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HBG UK Pension Plan (‘Plan’)

31 December 2023 Implementation Statement

July 2024

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the HBG UK Pension Plan (the '**Plan**') in relation to the Plan's Statement of Investment Principles (the "**SIP**").

The SIP was reviewed over the year ending 31 December 2023, but the Trustee concluded no changes were required. The in-force SIP was adopted in September 2022.

A copy of the current SIP signed and dated September 2022 can be found here :
https://www.bam.co.uk/docs/default-source/policies/hbg-uk-pension-plan-statement-of-investment-principles.pdf

This Implementation Statement covers the period from 1 January 2023 to 31 December 2023 (the "Plan Year"). It sets out:

- How the Trustee's policies on stewardship have been followed over the Plan Year; and
- The voting by or on behalf of the Trustee during the Plan Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

The latest guidance ("the **Guidance**") from the Department for Work and Pensions ("**DWP**") aims to encourage the Trustee of the Plan to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Plan, with the help of the Plan's Investment Adviser, has complied with the new statutory requirement set by DWP.

The Trustee remains responsible for the investment of the Plan assets. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned. The Trustee also sets the investment strategy and general investment policy but has delegated the day-to-day investment of the Plan's assets, within pre-defined constraints to professional Investment Managers. The Trustee, with advice from their advisers, appoints and monitors the Plan's Investment Managers. A copy of this Implementation Statement is available on the following website:

https://www.bam.co.uk/docs/default-source/policies/hbguk-pension-plan---investement-implementation-statement.pdf

2. How the Trustee's policies on stewardship have been followed over the Plan Year

The Plan's SIP sets out the Trustee's policies on stewardship which includes both voting and engagement. The Plan invests in assets with voting rights attached. However, these investments are generally made via pooled investment funds with the Investment Managers where the Plan's investments are pooled with other investors. Direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is generally delegated to those underlying Investment Managers.

Following the new DWP Guidance, the Trustee of the Plan received training on the Investment Advisor's ("Schroders")' Engagement Blueprint which sets out the six engagement themes the Plan's Investment Advisor believe to be most financially material. Over the year, the Trustee has agreed key engagement and stewardship priorities as **Climate Change, Human Capital Management** and **Corporate Governance.** The Trustee believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Plan. These issues also reflect expectations and trends across a range of stakeholders and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately will maximise the value addition to the Plan's investment hence benefit the Plan's members and beneficiaries. As a result, the Trustee consider the most significant votes should be defined as the votes in relation to the engagement priorities.

Although the Trustee has yet to make changes to their voting and engagement policies contained in the SIP during the Plan Year, it will update them in the new Plan year to set out the agreed engagement priorities and how the Trustee will exercise their stewardship policy.

The Trustee acknowledges that the Trustee board owns and is responsible for setting its voting and engagement policies. However, due to the nature of the investment, voting and engagements decisions were generally carried out by the Investment Manager according to their stewardship policy. The Trustee routinely monitors their voting and engagement activity with respect to the Plan's Stewardship and Engagement policy.

As part of the ongoing monitoring, with the help of Investment Advisor, the Trustee reviewed ESG characteristics of the Plan's investments within the Investment Fund portfolios and Buy and Maintain Credit portfolio at June 2023 Trustee meeting. In addition, the Trustee reviewed the voting and engagement records by the Investment Managers. The review provided the Trustee an opportunity to consider if the investment managers have approached ESG and stewardship on behalf of the Trustee in line with the expectations; and if not, what action the Trustee might wish to take. As part of the review, The Trustee concluded that it continued to be satisfied with its Investment Managers voting and engagement behaviour and has therefore not sought to set its own voting policy. Although the Trustee does not intend to change its position at this time, it will continue to monitor the Investment Managers voting and engagement records on an ongoing basis.

The Trustee is satisfied that the expectations outlined in the SIP have been met. During the Plan year the Trustee has carried out the following activity in relation to the stewardship policy:

- The Trustee reviewed the ESG action plan and characteristics of the Plan's holdings in the Investment Fund and Buy and Maintain Credit portfolios at the June 2023 Trustee Meeting. The Trustee was satisfied with the outcomes of this review.
- At the same meeting, the Trustee reviewed its engagement and stewardship priorities. The Trustee considered six engagement themes of its Investment Advisor, further informed by a Trustee ESG Beliefs Survey, to agree its priorities as Climate Change, Human Capital Management and Corporate Governance.

