

# Advice on the annual Implementation Statement

## JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme

6 August 2024

*This note has been prepared for the Trustees of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme (the “Scheme”) in response to your request that we provide a draft Implementation Statement (“IS”) for the Scheme.*

### Background and introduction

There is a requirement for most trust-based defined benefit (“DB”) and defined contribution (“DC”) pension Schemes to produce an IS which covers the report and accounts year (which is the 12 months to 31 March for the Scheme).

The Department for Work and Pensions (“DWP”) issued [Statutory Guidance](#) in June 2022 which applies to any IS that trustees are required to prepare in respect of pension scheme year ends on or after 1 October 2022. The guidance gives an overview of the items which Trustees “must”, “should”, are “encouraged”, “could” or “may” include in their IS.

“Must” items are requirements imposed by legislation. “Should” items are expected to be followed, and if not followed, trustees should describe concisely the reasons for deviating from the guidance approach. For “Could”, “May” and “Encouraged” items, it is hoped that trustees will address them where possible but they are not expected to explain reasons if not followed. We have included all “must” and “should” items and some “could” items.

The guidance states that the Pensions Regulator is the primary audience for the IS, but it should be written in plain English as far as possible so that members could reasonably interpret and understand the disclosures. Trustees are encouraged to consider producing member-facing summary versions of the IS

(with signposting to the full IS). Please let us know if you would like us to prepare a “member friendly” summary version of the IS.

The DWP has stated that it is important that trustees understand and consider financially material Environmental, Social and Governance (“ESG”) factors and stewardship approaches in their investment decisions.

For DB Schemes without a DC section (such as your Scheme), the IS should set out how, and the extent to which, the Trustees has followed the **voting and engagement policies** in the Statement of Investment Principles (“SIP”) during the Scheme Year. In addition, Trustees should seek to demonstrate they have had regard to the Statutory Guidance.

The Statement is also required to include a description of the voting behaviour by, or on behalf of, Trustees (including the most significant votes cast by trustees or on their behalf) during the Scheme Year and state any use of the services of a proxy voter during that year.

The DWP’s guidance states: “*where Trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager’s voting behaviour was aligned with the Scheme’s stewardship priorities*”.

### Key points

We have produced the draft IS in this note based on our understanding of the regulatory requirements and the DWP’s stewardship guidance. Ultimately it is the Trustees’ responsibility to produce a compliant IS and the Pensions Regulator can impose fines for non-compliance. Therefore, you may wish to obtain legal advice to ensure that all requirements have been met.

There is interest in the IS from the Pensions Regulator, policymakers, and the media; as such please ensure you are comfortable with the content being in the public domain. In the section of the Statement on voting behaviour, we have included data on the Scheme’s investments that hold equities (ie the BNY Mellon Real Return Fund, managed by Newton). We have requested Newton provide its choice of the “most significant votes” for inclusion in the Statement, although we recommend that all managers follow PLSA’s guidance when providing the most significant votes.

## Next steps

We propose that you review the IS and include it within your Report & Accounts ending 31 March 2024. The Report & Accounts need to be finalised within seven months of the end of the Scheme Year, ie by 31 October 2024.

Should you wish to maintain consistency with industry practice, a copy of the Statement once finalised should be uploaded to a website for public access (we expect you will use the website which hosts the SIP and last year's Statement). We also suggest you include a web address to the published materials in members' Annual Benefit Statements.

Please let us know if you have any questions or would like to discuss.

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# *Implementation Statement, covering the Scheme Year from 1 April 2023 to 31 March 2024 (the “Scheme Year”)*

The Trustees of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustees have followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 *below*.

In preparing the Statement, the Trustees have had regard to the [guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions \(“DWP’s guidance”\) in June 2022](#).

## **1. Introduction**

The voting and engagement policies in the SIP were reviewed and updated during the Scheme Year in November 2023. The main changes were to reflect:

- DWP’s new guidance on Reporting on Stewardship and Other Topics;
- the appointment of BlackRock’s Sustainable Sterling Short Duration Credit mandate, replacing the previous L&G Corporate Bond mandate; and
- the appointment of the L&G Matching Core Liability Driven Investment (“LDI”) funds and a supporting Sterling Liquidity Fund.

As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustees have, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year, by continuing to delegate to their investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

## **2. Voting and engagement**

The Trustees have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

At the Trustees’ regular meetings, LCP informs the Trustees of any developments in relation to the Scheme’s investment managers, including any developments relating to voting and engagement.

The Trustees have agreed a set of stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. These priorities are Climate Change, Human Rights and Business Ethics. The Trustees communicated these priorities to its managers in May 2023.

When the investment managers present at Trustee meetings, the Trustees ask questions about the managers’ voting and engagement practices. Where available, the Trustees also review reports from their managers on voting and engagement activities undertaken on their behalf. As part of the appointment of the new managers over the Scheme year, the Trustees considered the managers’ responsible investment policies, including voting and engagement.

The Trustees are conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustees aim to have an ongoing dialogue with managers to clarify expectations and encourage improvements over time.

### 3. Description of voting behaviour during the Scheme Year

All of the Trustees' holdings in listed equities are held within Newton's pooled diversified growth fund (the BNY Mellon Real Return Fund, which is managed by Newton), and the Trustees have delegated to Newton the exercise of voting rights. Therefore, the Trustees are not able to direct how votes are exercised and the Trustees themselves have not used proxy voting services over the Scheme Year. However, the Trustees monitor managers' voting and engagement behaviour on a regular basis and challenges managers where their activity has not been in line with the Trustees' expectations.

#### 3.1 Description of Newton's voting processes

Newton is the investment manager for the BNY Mellon Real Return Fund.

