

Implementation Statement

Institution of Mechanical Engineers Staff Pension and Life Assurance Scheme

Purpose of this statement

This implementation statement has been produced by the Trustees of the Institution of Mechanical Engineers Staff Pension and Life Assurance Scheme (“the Scheme”) to set out the following information over the year to 31 December 2023:

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

Stewardship policy

At this time, the Trustees have not set stewardship priorities / themes for the Scheme but will be considering the extent that they wish to do this in due course, in line with other Scheme risks.

How voting and engagement policies have been followed

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

- The Scheme invests entirely in pooled funds, and as such delegates responsibility for carrying out voting and engagement activities to the Scheme’s fund managers.
- The Trustees undertook an initial review of the stewardship and engagement activities of Legal & General and Insight in the August 2019 meeting, and were satisfied that their policies were reasonable and no remedial action was required at that time.
- The Trustees receive and review voting information and engagement policies from the asset managers from time to time, and ask the managers to give updates on these policies as part of their regular presentations to the Trustees.
- The Trustees also receive an annual ESG monitoring report from their investment advisors in order to demonstrate compliance with their voting and engagement policies.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustees use ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues.
- Having reviewed the above in accordance with their policies, the Trustees are comfortable the actions of the fund managers are in alignment with the Scheme’s stewardship policies.

Voting Data

This section provides a summary of the voting activity undertaken by the investment managers within the Scheme's growth portfolio on behalf of the Trustees over the year to 31 December 2023. The cash, gilts, Asset-Backed Securities ("ABS") and Liability Driven Investment ("LDI") holdings held with Insight have no voting rights and limited ability to engage with key stakeholders given the nature of the mandate, therefore they are not shown.

Manager	LGIM
Fund name	Future World Global Equity Index Fund (hedged and unhedged)
Structure	Pooled
Ability to influence voting behaviour of manager	Limited*
Number of company meetings the manager was eligible to vote at over the year	5,080
Number of resolutions the manager was eligible to vote on over the year	52,639
Percentage of resolutions the manager voted on (or abstained)	99.92%
Percentage of resolutions that the manager abstained from, as a percentage of the total number of resolutions voted on	0.36%
Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on	80.32%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	19.32%
Percentage of resolutions voted contrary to the recommendation of the proxy advisor	10.98%

*The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.

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 / themes. At this time, the Trustees have not set stewardship priorities / themes for the Scheme, but will be considering the extent that they wish to do this in due course, in line with other Scheme risks. So, for this Implementation Statement, the Trustees have asked the investment managers to determine what they believe to be a "significant vote". The Trustees have not communicated voting preferences to their investment managers over the period, as the Trustees are yet to develop a specific voting policy. In future, the Trustees will consider the most significant votes in conjunction with any agreed stewardship priorities / themes.

LGIM have provided a selection of 804 votes which they believe to be significant. In the absence of agreed stewardship priorities / themes, the Trustees have selected 3 votes that cover a range of themes to represent what they consider the most significant votes cast on behalf of the Scheme. To represent the most significant votes, the votes of the largest holdings relating to each topic are shown below.

LGIM, Future World Global Equity Index Fund (hedged and unhedged)

	Vote 1	Vote 2	Vote 3
Company name	Mastercard Incorporated	AbbVie Inc.	Broadcom Inc.
Date of vote	2023-06-27	2023-05-05	2023-04-03
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.64	0.54	0.50
Summary of the resolution	Resolution 1a - Elect Director Merit E. Janow	Resolution 5 - Adopt Simple Majority Vote	Resolution 1g - Elect Director Henry Samueli
How the manager voted	For	For	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.		
Rationale for the voting decision	Governance concerns: A vote in favour was applied as no significant concerns were highlighted. While LGIM note the dual-class share structure with A and B shares outstanding, Mastercard confirmed that the legacy B shares do not confer any rights and therefore do not negatively affect the rights attached to the commonly traded A shares.	Shareholder rights: A vote in favour was applied as reducing the supermajority vote requirement would improve minority shareholder rights.	Climate Impact Pledge: A vote against was applied as the company was deemed to not meet minimum standards with regard to climate risk management.