- As part of the engagement with the Investment Managers, the Trustee invited BlackRock and Columbia Threadneedle Investments (CTI) to discuss about the managers' ESG integration within investment process and managers' approach to engagement with the underlying investments and related stakeholders at the September 2023 Trustee meeting. Following this, the Trustee requested further engagement examples from BlackRock and reviewed the LDI counterparty engagement objectives of CTI.
- On behalf of the Trustee, monitoring of the Investment Managers' ESG and stewardship policy was carried out through regular investment and operational due diligence reviews and meetings by the Trustee's Investment Adviser with any important updates communicated to the Trustee over the Plan Year.
- The Trustee with the help of their Investment Adviser, monitored the performance of the Investment Managers against their agreed performance objectives at each of the quarterly Trustee meetings during the Plan Year.
- The Trustee reviewed the regulatory developments with regards to ESG and climate change disclosures and received relevant trainings.
- The Trustee has reviewed the voting and engagement activity carried out by its Investment Managers during the Plan Year; a summary is provided in the next section. Particularly, the Trustee requested and reviewed the voting outcomes carried out by BlackRock.

Considering the voting statistics and behaviour set out in this Implementation Statement, along with the engagement activity (detailed in later section) that took place on the Trustee's behalf during the Plan Year within the Investment Fund, Cashflow Matching Credit Portfolio and the Matching Fund, the Trustee is of the view that the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- Each manager demonstrated high levels of voting rights being acted on, where voting is relevant.
- Where the holdings did not have voting rights attached, the Underlying Investment Managers showed they carried out a good level of engagement activity with the underlying companies over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.

Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.

3. Voting During the Scheme Year

This statement includes information on the underlying investment managers investing in securities. Where proxy voting agents have been used, this has been included in the voting information. We have included the mandates which are considered as material investments (i.e. weight of the investment is over 5% of the total portfolio) and hold assets that hold voting rights (e.g. equities).

Summary of voting activity (31 December 2023)

	BlackRock – Dynamic Diversified Growth Fund
Asset allocation	£27.9m (10.7% of Assets)
Voting Statistics	
Total meetings eligible to vote	575
Total resolutions eligible to vote	7,491
% of resolutions did you vote on for which you were eligible?	93%
% did vote with management?	94%
% vote against management?	5%
% abstained	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

Source: All data in this section has been provided by BlackRock. Note: asset allocation as at 31 December 2023

Note:

- BlackRock use Institutional Shareholder Services, “ISS”, for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Plan holds.
- 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 different ways, or a vote of “Abstain” is also considered a vote against management.

Trustee’s conclusions on voting and engagement

The Trustee has considered the voting behaviour along with engagement activities that took place on their behalf during the Plan Year within their investment portfolio and is pleased to report that the Investment Managers have demonstrated high levels of voting activity where relevant, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustee noted that:

- The Plan’s Dynamic Asset Allocation mandate manager, BlackRock, demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Investment manager showed they carried out a good level of engagement activities over the Plan Year.

- Challenge to management was demonstrated through votes against management (5%).

The Trustee is satisfied that the voting and engagement activities undertaken by the Underlying Investment Managers align with the stewardship priorities the Trustee has determined during the Plan Year, hence the Trustee believe it has satisfactorily implemented the Stewardship Policy stated in the Plan’s SIP.

Appendix 1 – ESG, Voting and Engagement Policies

Links to the voting and responsible investment policies for both the Fiduciary Manager and Underlying Investment Managers of the Scheme's actively managed holdings can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
BlackRock	2023 Investment Stewardship Voting Spotlight (blackrock.com)
AllianceBernstein	https://www.alliancebernstein.com/abcom/Our_Firm/Content/CGDocs/2017-AB-engagement-policy-FINAL.pdf ABGlobalStewardship.pdf (alliancebernstein.com)
Insight	https://www.insightinvestment.com/investing-responsibly/ uk-eu-responsible-stewardship-at-insight-2024-report.pdf (insightinvestment.com)proxy-voting-policy-2024.pdf (insightinvestment.com)

Appendix 2 – Examples of most significant votes and engagement carried out by the underlying managers

Engagement Theme	Manager	Examples
Climate Change	Insight Investment	Mercedes Benz Group
Natural Capital & Biodiversity	Alliance Bernstein	Galápagos Marine Conservation Linked Bonds
Human Rights	Insight Investment	Mercedes Benz Group
Corporate Governance	BlackRock	Broadcom Inc
Climate Change	CTI	HSBC

Insight Investment

Mercedes Benz Group

Rationale

The Mercedes Benz Group (MBG) is a German multinational automotive corporation headquartered in Stuttgart, Germany.

