

The FSS Pension Scheme (‘the Scheme’)

Engagement Policy Implementation Statement for the Year
Ending 30 November 2023

March 2024



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Section 1:

Introduction

This statement sets out how, and the extent to which, the Scheme's Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year running from 1 December 2022 to 30 November 2023 (the "Scheme Year"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

The statement is based on, and should be read in conjunction with, the SIP dated October 2023.

Sections 2.1 and 2.2 of this statement set out the investment objectives of the Scheme and changes which have been made to the Engagement Policy during the Scheme Year, respectively.

A copy of the SIP containing the Engagement Policy is available at <https://www.fsspensions.co.uk/resources/statement-of-investment-principles-october-2023/>

Section 3 of this statement provides some highlights of the activity undertaken by the Trustee in relation to Responsible Investment and Environmental, Social and Governance (ESG) over the Scheme Year.

Sections 4 and 5 include information on the engagement and key voting activities of the underlying investment managers of the Scheme, and also sets out how the Scheme's engagement and voting policy has been followed during the Scheme Year in respect of the Scheme's assets. **The Trustee can confirm that all policies in the SIP on engagement in relation to the Scheme's assets have been followed during the Scheme Year.**

Section 2:

Statement of Investment Principles

2.1 Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the objectives they have set. The objectives for the Scheme specified in the SIP are as follows:

- The Trustee's primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when they fall due.
- Over the shorter term, the objective is to achieve the performance objectives outlined in the Investment Implementation Policy Document (IPID).
- The Trustee pays due regard to the interests of the Principal Employer on the size and incidence of their contribution payments.

2.2 Review of the SIP

During the year, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). A revised SIP was signed on October 2023 in order to reflect the Scheme's strategic investment de-risking.

Section 3:

Environmental, Social and Governance (“ESG”)

Policy

The Scheme’s Engagement Policy outlines the Trustee’s beliefs on ESG factors (including climate change). The Trustee believes that ESG factors have a material impact on investment risk and return outcomes (and so are considered to be financially material), and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by its investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. The agreed policy was incorporated into the SIP following this meeting, and reviewed and updated in September 2020.

The Trustee also has in place a Memorandum of Understanding (“MoU”) with the Employer which itself imposes restrictions on ESG-related issues. The MoU states that the Scheme’s assets will not be invested directly in any entities engaged in illegal activities, production of arms (mainly military based arms), production of asbestos, gambling, pornography or tobacco (as one of their primary businesses) or entities that clearly have poor environmental records or unethical employment practices. This policy only applies for assets that are directly invested in, or where pooled funds are judged to be materially overweight to these entities.

In June 2022, the Trustee undertook an ESG Beliefs survey, which further established its beliefs and policy. This survey identified that the majority of the Trustee believed that **climate change, human rights and shareholders concerns** are the three most important themes for the Trustee. The Trustee’s policy in the SIP on ESG, stewardship and climate change was modified as a result.

In October 2023, the SIP was updated to include the Trustee’s engagement priorities and significant vote policy.

Further details are included in Section 5 of the SIP. The Trustee keeps its policies under regular review.

How has this policy been met over the Scheme Year?

The Trustee has given its investment managers full discretion in evaluating ESG factors within their investment processes, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

- The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in monitoring existing investment managers, including considering investment manager ESG ratings provided by the investment advisor. During the year to 30 November 2023, the Scheme's investment performance report was reviewed by the Trustee on a quarterly basis – this includes asset manager research ratings (both general and ESG-specific) from Mercer, the investment consultant, as well as detail on how investment managers are delivering against their specific mandate.
- The Trustee's policy is that a downgrade in Mercer's asset manager ESG rating (or lack of ESG rating) does not mean that the investment manager will be removed or replaced automatically, but will be reviewed on a case-by-case basis, taking into account the asset class invested in (and hence the applicability of ESG factors) and, where relevant, the circumstances behind the rating downgrade. During the Scheme year no ESG rating changes occurred. Currently, Mercer does not provide asset manager ESG ratings for the synthetic equity and LDI strategies, where the integration of ESG factors are not part of the asset managers' portfolio construction processes.
- Managers are expected to provide a summary of their ESG and stewardship policies and to comment on these issues as part of any meeting with the manager; the Trustee asks its investment managers to summarise their investment approach to managing ESG issues when presenting at Trustee meetings. During the Scheme year, the Trustee received a presentation from LGIM regarding the LDI mandate.
- When looking to appoint a new manager, the Trustee considers how ESG, climate change and stewardship is integrated within investment processes. During the Scheme year, LGIM were appointed to manage a new sustainable global equity fund. This decision was prompted by the LDI crisis in late September/October 2022, which required the full disinvestment of the LGIM passive equity mandate to meet collateral calls. Subsequently, when the Scheme's strategic asset allocation was reviewed during 2023, the Trustees opted to invest in a more sustainable fund, more closely aligned with its policy on ESG.

Section 4

Engagement Activity by the Scheme's Investment Managers

The following are examples of engagement activity undertaken by the Scheme's investment managers, where relevant. Examples were provided by the investment manager(s).

