# Phoenix Medical Supplies Pension Scheme

# Implementation Statement

## Purpose of this statement

This Implementation Statement has been approved by the Trustees of the Phoenix Medical Supplies Pension Scheme ("the Scheme") to set out the following information over the year to 31 March 2024:

- How the Trustees' policies on exercising rights (including voting rights) and engagement activities have been followed over the year; and
- A summary of the voting and engagement activity undertaken by the Scheme's investment managers ("the managers") on behalf of the Trustees over the year, including information regarding the most significant votes.

## Stewardship policy

The Trustees' Statement of Investment Principles (SIP) in force at the time of preparing this Implementation Statement describes the Trustees' stewardship policy on the exercise of rights (including voting rights) and engagement activities. The SIP was last reviewed in June 2024 and has been made available online here:

**https://www.phoenixmedical.co.uk/fileadmin/media/2024-06_-PMS-Statement-of-Investment-Principles.pdf**

No changes were made to the stewardship policy over the year.

As at the time of preparing this Implementation Statement, the Trustees have not set stewardship priorities for the Scheme. The rationale supporting this decision is that the Scheme invests solely through pooled investment vehicles where the Scheme's assets represent a small proportion of the capital ultimately invested in the vehicle. As such, the Trustees recognise that they are constrained by the policies of the relevant manager.

In selecting and reviewing their managers, where appropriate and applicable, the Trustees will consider the managers' policies on engagement and environmental, social and governance ("ESG") and how those policies have been implemented. The Trustees also review the stewardship and engagement activities of the managers annually through the Implementation Statement.

## How voting and engagement policies have been followed over the year

Based on the information provided by the Scheme's managers, the Trustees believe that the Scheme's policies on voting and engagement have been met in the following ways:

- At the Scheme year-end, the managers appointed to manage assets on behalf of the Scheme were Legal & General Investment Management ("LGIM") and Newton Investment Management ("Newton"). The Trustees consider the performance of the Scheme's funds and any significant developments at least twice a year.
- The Scheme invests entirely in pooled funds and, as such, the Trustees delegate responsibility for carrying out voting and engagement activities to the managers. Investment rights (including voting rights) have

been exercised by the managers in line with the managers' general policies on corporate governance. The Trustees also expect the managers to have engaged with the companies in which they invest in relation to ESG matters.

- The Trustees appointed the Scheme's multi-asset growth fund manager (Newton) back in 2020 and ESG considerations were considered as part of the manager selection exercise, alongside all other material factors. The fund managed by Newton (the Newton Sustainable Real Return Fund) has a specific focus on avoiding companies with material ESG risks which are likely to negatively affect future performance.

- LGIM manage the Scheme's liability-driven investment ("LDI") portfolio, however the Trustees are of the view that there is less scope for the consideration of ESG issues to improve risk-adjusted returns within LDI due to of the nature of the instruments used within the funds. The fund used as the collateral pool to the LDI portfolio (the LGIM Absolute Return Bond Fund) is considered to have acceptable ESG practices by the Trustees.

- The Scheme is also invested in two index-tracking global equity funds managed by LGIM. Whilst these funds do not have a specific ESG focus, the Trustees considered the ESG practices of these funds to be above an acceptable level during the selection process.

- Annually, the Trustees receive and review information on the voting behaviour and engagement activities of the managers from both the managers themselves and the Scheme's Investment Consultant. The Trustees review this information to ensure alignment with the Scheme's policies (as set out in the Scheme's SIP). This exercise was undertaken as part of preparation of the Implementation Statement in respect to the managers' activities over the year to March 2024.

## Summary

Based on the information contained in this Implementation Statement, the Trustees are comfortable the actions of the managers are in alignment with the Scheme's stewardship policies. The Trustees are supportive of the key voting action taken by the applicable managers over the period to encourage positive governance changes in the companies in which they hold shares.

**Approved by the Trustees of the Phoenix Medical Supplies Pension Scheme**

**September 2024**

## Voting data

This section provides a summary of the voting activity undertaken by the relevant managers within the Scheme's return-seeking portfolio on behalf of the Trustees over the year to 31 March 2024. The LGIM Absolute Return Bond Fund and LGIM LDI portfolio are expected to have no voting attached to the underlying assets and therefore these funds are not included in the tables below.

