

# Aalberts Surface Technologies Heat Limited Group Pension Scheme

## Implementation Statement for the year ended 31 December 2022

### Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustees of the Aalberts Surface Technologies Heat Limited Group Pension Scheme (“the Scheme”) have followed their policy in relation to the exercising of rights (including voting rights) attached to the Scheme’s investments, and engagement activities during the year ended 31<sup>st</sup> December 2022 (“the reporting year”). In addition, the statement provides a summary of the voting behavior and most significant votes cast during the reporting year

### The Trustees’ updated policy under the Statement of Investment Principles (SIP)

The Trustees have incorporated their expectations on Environmental, Social, and Corporate Governance (ESG) and climate change into the selection process for each Investment Manager to ensure that it understands the extent to which ESG is incorporated into the Manager’s investment philosophy and process.

There is no specific ethical steer and the Trustees do not wish to adopt an exclusionary policy. However, the Trustees require their Investment Managers to have integrated ESG factors as part of their investment analysis and decision-making process.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

### Manager selection exercises

The Trustees have delegated responsibility with regard, to the extent to which social, environmental, or ethical considerations and climate related risks are considered in the selection, retention, and realization of investments to the discretion of the appointed investment managers. These matters are kept under review by the Trustees in consultation with their investment consultant and investment managers.

The Trustees seek advice from their advisors on the extent to which their views on ESG and climate change risks may be considered in any future investment manager selection exercises.

During the reporting year, there have been no such manager selection exercises.

### Ongoing governance

The Trustees, with the assistance of XPS, monitor the processes and operational behavior of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees’ requirements as set out in this statement.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry.

### Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree, namely, to delegate this activity to the underlying investment managers.

## Voting activity

The main asset class where the investment managers will have voting rights is equities. The Scheme has specific allocations to equities through the following funds:

7IM AAP Adventurous S Acc

A summary of the voting behavior and most significant votes cast for each of these funds is shown below.

7IM AAP Adventurous S Acc

Voting Information
<p><b>7IM AAP Adventurous C Acc</b></p> <p>The manager voted on 100% of resolutions of which they were eligible to vote on.</p>
Investment Manager Client Consultation Policy on Voting
<p>7IM consult a broad range of large and small clients on their concerns regarding ESG and factor their responses into our engagement with companies.</p>
Investment Manager Process to determine how to Vote
<p>7IM seeks to vote on all shares held actively and passively where voting rights are held. In doing so, 7IM considers the UK Corporate Governance Code and other international guidance on governance when voting, such as board structure, remuneration and shareholder rights seeking to vote with management, unless dissatisfied by a company's adherence to these governance codes. 7IM does not use an advisory service to recommend how to vote. It considers that, by undertaking this activity using internal resources, it better reflects 7IM's governance views rather than by taking an external adviser's recommendation with which 7IM may disagree. There are relatively few direct holdings which need to be voted on and so this is seen as being better managed in-house</p> <p>For listed equity assets that are held directly, the voting policy is to decide how to vote following discussion within the 7IM Investment Management team on the proposals. For 7IM, there are relatively few direct equity holdings, so most of the voting on listed equities is managed by the managers of the third-party funds. 7IM engages with the managers, asking them to disclose their approach to Environmental, Social, and Governance (ESG) both as a company as well as for the fund and their voting policies. While 7IM cannot vote on these third-party funds, we can seek to influence how a fund is going to vote. The house policy on voting is to vote significant shareholdings when held directly, which means holdings where a significant percentage of a company is held or where the holding is a significant percentage of overall assets under management. This is taken to be the top 10 in each category.</p>

The policy on disclosure of voting activity is to make records available on the 7IM website on an annual basis. 7IM have found that there have been relatively few requests to view voting records, but if a client wants to see specific votes, such as for an individual company or for a fund, then these are available. If the number of requests to see the voting records were to increase, 7IM would consider moving to half-yearly or even quarterly reporting. Procedure A member of the Investment Management team is designated to vote shares held in the funds through the Broadridge proxy voting platform, Proxy Edge, which is a service available for the funds which are held at Northern Trust. For funds held by HSBC, for which 7IM has discretion, the voting is managed through the ISS platform.

The Stewardship specialist on the Investment Management team receives emails from Broadridge and ISS on upcoming votes. Voting procedure: • The Broadridge and ISS Proxy Voting service currently defaults to automatically vote in line with management on all company proposals. When a ballot is published on Proxy Edge or the ISS Proxy Service, the Stewardship specialist engages with the sector specialist and if there are any concerns over voting in line in line with management, this is then taken up by the ESG Investment Committee and the members of the committee debate the proposals. • The main proposals voted against tend to be around executive compensation, removal of pre-emption rights and reduction of notice periods of meetings. • Other proposals which merit attention are shareholder proposals around, for instance, independence of the chair, climate change, greenhouse gas emissions and diversity and inclusion.