See section 5 for more details on how the Trustee's policies on engagement have been implemented, as well as its policies on the exercise of investment rights (including voting).



LGIM engages with Heidelberg Cement

According to LGIM, cement production is responsible for around 8% of global carbon emissions per year. Therefore, the cement industry needs to decarbonise significantly for the world to reach net zero; the sector is included within the 'climate critical' sectors of LGIM's Climate Impact Pledge. Heidelberg believes it has an industry-leading decarbonisation policy as well as first-mover advantage in carbon capture and storage (CCS). During the year, LGIM participated in discussions with Heidelberg's management team to discuss the progress and economic viability of the company's planned CCS projects. The focus of these discussions were the economics of CCS (cost of capture, transport and storage versus carbon pricing), the external factors affecting viability of CCS projects (regulation, government subsidies etc.), and the demand expectations for "carbon-free" cement. LGIM will continue to engage with Heidelberg as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg, the economics of CCS will only become economical with either an increase in the carbon price or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management.

LGIM engages with McDonald's

LGIM considers antimicrobial resistance (AMR) to be a systemic risk. The overuse of antibiotics, one form of antimicrobial, is known to exacerbate AMR. The majority of antibiotics used globally are consumed by animals, not humans. It is essential to limit the use of antimicrobials, and in particular antibiotics, to stem the speed at which AMR is occurring. The World Bank estimates that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis, and in an AMR worst-case scenario, additional healthcare expenditures could amount to \$1.2 trillion globally on an annual basis. Further, in a study published in January 2022 in the Lancet it was established that in 2019 1.27 million deaths occurred due to bacterial AMR, and 4.95 million deaths were indirectly linked to AMR. For the last two years, LGIM supported AMR shareholder proposals filed at McDonald's, pre-declared their votes in relation to these resolutions, and engaged with the company. LGIM also signed a collaborative investor letter under the leadership of ICCR asking the company to publish targets related to the reduction of medically important antibiotics for the routine prevention of disease in its global beef supplies, which in 2018 they had announced that they would do by end of 2020. Given insufficient progress on these issues, LGIM decided it was time to further escalate their concerns. During the autumn of 2022, LGIM were approached by The Shareholder Commons to co-file a shareholder proposal asking McDonald's to apply the World Health Organization Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animals throughout its supply chains. LGIM co-filed the shareholder proposal on 1 December 2022. The company has since released its antibiotics reduction targets, two years after the initial deadline. However, LGIM does not deem that to be sufficient progress within the company's AMR activities. The proposal received 18% votes in favour, which, although slightly lower than LGIM had hoped, still draws attention to the issue and has put pressure on the company to acknowledge it. LGIM is looking forward to working with the company, both individually and collaboratively with other shareholders over the course of 2023 and beyond, to meet their request.

Section 5:

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustees' would monitor and engage with relevant persons about relevant matters).

Policy

The Trustee has delegated its voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustee, which does not own underlying assets directly). As a result, the Trustee does not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights on behalf of the Trustee.

In addition, it is the Trustee's policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.

How has this policy been met over the Scheme Year?

For the purposes of this statement, voting and engagement summary reports from the Scheme's investment managers for 2023 were provided to Mercer on the Trustee's behalf for review. These reports were specifically focused on votes that the managers deemed significant, in alignment with the Trustee's policy. The Trustee reviews these summaries as part of their review of this statement on an annual basis. The Trustee does not use the direct services of a proxy voter.

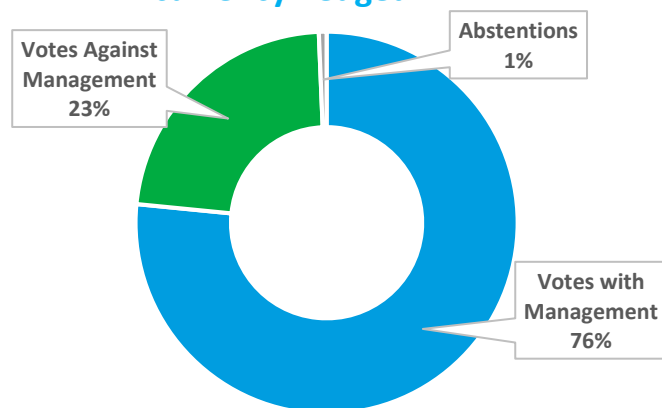
The Trustee supports the aims of the UK Stewardship Code and its investment managers are encouraged to report their adherence to the Code. LGIM and Ninety One have confirmed that they are signatories of the current UK Stewardship Code (the "Code"). The pooled funds in which the Trustee invests with BlackRock and Columbia Threadneedle are not exposed to voting rights holding securities, however these managers are signatories to the Code.

Additionally, Blackrock and Ninety One have confirmed the pooled funds in which the Trustee invests are not aligned with the Paris Agreement. LGIM has confirmed that the Future World Global equity Index Fund (hedged and non-hedged) are aligned with the Paris Agreement, and that the Global Equity Fixed Weights (50:50) Index Fund (for AVCs) is not aligned with the Paris Agreement.