The issuer was a focus for engagement as it accounts for a large proportion of Insight's financed emissions, which are being assessed as part of Insight's net zero target. Mercedes Benz is the 4th largest contributor to Insight portfolio's Weighted Average Carbon Intensity (WACI).

Action/Engagement

Insight discussed MBG's transition plan, Ambition 2039, that aims to make its entire fleet of new vehicles net carbon neutral over a vehicle's entire life cycle by 2039 and its aim to at least halve CO2 emissions per passenger car over the lifecycle by electrifying the vehicle fleet, among other initiatives. MBG revealed Transform to Net Zero was used as a framework for its transition plan.

Insight engaged on the company's Science Based Targets to reduce absolute Scope 1 and 2 GHG emissions 50% by 2030 from a 2018 base year and its commitment to reduce Scope 3 GHG emissions from use of sold products 42% per vehicle km by 2030 from a 2018 base year. Insight indicated that the target could be more ambitious given current emissions trajectory that MBG is on.

On its TCFD disclosures, MBG revealed it is iteratively evolving its disclosures and trying to determine the extent to which it can provide transparency. MBG revealed climate risks are more long term and are integrated into the enterprise risk management framework in a 5-year time horizon, on a qualitative basis. MBG revealed it has applied scenario analysis with three different warming pathways. They have not impacted Ambition 2039 as it feels its current targets are ambitious enough to meet more stringent scenarios.

In March 2020, a report from the Australian Strategic Policy Institute reported that a MBG subsidiary's supplier Highbroad Advanced Material (Hefei) Co., Ltd, allegedly employed workers as part of the Chinese government's labour transfer programmes. MBG revealed its human rights monitoring of its supply chain focuses on 24 materials and components which are at higher risk of using forced labour. Accessing Chinese supply chains remains challenging due to language and differences regarding transparency. External audits of its supply chain do not cover MBG's Chinese operations given "MBG is not a direct supplier in China". In addition, the issuer indicated establishing which entities are in its direct supply chain and what they supply is a difficult process. The supply chain is followed up to the mine or the originating external supplier but traceability remains an issue.

Outcome/Next Steps

MBG's Ambition 2039 is a strong strategy with robust targets. From a climate perspective, although it appears that MBG is managing its transition risk through its Ambition 2039 strategy, this is not reflected in the company's TCFD reporting. Risks are described in a very basic way and the output of scenario analysis has not been converted into financial impacts.

Likewise, while Insight thinks that although the issuer has a strong strategy to transition from ICE to EV, its reporting is poor. Its ESG reports are very lengthy and lack clear KPIs to demonstrate progress in elements of the strategy beyond GHG emissions.

Insight recommended the issuer provide clearer disclosures in several areas, including scenario analysis, its TCFD report should explain how scenarios are used in decision making and the estimated financial impact on the business of different risks across different time horizons.

From supply chain and human rights perspective, controversies have the potential to negatively impact MBG's ESG scores, particularly its indirect exposure to forced labour controversies. Similar controversies led to downgrades of a competitor, leading to its exclusions from Article 8 and 9 products. This risk therefore requires close monitoring.

Alliance Bernstein

Galápagos Marine Conservation Linked Bonds

Rationale

The Galápagos Marine Conservation Linked Bonds (GPSBLU) are a product of a Debt-For-Nature Bond Deal. It is a special purpose vehicle, which lends to the Republic of Ecuador to facilitate debt reduction and increased investment in offshore biodiversity conservation. The GPSBLU is intended to finance a debt conversion for the Republic of Ecuador exchanging US$1,628 million of Ecuador's international bonds (repurchased substantially below face value) for a US$656 million loan. The bond structure is protected by the US International Development Finance Corporation, a US government department, and the Inter-American Development Bank, leading to its AA credit rating (which is many notches above the Republic of Ecuador's credit rating). The debt conversion will generate funding for marine conservation in the Galápagos Islands over the next 18.5 years. Further, marine conservation efforts can strengthen the county's tourism industry, while allowing for the fishing industry to remain viable over the long term.