• If the Investment Management team chooses to override the management recommendation, then the action is noted and a reason for the vote written up by the sector manager or a member of the ESG Investment Committee for inclusion in that year's Stewardship Statement. 7IM prioritises votes where 7IM holds a significant number of shares in the company or where the holding is viewed as substantial. • In some cases, the shares held in the funds may not be available for voting. This is because some shares can only be voted on when a power of attorney (POA) is in place and an assessment is made by the Investment Management team whether the cost implications of putting such a POA in place are merited and if it is considered, this will not be in the best interests of the shareholders, the shares are not voted. • In other cases, the shares may have been lent, in which case they are not available for voting. If the Investment Management team wish to vote on these proposals, it will be necessary to get the shares back in time for the vote. There is a procedure in place whereby one share is retained by the Depository so that the Investment Management team is aware of forthcoming votes and can call back the shares in time to vote. The Operations team manage stock lending, so any requests to pull shares back to vote needs to be directed to them. • Voting activity and the reasons for voting are disclosed in the 7IM Stewardship report.

#### How does this manager determine what constitutes a 'Significant' Vote?

The house policy on voting is to vote significant shareholdings when held directly, which means holdings where a significant percentage of a company is held or where the holding is a significant percentage of overall assets under management. This is taken to be the top 10 in each category.



## Does the manager utilise a Proxy Voting System? If so, please detail

7IM makes use of the ProxyEdge voting system which is part of Broadridge. 7IM does not use a proxy voting advisor because they have relatively few direct equity and bond holdings and make decisions on how to vote within the team and in line with the 7IM voting policy. 7IM vote on all eligible votes in line with its voting policy. In the case of the AAP Adventurous fund over the period end 31<sup>st</sup> December 2021- 31<sup>st</sup> December 2022 7IM voted in line with management of all proposal bar 3. We voted against the Berkshire Hathaway management on 3 proposals.

## Top 5 Significant Votes during the Period

As outlined above 7IM assess what is in the best interests of its clients when deciding how to vote and in line with its voting policy. 7IM hold very few direct equities or bonds so as far as the Select funds are concerned, as a fund of funds manager, the most significant votes are likely made by the third-party managers' funds which are held in the 7IM Select Balanced and Moderately Cautious funds. 7IM have engaged with these third-party managers to ensure that their ESG and Stewardship policies are in line with what 7IM expect from its managers and they have shared some of their engagements with 7IM one of which is an engagement by a bond fund manager:

**Geode/Fidelity tracker funds:** Thanks to the initial roll-out of our ESG questionnaire in 2021, we identified Fidelity's passively managed product range, managed by a firm called Geode, as an area of engagement. We challenged Geode, which manage more than \$800bn assets with just over 100 staff, on their stewardship capabilities. As a result, they increased their proxy voting and engagement team from two in 2021 to four in 2022, with a view to raise this to six in 2023.

**Civitas plc:** We engaged with this company again in 2022 after the regulator expressed concerns that the registered providers Civitas signs leases with are not sufficiently capitalised and therefore there is a risk of these providers failing. Following ongoing controversies in 2021 and 2022, we did not believe the potential investment gains of holding Civitas cover the risk of holding the company in an investment sense or from a reputation risk sense. Therefore, we sold out of our position by the start of December 2022.

**BlackRock iShares Overseas Corporate Bond Index fund:** We engaged with BlackRock on a change in the index of the iShares Overseas Corporate Bond Index fund, which consists of increasing the ESG profile of the fund with the addition of some baseline screens. We examined how the addition of the screens might affect performance, yield and duration, as well as climate and carbon screens. The results showed minimal impact on performance, yield and duration, therefore we encouraged the index change. The addition of ESG criteria to this fund made it a potential fund for us to use to implement our 2022 carbon reduction target across our fund range

**BlueBay AT1s:** We engaged with BlueBay Asset Management around exposure to fossil fuel financing in European banks through the BlueBay AT1 funds held in a number of 7IM funds. We directed the conversation to focus on BNP, one of the largest pan European banks. The outcome from this engagement came mainly in the form of further understanding the significance of the energy sector in global GHG emissions. We were satisfied with BlueBay's comprehensive response.

**Usonian Japan Value** - We had been engaging with Usonian on their very limited considerations of ESG aspects in Usonian's investment process, while recognising the constraints on Usonian from their parent, GMO. As a result of these conversations, they developed a GMO proprietary ESG rating system with an aim to have a minimum MSCI rating of BBB in all the companies held in the fund. They have also added a pre-trade ESG analysis into the ESG integration process.