	Vote 1	Vote 2	Vote 3
Outcome of the vote	98.1% support	53.2% support	97.8% support
Criteria on which the vote is considered "significant"	LGIM consider this vote significant due to the focus on the thematic area of engagement on investor rights.	LGIM consider this resolution significant due to the relatively high level of support received.	LGIM considered this vote to be significant as it is applied under the Climate Impact Pledge, their flagship engagement programme targeting companies in climate-critical sectors.

Fund level engagement

The investment managers may engage with investee companies on behalf of the Trustees. The table below provides a summary of the engagement activities undertaken by each manager during the year for the relevant funds.

Engagement activities are limited for the Scheme's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

Manager	LGIM	Insight
Relevant fund(s)	Future World Global Equity Index Fund	Insight Global ABS Fund
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes
Number of engagements undertaken at a firm level in the year	1,730	2,486

Examples of engagement activity undertaken over the year to 31 December 2023

LGIM¹

Amazon

Amazon received another host of shareholder proposals in their 2023 AGM, covering a cross-section of ESG issues, although social issues continued to dominate. Given the size and influence of the company, and continued interest from stakeholders, LGIM again pre-declared their voting intentions for some of the proposals based on climate change strategy, climate lobbying and efforts to reduce plastic waste.

One of LGIM's Investment Stewardship team took a tour of the OXR1 Amazon Fulfilment Center in California. This center is a newer 'ninth' generation, which features extensive use of robotics and is earmarked for future innovation in handling tremendous volumes of order processing. LGIM made a few favourable observations from a human capital management perspective: there appeared to be a sense of order, calm and cleanliness given the sheer volume of packages handled at the facility; robot/ human interactions have been optimised to create highly efficient exchanges; and there was a commitment to radical transparency of feedback with a public display of all member comments.

LGIM's understanding is that after many years of a more secretive culture, across the world Amazon is beginning to open its doors to the community to encourage an understanding of what they do. LGIM view this as a positive step, and will continue to engage with the company.

¹ Case studies shown for illustrative purposes only. Reference to a particular security is on a historical basis and does not mean that the security is currently held or will be held within an LGIM portfolio.

Decarbonisation

In the fourth quarter of 2023, LGIM continued its Climate Impact Pledge with portfolio companies. LGIM selected approximately 100 'dial-mover' companies for in-depth engagement, using their qualitative framework set out in their sector-specific guides.

One notable example of such engagement was one of LGIM's 'dial mover' companies announced a net-zero emissions commitment with interim targets and a published decarbonisation plan. Nucor is the largest steel producer in the US and among the top 20 in the world; steel is pivotal to the energy transition, being central to the auto industry and renewable energy infrastructure.

In line with LGIM's policy, the company plans to implement sanctions against company executives that fail to meet its minimum expectations of having emission reduction targets.

Insight

Thermal coal

Insight, in response to the International Energy Agency's findings, recognised the significant role of thermal coal in climate change and committed to phasing it out by 2030 in developed markets and by 2040 in emerging markets. Through an Environmental, Social, and Governance (ESG) research and engagement program, Insight evaluated investments based on thresholds related to coal-related activities. This evaluation identified issuers, primarily electric utilities in developed markets, with exposure to thermal coal. Of these, 51% met expectations for risk management, but it was observed that long-term credit risks associated with thermal coal were not adequately priced into securities.

Engagement efforts targeted issuers requiring action, with over 50% engaged by Q2 2023 and a goal to engage all by the end of 2023. While many issuers responded positively, some showed limited responsiveness. Engagements primarily focused on gathering information and discussing transition plans to manage coal-related activities' risks. Notably, 40% of engaged issuers were in the constructive dialogue escalation phase, indicating ongoing interaction.

Concerns regarding coal activities or unresponsiveness prompted Insight to escalate engagements with six issuers. These cases will be periodically reviewed by the Ratings and Exclusions Group to determine necessary investment actions, including potential exclusions or sales. Through these engagements, Insight demonstrated a commitment to responsible stewardship of client capital, aligning investment policies with systemic risks such as climate change, and actively promoting the transition away from thermal coal.