Action/Engagement

In May 2023, Alliance Bernstein engaged the issuer to diligence the bond and economic benefits of the transaction. The Manager determined that the economic benefits of the transaction were material. The Republic of Ecuador was able to decrease its debt servicing by over US$1 billion along with generating more than US$450 million for marine conservation (~70% increase over current levels).

Outcome/Next Steps

Alliance Bernstein concluded that the bond structure is well developed, showing the commitment of many stakeholders (bondholders, Republic of Ecuador, US Government, Inter-American Development Bank and Pew Bertarelli Ocean NGO) and was attractive to many investors. The Manager was able to source these bonds at a spread of around 200 basis points, a material pick-up over similarly rated corporate bonds.

BlackRock

Broadcom Inc

Rationale

Broadcom, Inc. ("Broadcom") is a designer, developer, manufacturer, and global supplier of a wide range of semiconductor and infrastructure software products.

BlackRock's previous engagements with Broadcom have focused on corporate governance issues such as executive compensation, succession planning, and sustainability-related disclosures. Ahead of the April 2023 AGM, BlackRock Investment Stewardship ("BIS") team engaged with members of Broadcom's board of directors. During their engagement, BIS discussed the company's one-off grant to the CEO, the broader-based stock incentive plan, and the board's approach to succession planning.

Action/Engagement

BIS has engaged the company on their executive compensation practices over the past several years to understand how pay outcomes aligned with strategy and incentivized long-term financial performance. In recent engagement, it raised concerns about the company's long-term incentive plan, the multi-year use of one-off awards, and the lack of a clawback policy. It also discussed the board's approach to succession planning.

BIS noted Broadcom's strong performance, which over last five fiscal years ending 10/31/22, exceeded that of the S&P 500 by an average of more than 5.5% per year. In addition, they welcomed the company's announced intention to introduce a clawback policy in the near term.

BIS chief concern was a special equity award granted in financial year 2022. According to the company's proxy, the 2022 special award, which had a target value of $10 million, was "designed to reward significant achievement tied to our specific strategic priorities in Fiscal Year 2022 that went beyond the standard day-to-day operations responsibilities and were critical in a year when there were expectations of a possible realignment in the global markets and increased macroeconomic uncertainties." However, the proxy did not disclose specific performance criteria for the award to provide stakeholders with sufficient information to understand how compensation policies are aligned with corporate strategy and financial value creation. The duration of the performance period for this award was one year, and in the proxy, the company disclosed that "the independent directors determined that Mr. Tan satisfied all of the pre-established metrics and milestones and earned the shares under the FY 2022 Strategic PSU Award."

In engagement, BIS learned that one of these priorities was facilitating CEO succession planning. However, the company did not provide sufficient justification as to why this priority was not in scope of a CEO's standard responsibilities, which BIS considers executive talent development to be. BIS does recognize the company's elevated risk in relation to succession planning, which was underscored when an apparent potential successor left to become CEO of another company last summer. BIS explained their interest in understanding, from future disclosures, how the board is ensuring they have an effective approach to succession planning.

Outcome/Next Steps

In summary, BlackRock remained concerned about the disproportionate focus on short-term goals and the insufficient transparency in relation to compensation. As a result, BIS determined not to support the say on pay proposal and the election of the members of the Compensation Committee as they did not consider them to be aligned with the interests of long-term shareholders.

CTI

HSBC

Rationale

Due to the nature of the underlying assets (Gilts), CTI focuses its engagement activities with counterparty banks it trades with as part of the Plan's LDI portfolio management activities. HSBC is a global bank with wide reaching impact on global economy.

Action/Engagement

As part of the ongoing engagement with HSBC, CTI team had a Call with Group Chief Sustainability Officer to discuss the banks' new energy policy including their focus on client engagement and real world emissions reductions.

Outcome/Next Steps

In recent period, HSBC updated its Energy Policy to provide No new funding or advisory services for ultra deep

water Oil & Gas, shale oil and extra heavy oil projects and projects in environmentally and socially critical areas or infrastructure primarily related to the above.