

Pilots' National Pension Fund

**Annual Implementation  
Statement – Scheme year  
ending 31 December 2021**

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## Section 1: Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Pilots’ National Pension Fund (“the Fund”) covering the scheme year (“the year”) to 31 December 2021.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Fund’s policy on engagement and voting (as set out in the Statement of Investment Principles (the “SIP”)) has been followed during the year; and
- A description of voting behaviour (including the “most significant” votes made on behalf of the Trustee) and any use of a proxy voter during the year.

The Fund makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee has delegated some responsibilities. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited, to manage the Fund’s assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers and seeks to give effect to the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following websites:

<https://ukmpa.org/?s=pnpf>

<https://www.britishports.org.uk/apbpnfp/>

### **Review of and changes to the SIP**

The SIP in place as at the end of the year was dated as at July 2021 and incorporated updates to reflect the updated strategy following the 31 December 2019 Actuarial Valuation. We consider that all SIP policies and principles relevant to this statement were adhered to.

## Section 2: Voting and Engagement

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005).

The Fiduciary Manager is therefore responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance ("ESG") factors are allowed for in the portfolio.

The Trustee's view is that ESG factors can have a significant impact on investment returns, particularly over the long-term. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of the Fund's members. The Trustee has appointed a Fiduciary Manager who shares this view and has fully embedded the consideration of ESG factors in its processes. The Trustee incorporates an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to Sustainable Investing ("SI") (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

The Fiduciary Manager produces detailed reports on the SI characteristics of the highest-rated managers (such as those included in the Fund portfolio) on an annual basis, with a summary of the ratings being provided to the Trustee as part of its ongoing portfolio monitoring. The Trustee last reviewed this report in Q3 2021 as part of the annual review and this information was also provided as part of the ongoing third-party oversight review. There was also a detailed training session in Q1 2022 of the SI reporting currently in development using the Fund's investment in the Towers Watson Partners Fund as an example.

The policies and processes described above have impacted the Fund's investments in numerous ways. Some examples of this are outlined below:

The Towers Watson Partners and Towers Watson Core Diversified Fund have the following consistent portfolio construction philosophy in relation to ESG and SI:

- To avoid uncompensated financial risks embedded in investments that look weak on sustainability grounds, particularly within the climate area, and where possible to take advantage of investments that are likely to benefit positively from their sustainability characteristics.
- To invest with a positive impact where available without compromising on return target, noting that this typically reduces portfolio risk.
- To track the impact of the Fund's investing and our path towards a Paris compliant portfolio and a portfolio with more embedded diversity at the asset managers that the Fund employs. The manager aims to do this through long-term investing, which includes considering future portfolio impacts not yet priced in by the market. The Fiduciary Manager also accesses each investment opportunity in a way which maximises value, giving consideration to ESG as a key factor which can impact value. Furthermore, the Fiduciary Manager believes diverse teams make better decisions and thus seeks to ensure diversity and inclusion both in its own team and in the teams and mix of investors it commits capital to.

Through its investment in the Partners Fund, amongst other positive-impact assets, the Fund has exposure to:

- UK forestry – a new idea added to the portfolio over 2020. The strategy will acquire unused agricultural land in the north of England and Scotland to plant trees and grow forests, capturing carbon in the process and having a positive impact on the environment. The intention is to hold the forests that have been created for three to five years until the trees have established themselves after which there are various possible exit routes.

Through its investment in the Core Diversified Fund, amongst other positive-impact assets, the Fund has exposure to:

- A Global Prime Real Estate strategy which has introduced ESG and climate filters as an explicit screen in the investment process following direct engagement with the manager. This has led to a significant exposure improvement and enhanced the ESG rating of the overall portfolio.

**Company level engagement and rights attached to investments (including voting):**

As set out in the SIP, the Trustee’s policy is to delegate the exercising of rights (including voting and stewardship) and the day to day ESG integration to the Fund’s investment managers.

The Fiduciary Manager delegates voting rights and the execution of those rights to the underlying managers within the Partners Fund and Core Diversified Fund for the securities held. Further details on manager policies are provided in Appendix 1 to this Statement. The Fiduciary Manager has assessed each investment manager’s policies as part of its overall assessment of each investment manager’s capabilities. The Fiduciary Manager considered the policies to be consistent with the Trustee’s policies and objectives and ultimately, therefore is in the best financial interests of the members. As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to provide voting advice to the asset managers (in respect of the majority of the developed market equity allocations within the Fund’s portfolio) and to engage with the companies on their behalf, or in collaboration with them. The Trustee has identified key ESG risks for the Fund as climate change action and human and labour rights and therefore selected votes on these topics as the most significant for the Fund.