The voting data shown for LGIM has been taken from the unhedged version of the All World Equity Index Fund. However, as the hedged and unhedged versions invest in the same underlying holdings, the voting data will be the same for both funds.

| Manager | LGIM | Newton |
|---|---|---|
| **Fund name** | All World Equity Index Fund* | Newton Sustainable Real Return Fund |
| **Structure** | Pooled | Pooled |
| **Ability to influence voting behaviour of manager** | The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour | |
| **No. of eligible meetings** | 6,557 | 69 |
| **No. of eligible votes** | 64,058 | 1,101 |
| **% of resolutions voted** | >99% | >99% |
| **% of resolutions abstained**** | 1% | 0% |
| **% of resolutions voted with management**** | 79% | 92% |
| **% of resolutions voted against management**** | 20% | 8% |
| **% of resolutions voted against proxy voter recommendation** | 11% | 5% |

**The data shown applies to both the hedged and the unhedged share classes.*
***As a percentage of the resolutions on which the manager voted.*
*Source: information provided by the managers.*

LGIM's Investment Stewardship team uses the Institutional Shareholder Services' "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.

Newton utilises an independent voting service provider for the purposes of managing upcoming meetings and instructing voting decisions via its electronic platform, alongside providing research. Its voting recommendations of are not routinely followed; it is only in the event that Newton recognise a potential material conflict of interest that the recommendation of their external voting service provider will be applied.

### Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustees over the year to be set out. The guidance does not currently define what constitutes a “significant” vote. However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme’s stewardship priorities or themes.

As the Trustees have not set stewardship priorities for the Scheme (in line with the rationale set out above), the Trustees have asked the managers to determine what they believe to be a “significant vote”. The Trustees have not communicated voting preferences to their managers over the period, as the Trustees feel it is disproportionate to determine a specific voting policy for the Scheme at this time.

LGIM and Newton have provided a selection of votes which they believe to be significant. In the absence of agreed stewardship priorities or themes, and in the interest of concise reporting, the Trustees have opted to show three votes from each manager. To represent the most significant votes, the votes of the largest holdings from the selection of significant votes provided are shown below.

**LGIM, All World Equity Index Fund (both hedged and unhedged share classes)**

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | Microsoft Corporation | Apple Inc. | Amazon.com, Inc. |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 4.40% | 3.96% | 1.52% |
| **Summary of the resolution** | Elect director Satya Nadella | Report on risks of omitting viewpoint and ideological diversity from Equal Employment Opportunity (EEO) policy | Report on median and adjusted gender/racial pay gaps |
| **How the manager voted** | Against | Against | For |
| **Rationale for the voting decision** | LGIM expect companies to separate the roles of Chair and Chief Executive Officer (“CEO”) due to risk management and oversight concerns. | LGIM’s view is that the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies. LGIM do not view the inclusion of viewpoint and ideology in EEO policies to be standard industry practice. | LGIM expect companies to disclose meaningful information on their gender pay gaps and initiatives they are applying to close any stated gap. |
| **Outcome of the vote** | 94.4% of votes were for this resolution | Fail | Fail |
| **Implications of the outcome** | LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company (and market-level) progress. | | |
| **Criteria on which the vote is considered “significant”** | LGIM note this vote is an application of an escalation of their vote policy on the topic of the combination of the board Chair and CEO. | LGIM view diversity as a financially material issue. | LGIM pre-declared their vote intention for this resolution and view gender diversity as a financially material issue. |

*Source: LGIM.*

### Newton, Newton Sustainable Real Return Fund

| | Vote 1 | Vote 2 | Vote 3 |
|---|---|---|---|
| **Company name** | Shell Plc | Unilever Plc | Lockheed Martin Corporation |
| **Approximate size of fund's holding as at the date of the vote (as % of portfolio)** | 2.03% | 1.15% | 0.99% |
| **Summary of the resolution** | Request the existing 2030 reduction target covering the greenhouse gas emissions of the use of Shell's energy products (Scope 3) is aligned with the goal of the Paris climate agreement | Approve remuneration report | Report on efforts to reduce full value chain greenhouse gas emissions in alignment with Paris agreement goal |
| **How the manager voted** | Abstain | Against | For |
| **Rationale for the voting decision** | Newton believed a vote in favour could be considered as overstepping on management's prerogatives in strategy setting. | Significant pay increases had been granted to executives and, in Newton's view, there was an absence of compelling rationale for this action. | Newton believed that more information on the company's plans to transition towards a low carbon economy would help shareholders better assess climate risk. |
| **Outcome of the vote** | 80% of votes were against the resolution | 58% of votes were against the resolution | 33% of votes were for this resolution |
| **Implications of the outcome** | Newton felt dissent on the proposal showed concern from the shareholder base around the company's transition plan. | The company has reached out to shareholders and Newton have communicated their concerns and reasons for adverse vote recommendations. | Following the substantial support for the shareholder proposal, Newton expect the company to provide enhanced disclosures, especially around emission reduction goals. |
| **Criteria on which the vote is considered "significant"** | Newton believed abstaining on this resolution would convey to the company, in addition to their engagement, the need to add credibility to its transition planning. | The vote was deemed significant owing to the failure of the resolution as a result of significant shareholder dissent. | The vote was deemed significant owing to the rarity of a shareholder proposal receiving significant support. |

*Source: Newton.*

# Engagement

## Fund-level engagement summary

The managers may engage with investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken by each of the Scheme's managers during the year to 31 March 2024 for the relevant funds.