Voting Activity during the Scheme year

Set out below is a summary of voting activity for this reporting period relating to the relevant strategies of the Scheme (note that the Global Equity Fixed Weights (50:50) Index Fund is only used for Additional Voluntary Contributions (AVCs)). Funds where voting is not applicable (i.e. non-equity funds) are not included below.

**Future World Global equity Index Fund and
Future World Global equity Index Fund GBP
currency hedged - DB**



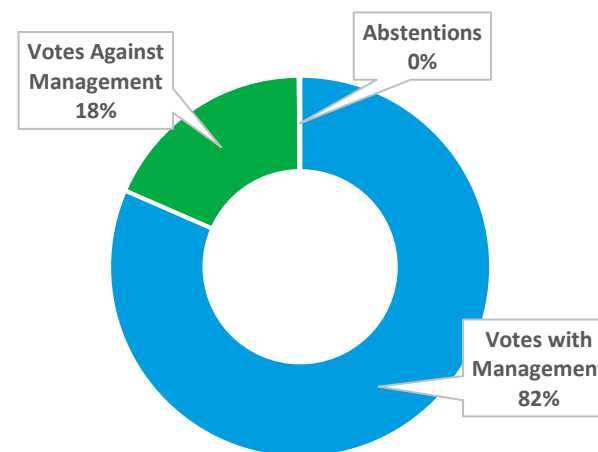
1,346

Meetings eligible to vote

8,199

Number of resolutions eligible to vote on

Global Equity Fixed Weights (50:50) Index - AVCs



3,054

Meetings eligible to vote

39,792

Number of resolutions eligible to vote on

Source: LGIM. Figures subject to rounding. The voting data covers the year ending 31 December 2023 (note that the Scheme invested in the LGIM Future World Global Equity Index Funds in July 2023).

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients. LGIM's voting policies are reviewed annually and take into account feedback from their clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. They also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures their stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.

Most significant votes

A "Significant Vote" is defined by the Trustee as one that is best aligned with its engagement priorities and based on the company weights in the total portfolio. The Trustee are required to report on all votes they believe are the 'most significant'.

Based on the ESG Beliefs Survey completed by the Trustee in June 2022, the Trustee's key themes based on a priority scale are: **climate change, human rights and shareholders concerns**. Some examples of significant votes in the reporting period are shown in the table below.

✗ Resolution not passed ✓ Resolution passed

Fund	Portion of the fund (%)	Company	Date of vote	Resolution	How the Manager voted	Rationale of Manager vote	Final outcome following the vote	Significant Vote Theme	Why Vote is Significant
Future World Global equity Index Fund and Future World Global equity Index Fund - GBP currency hedged	0.2%	NIKE Inc	12 September 2023	5 – Report on Median Gender/Racial Pay Gap	LGIM voted for item 5 (against management).	LGIM voted for the Report on Median Gender/Racial Pay Gap as the manager expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. LGIM views gender diversity as a financially material issue for clients, with implications for the assets LGIM manages on their behalf. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	✗	Human rights	Aligned with the Scheme's stewardship priorities
Future World Global equity Index Fund and Future World Global equity Index Fund - GBP currency hedged	0.1%	FedEx Corporation	29 September 2023	6 - Report on Just Transition	LGIM voted for resolution 6 (against management).	LGIM voted for the resolution to Report on Just Transition as the manager expects companies to be taking sufficient action on the key issue of climate change. LGIM will continue to engage with the company and monitor progress.	✗	Climate Change	Aligned with the Scheme's stewardship priorities

Global Equity Fixed Weights (50:50) Index	1.0%	Glencore Plc	26 May 2023	19 – Shareholder resolution “Resolution in Respect of the Next Climate Action Transition Plan”	LGIM voted for resolution 6 (against management).	LGIM co-filed this shareholder resolution and pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, there was regular communication with the company ahead of the meeting.	✗	Shareholder Concerns	Aligned with the Scheme's stewardship priorities
Global Equity Fixed Weights (50:50) Index	2.7%	Shell Plc	23 May 2023	25 - Approve the Shell Energy Transition Progress	LGIM voted against resolution 25 (against management).	LGIM voted against the resolution to approve the “Shell Energy Transition Progress”. The manager notes the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remains concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory. LGIM will continue to undertake extensive engagement with Shell on its climate transition plans.	✓	Climate Change	Aligned with the Scheme's stewardship priorities
Global Equity Fixed Weights	1.5%	BP Plc	27 April 2023	Resolution: 4 - Re-elect Helge Lund as Director	LGIM voted against resolution 4 (against management).	LGIM voted against the resolution to Re-elect Helge Lund as Director due to	✓	Climate Change	Aligned with the Scheme's

(50:50)
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governance and board
accountability concerns.
Given the revision of the
company's oil production
targets, shareholders expect
to be given the opportunity to
vote on the company's
amended climate transition
strategy at the 2023 AGM.
Additionally, LGIM notes
concerns around the
governance processes
leading to the decision to
implement such
amendments. LGIM will
continue to engage with the
company and monitor
progress.

stewardship
priorities

Source: LGIM