect company director	For	Against	LGIM considers this vote to be significant as it is applied under the manager's Climate Impact Pledge, targeting some of the world's largest companies on their strategic management of climate change.	Proposal approved
31-May-22	Hon Hai Precision Industry Co	0.6%	Resolution to elect company director	For	Against	LGIM voted against the election of a director as they expect companies to separate the roles of Chair and CEO due to risk management and oversight.	Outcome unconfirmed by LGIM at date of writing
08-Feb-23	Pinduoduo	0.6%	Resolution to elect company director	For	Against	LGIM views diversity as a financially material issue for clients, with implications for the assets LGIM manage on their behalf.	Proposal approved
02-Jun-22	Xiaomi	0.3%	Resolution to elect company director	For	Against	LGIM views diversity as a financially material issue for clients, with implications for the assets LGIM manage on their behalf.	Proposal approved
08-Jun-22	China Mengniu Dairy Company	0.3%	Resolution to elect company director and approval to fix director's remuneration	For	Against	LGIM considers this vote to be significant as it is applied under the manager's Climate Impact Pledge, targeting some of the world's largest companies on their strategic management of climate change.	Proposal approved
17-Jun-22	Kuaishou Technology	0.2%	Resolution to elect company director	For	Against	LGIM considers this vote to be significant as it is applied under the manager's Climate Impact Pledge, targeting some of the world's largest companies on their strategic management of climate change.	Proposal approved
11-May-22	ANTA Sports Products	0.2%	Resolution to elect company director	For	Against	LGIM voted against the election of a director as they expect companies to separate the roles of Chair and CEO due to risk management and oversight.	Proposal approved
27-May-22	Capitec Bank Holdings	0.2%	Resolution to elect company director	For	Against	LGIM views diversity as a financially material issue for clients, with implications for the assets LGIM manage on their behalf.	Proposal approved

Longview

Date of vote	Company name	% of fund	Vote details	Management vote	Longview vote	Why is it significant?	Outcome
12-Apr-22	Bank Of New York Mellon Corp	2.0%	Shareholder Proposal Regarding Right to Call Special Meetings	Against	For	Longview voted against management, noting that they believe the threshold percentage of shareholders required to call a special meeting should be lowered from its current level of 20%. Longview flagged the vote as significant due to the vote being against management and that more than 15% of total votes being cast against management.	Proposal rejected
12-Apr-22	IQVIA Holdings Inc	4.0%	Advisory Vote on Executive Compensation	For	Against	Longview voted against management, citing a disconnect between performance and compensation. Longview flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal approved
12-Apr-22	IQVIA Holdings Inc	4.0%	Shareholder Proposal Regarding Majority Vote for Election of Directors	Against	For	Longview voted against management, indicating their stance that majority voting would increase board accountability and performance. Longview flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal approved
21-Apr-22	HCA Healthcare Inc	4.0%	Shareholder Proposal Regarding Political Contributions and Expenditures Report	Against	For	Longview voted against management, noting their belief that increased disclosure would allow shareholders to more fully assess risks presented by the company's political spending. Longview flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal rejected
21-Apr-22	HCA Healthcare Inc	4.0%	Shareholder Proposal Regarding Lobbying Report	Against	Against	Longview supported management on this resolution. However, they flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal rejected
21-Apr-22	Heineken N.V	4.0%	Remuneration Report	For	Against	Longview voted against management, citing insufficient response by the company to shareholder dissent and that they believe the agreement to be excessive. Longview flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal approved
21-Apr-22	Heineken N.V	4.0%	Resolution to elect company director	For	For	Longview supported management on this resolution. However, they flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal approved
22-Apr-22	L3Harris Technologies Inc	4.0%	Resolution to elect company director	For	For	Longview supported management on this resolution. However, they flagged the vote as significant due to more than 15% of total votes being cast against management.	Proposal approved
26-Apr-22	Charter Communications Inc.	3.0%	Resolution to elect company director	For	Against	Longview voted against management on the basis that the director serves on what they believed to be too many boards. The manager deem a vote in which they oppose management to be significant.	Proposal approved
26-Apr-22	Charter Communications Inc.	3.0%	Resolution to elect company director	For	Against	Longview voted against management on the basis that the director serves on what they believed to be too many boards. The manager deems a vote in which they oppose management to be significant.	Proposal approved

Schroders

Although Schroders did not provide the same level of detail as the other investment managers, they did provide some examples of progress on engagements from Q1 2023 where they encouraged changes within companies held in the fund. The Trustee will continue to press Schroders to provide engagement and voting data which is consistent with that provided by the Scheme's equity managers. The below are some examples of the type of engagement Schroders carried out over the year to 31 March 2023:

Change suggestion – Toronto Dominion Bank: Schroders asked that the company produce interim targets aligned with net zero ambition and develop a comprehensive fossil fuel lending policy.

Outcome: The bank has now set targets for its energy and power and utility portfolio. The company has not developed its fossil fuels lending policy further but has set out its position on thermal coal which Schroders is continuing to challenge, as Schroders does not see the requirements as set out by the company as particularly strict.

Change Suggestion – Wells Fargo: Schroders requested that the company make public the full findings and conclusions of the human rights impact assessment (HRIA) and the measures the company will take to address identified human rights risks.

Outcome: The company has released a summary document with the outcomes of the HRIA but not the full due diligence process and findings.