As the Trustees are of the view that there is little scope for the consideration of ESG issues (including engagement opportunities) within LDI portfolios, due to the nature of the underlying holdings, the Scheme's LDI holdings are not considered in the tables below.

| Manager | LGIM | LGIM | Newton |
|---|---|---|---|
| **Fund name** | All World Equity Index Fund* | Absolute Return Bond Fund | Newton Sustainable Real Return Fund |
| **Number of entities engaged on behalf of the holdings in this fund in the year** | 542 | 75 | 9 |
| **Number of engagements undertaken at a firm level in the year**** | 2,144 | 2,144 | 42 |

** The data shown applies to both the hedged and the unhedged share classes.*
***LGIM provide the total number of companies engaged with at a firm level on a quarterly basis. As such, it is not possible to discern whether a single company has been counted more than once within the above figures (e.g. this would be the case if the manager engaged with the same company in more than one quarter).*
*Source: information provided by the managers.*

## Examples of engagement activity undertaken over the year to 31 March 2024

The table below contains an example engagement activity for each manager over the year to 31 March 2024.

| Manager | Engagement example |
|---|---|
| **LGIM** | **This is a firm-level engagement as LGIM do not provide details of individual engagements at a fund-level.**<br><br>**Companies: Nestlé**<br><br>LGIM spoke directly to Nestlé to discuss the link between poor diets and chronic health conditions such as obesity, heart disease and diabetes. These conditions lead to increased healthcare costs and decreased productivity, which LGIM believe impact the economy and investors negatively.<br><br>In late 2022, LGIM cosigned individually tailored letters under the leadership of ShareAction's Healthy Markets Initiative, encouraging companies to do more in several areas, such as:<br><br>• Transparency around nutrition strategy.<br>• Demonstrating progress on nutrition strategy.<br>• Committing to disclosures on the proportion of the company's portfolio and sales associated with healthy food and drink products.<br>• Setting targets to increase the proportion of the sale of these healthy food and drink products.<br><br>Following the letter, LGIM met with Nestlé several times and, in September 2023, Nestlé announced a new nutrition target. LGIM believed this target was not ambitious enough, citing concerns around the products counted as "nutritious" versus government guidelines and the scope of the target versus Nestlé's own growth targets.<br><br>Reflecting their shared concerns with ShareAction, LGIM agreed in early 2024 to co-file a shareholder resolution at Nestlé's annual general meeting, calling on the company to: |

| Manager | Engagement example |
|---|---|
| | • Set key performance indicators regarding the absolute and proportional sales figures for food and beverage products according to their healthfulness, as defined by a government-endorsed Nutrient Profiling Model.<br><br>• Provide a timebound target to increase the proportion of sales derived from these healthier products.<br><br>LGIM will continue to monitor Nestlé's response and actions and will continue their engagement with them on this issue. |
| **Newton** | **Company: Goldman Sachs**<br><br>Newton have been engaging with Goldman Sachs for a number of years on its net zero plan, given the bank's considerable exposure to the fossil fuel industry.<br><br>In particular, Newton engaged with the bank post release of its 2023 Task Force on Climate-related Financial Disclosures report and describe the key takeaways as follows:<br><br>• The bank failed to provide any updates around its latest sectorial emission intensity numbers, citing concerns related to data lags from vendors.<br><br>• In terms of setting sectoral targets, the bank was lagging its peers in the industry.<br><br>• The bank was complying with various ESG regulatory requirements but still lacked in disclosing a comprehensive client transition framework.<br><br>Newton found the updates from the bank to be below par and that the bank was lagging best industry practices in terms of activities that Newton deem crucial for a proper climate transition.<br><br>Newton noted they would monitor the Goldman Sach's upcoming sustainability report and agreed to engage again if the bank provided any material updates, especially around their client transition framework. Alternatively, they also agreed to engage with the bank if they disclosed additional sectoral targets. |

*Source: information provided by the managers.*