As an active manager, Newton is keen to ensure that the decisions surrounding the exercise of ownership rights are aligned with its investment thesis as well as with its clients' expectations.

Stewardship activities are fundamental to the investment solutions Newton provides to its clients. Newton believes the value of its clients' portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Newton considers the activities to be an integral and important part of its investment process. For this reason, Newton prefers to retain discretion in relation to exercising its clients' voting rights and have established policies and procedures to ensure the exercise of global voting rights. Newton's approach has been designed as an investment-led approach that is aligned with Newton's wider investment activities. Newton's long-term approach to investing aligns well with its stewardship intentions by seeking to understand and influence the long-term sustainability of the investments and investment landscape and, ultimately, the long-term investment requirements for which their clients are seeking solutions and which are a key reason why they entrust Newton to manage their assets.

Identifying its clients' requirements and expectations is achieved at the outset of their relationship by way of initial discussions and formal provisions within investment management agreements. Regular meetings and ad-hoc requests from clients and their advisors provide them with additional insights. In addition, Newton often delivers presentations and training to clients on a variety of aspects of stewardship, which it believes helps support their expectations of their investment managers and also helps it to evolve its own position in relation to stewardship matters.

Newton 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. Its voting recommendations are not routinely followed; it is only in the event that Newton recognises a potential material conflict of interest (as described below) that the recommendation of its external voting service provider will be applied.

Newton's external voting provider is subject to the requirements set by Newton's Vendor Management Oversight Group. As such, regular due diligence meetings are held and minutes maintained with this provider, which includes reviewing its operational performance, service quality, robustness of research and its internal controls, including management of its potential material conflicts of interest. In addition, and along with its other clients, Newton participates in consultations that seek specific feedback on proxy voting matters. This helps ensure alignment of interest between Newton's expectations and the voting recommendations provided by the external provider.

Newton's significant holdings universe is determined based on the proportion of a shares of investee companies held, as well as the size of the investment based on its value above certain thresholds. The significant votes will be drawn from this universe and are defined as votes that are likely to generate significant scrutiny from end clients or other stakeholders. They may relate to resolutions that receive a particularly high proportion of dissent from investors or involve a corporate transaction or resolutions raised by shareholders.

### 3.2 Summary of voting behaviour

A summary of voting behaviour over the Scheme Year is provided in the table below.

	BNY Mellon Real Return Fund
Total size of fund at end of reporting period	£2,944m
Value of Scheme assets at end of reporting period	£5.7m
Number of holdings at end of reporting period	65
Number of meetings eligible to vote	69
Number of resolutions eligible to vote	1,101
% of resolutions voted	99.3%
Of the resolutions on which voted, % voted with management	92.0%
Of the resolutions on which voted, % voted against management	7.8%
Of the resolutions on which voted, % abstained from voting	0%
Of the meetings in which the manager voted, % with at least one vote against management	46.0%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	4.9%

### 3.3 Most significant votes

Commentary on the most significant votes over the Scheme Year, from the Scheme's asset managers who held listed equities over the period, is set out below.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustees did not identify significant voting ahead of the reporting period. Instead, the Trustees have retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria for creating this shortlist.

The Trustees have interpreted "significant votes" to mean those that either:

- align with the Trustees' stewardship priorities;
- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- the subject of the resolution aligns with the investment manager's engagement priorities or key themes; or
- the Scheme or the sponsoring company may have a particular interest in.

The Trustees have reported on two of these significant votes only as the most significant votes. If members wish to obtain more investment manager voting information, this is available upon request from the Trustees.

#### BNY Mellon Real Return Fund

##### NextEra Energy, Inc, 18 May 2023

- **Vote cast:** For resolution, **Outcome of the vote:** Did not pass
- **Relevant stewardship priority:** Business Ethics
- **Management recommendation:** Against resolution
- **Summary of resolution:** Disclose board skills and diversity matrix

- **Rationale for the voting decision:** Newton supported the shareholder proposal requesting the disclosure of a board skills and diversity matrix as they believed it would help shareholders to assess how the company is managing related risks.
- **Approximate size of the Scheme's/ mandate's holding at the date of the vote:** 0.5%
- **The reason the Trustee considered this vote to be "most significant":** This vote aligns with one of the Trustees' stewardship priorities and it is rare for a shareholder proposal to achieve majority support.
- **Was the vote communicated to the company ahead of the vote:** No.
- **Next steps:** The high level of support shows that the issue is significant to shareholders and Newton would expect the company to consider that a significant shareholder base would want to see the implementation of a board skill matrix. Newton will continue to monitor the company.

#### Lockheed Martin Corporation, 27 April 2023

- **Vote cast:** For resolution, **Outcome of the vote:** Did not pass
- **Relevant stewardship priority:** Climate Change
- **Management recommendation:** Against resolution
- **Summary of resolution:** Report on efforts to reduce full value chain GHG emissions in alignment with Paris agreement goal
- **Rationale for the voting decision:** Newton supported a shareholder proposal asking for a report on efforts to reduce full value chain GHG emissions in alignment with Paris Agreement as in their view, more information on the company's plans to transition towards a low carbon economy would help shareholders better assess this risk.
- **Approximate size of the Scheme's/ mandate's holding at the date of the vote:** 1.0%
- **The reason the Trustee considered this vote to be "most significant":** This vote aligns with one of the Trustees' stewardship priorities.
- **Was the vote communicated to the company ahead of the vote:** No.
- **Next steps:** The support received for the shareholder proposal is substantial and must be accounted for. Newton would expect the company to provide enhanced disclosures especially around setting timelines to implement a scope 3 emission reduction goal and finding efficiencies in processes. Newton will continue to monitor the company.