Change suggestion – Alcon: Schroders urged the company not to de-prioritise environmental performance and expected to see scope 1 and 2 targets in their next Corporate Social Responsibility (CSR) report.

Outcome: Alcon has made a commitment to be carbon neutral by 2030 and have made scope 1 and 2 commitments but are not yet in a position to include scope 3 and have not provided a timeframe for this inclusion.

Engagement activity

To comply with the Scheme's Stewardship Policy, the Trustee has committed to meeting with the Scheme's investment managers at least once a year. The Trustee will usually do this through an annual 'manager day' meeting. The last manager day meetings took place on 10 and 11 November 2022 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. Ahead of the 10 and 11 November 2022 meetings, the Trustee's investment advisor provided a paper 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 Scheme'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 2023 and the relevant stewardship matters discussed. All engagement meetings were held on 10 and 11 November 2022.

Manager	Stewardship / RI matters discussed	Outcome
LGIM	As well as discussing LGIM's Responsible Investment approach, LGIM was asked whether lessons were learned from the way the manager dealt with market volatility in September and October 2022 and whether processes are in place to ensure communication channels are improved in times of market stress.	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>The main focus of the meeting was on the recent significant market volatility experienced in September and October 2022 where market reaction to the UK chancellor's mini-budget announcements led to an unprecedented rise in gilt yields.</p> <p>LGIM confirmed that they held an emergency dealing date to allow extra collateral to be posted by clients wishing to retain their hedging arrangements. The manager highlighted that they had not used an emergency dealing date before and so this was new to the team recognising that there would always be room for improvement with the process.</p>
Longview	An update on the manager's voting and engagement progress, along with a query as to the manager's use of third-party ESG data providers.	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>The quality factor requirements of the manager feed into their ESG requirements and therefore the portfolio starts from a low-carbon base.</p> <p>The manager noted that it seeks to interact with all companies with which an investment is held to determine its ESG profile and where specific science-based targets have been implemented. Companies are then rated via a traffic light system to summarise where they lie relative to benchmark.</p>

		<p>Longview confirmed that, if a company is seen to be negative from an ESG perspective, it is unlikely to meet their criteria for the quality factor and would then receive no investment.</p> <p>Longview previously conducted much of their own carbon reporting but indicated that they will make extensive use of Trucost in the next year as they deem it to be more robust from an analysis perspective. The manager looks to focus on 3 key themes per year with the most recent set being: climate, diversity & inclusion and modern slavery. Climate is seen in particular as a more permanent fixture within these themes.</p>
Schroders	<p>The manager was asked to confirm whether there have been changes to its incorporation of ESG risks over the past year.</p>	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>Schroders commented that consideration of ESG in their analysis has helped to make better investment decisions. They noted that not everything in which they invest has to be ESG-compliant but that striking a balance with ESG assets has improved their RI metrics.</p> <p>Whilst the diversified growth fund does not have a specific ESG objective, there is a sister fund with a sustainability objective, ESG is integrated into their analysis to assist them in making better investment decisions.</p> <p>Schroders previously confirmed that they use external research provided by Sustainalytics to supplement internal ESG research.</p>
Barings	<p>Progress that the manager has made on ESG with specific focus on the Scheme's multi-asset credit mandate.</p> <p>The impact of the market volatility experienced in September and October 2022 on the mandate.</p>	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>The fund moved to become Article 8 compliant under Sustainable Finance Disclosure Regulation ("SFDR"), as the fund moved to actively promote ESG credentials and focus more on responsible investment. Barings confirmed that they seek to incorporate ESG into their process for selection of all investments and that they are now compiling quarterly ESG reporting.</p> <p>Barings was not as affected by major outflow requests to meet collateral calls as yields rose in September/October, most likely due to their 30-calendar day notice period for trading. However, it began to see some outflows late October/early November as schemes attempted to rebalance in the aftermath of the significant volatility to address off-benchmark allocations.</p> <p>The manager stressed that, in periods like the past year, it would be very difficult to achieve their cash target but remain confident that they can achieve the target over the longer-term</p> <p>Barings previously confirmed that it had partnered with Sustainalytics to enhance their ESG research capabilities.</p>
ICG	<p>Integration of ESG considerations in the investment process.</p> <p>The net zero target of the manager.</p>	<p>The Trustee was comfortable with the Manager's approach to responsible investment and their engagement practices.</p> <p>ICG has committed to being net zero by 2040. It is the first alternatives manager to pledge this.</p> <p>ICG has strengthened its ESG focus. It adopts an exclusion list (including coal, oil, gas, arms, ammunition, tobacco) and all investment decisions go through an ESG</p>

		screening checklist which incorporates 27 mandatory questions. It considers climate risk and a two dimensional ESG risk rating (inherent sector ESG risk distribution and company specific risk distribution) in its investment process.
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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 Scheme’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 Scheme’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 meetings on 10 and 11 November 2022, the Trustee is satisfied that each manager is carrying out their engagement responsibilities on behalf of the Scheme.

Use of a proxy adviser

The Scheme’s investment managers have made use of the services of the following proxy voting advisors over the Scheme year to 31 March 2023:

Manager	Proxy Advisor used
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. Glass Lewis has partnered with Sustainalytics and Arabesque in order to provide additional ESG-specific information in their proxy voting analysis.
Schroders Diversified Growth Fund	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. Holdings are voted by applying Schroders’ voting policy, using a variety of sources of information (including the company’s statements, Schroders’ 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.