At the year end and as noted above, the Fund was invested in two in-house multi-asset growth funds managed by the Fiduciary Manager, each of which have an allocation to equity holdings in underlying pooled funds:

- Towers Watson Partners Fund
- Towers Watson Core Diversified Fund

The below data is for the 12-month period ending 31 December 2021.

Manager and fund	Portfolio structure	Voting activity
Towers Watson Partners Fund	Fund of funds	Number of meetings at which the manager was eligible to vote: 535 Number of resolutions on which manager was eligible to vote: 6,436 Percentage of eligible votes cast: 99.6% Percentage of votes with management: 91.0% Percentage of votes against management: 7.9% Percentage of votes abstained from: 1.2% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 29.8% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 7.8%

Towers Watson Core Diversified Fund	Fund of funds	<p>Number of meetings at which the manager was eligible to vote 3,763</p> <p>Number of resolutions on which manager was eligible to vote: 45,252</p> <p>Percentage of eligible votes cast: 99.1%</p> <p>Percentage of votes with management: 86.0%</p> <p>Percentage of votes against management: 13.3%</p> <p>Percentage of votes abstained from: 0.7%</p> <p>Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 63.5%</p> <p>Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 3.0%</p>
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Coverage in portfolio	Size of holdings	Most significant votes cast
Towers Watson Partners Fund	0.5%	<p><b>Company:</b> Amazon</p> <p><b>Resolution</b> Report on the impacts of plastic packaging</p> <p><b>Decision/Vote</b> For</p> <p><b>Rationale for decision</b> Promotes transparency around environmental issues</p> <p><b>Rationale for classifying as significant</b> The Trustee considers ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.</p> <p><b>Outcome of the vote</b> Against</p>
Towers Watson Partners Fund	0.8%	<p><b>Company:</b> Facebook</p> <p><b>Resolution</b> Report on platform misuse</p> <p><b>Decision/Vote</b> For</p> <p><b>Rationale for decision</b> Platform misuse poses perhaps the key risk to the company. Per the saying "what gets measured, gets managed", additional management attention on this topic is most welcome. To the extent that the Community Standards report is already measuring much of this, then that simply lowers the incremental cost of this report</p> <p><b>Rationale for classifying as significant</b> The Trustee considers ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.</p> <p><b>Outcome of the vote</b> Against</p>
Towers Watson Partners Fund	1.2%	<p><b>Company:</b> Microsoft</p> <p><b>Resolution</b> Report on Gender/Racial Pay Gap</p> <p><b>Decision/Vote</b> For</p> <p><b>Rationale for decision</b> Promotes appropriate accountability and incentivisation on gender and diversity</p>

		<b>Rationale for classifying as significant</b> <b>Outcome of the vote</b>	The Trustee considers human and labour rights to be a critical factor influencing the long-term performance and sustainability of a company. Against
Towers Watson Core Diversified Fund	0.1%	<b>Company:</b> <b>Resolution</b> <b>Decision/Vote</b> <b>Rationale for decision</b> <b>Rationale for classifying as significant</b> <b>Outcome of the vote</b>	AusNet Services Ltd. Elect Robert Milliner as Director Against Concerns related to approach to board gender diversity The Trustee considers human and labour rights to be a critical factor influencing the long-term performance and sustainability of a company. For
Towers Watson Core Diversified Fund	0.0%	<b>Company:</b> <b>Resolution</b> <b>Decision/Vote</b> <b>Rationale for decision</b> <b>Rationale for classifying as significant</b> <b>Outcome of the vote</b>	Agricultural Bank of China Limited Elect Liu Xiaopeng as Director Against Concerns related to approach to board gender diversity The Trustee considers human and labour rights to be a critical factor influencing the long-term performance and sustainability of a company. For
Towers Watson Core Diversified Fund	0.0%	<b>Company:</b> <b>Resolution</b> <b>Decision/Vote</b> <b>Rationale for decision</b> <b>Rationale for classifying as significant</b> <b>Outcome of the vote</b>	Chongqing Rural Commercial Bank Co. Ltd. Elect Zhang Qiaoyun as Director Against Concerns related to approach to board gender diversity The Trustee considers human and labour rights to be a critical factor influencing the long-term performance and sustainability of a company. For

**Industry wide / public policy engagement:**

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS to undertake public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council. Voting and engagement activities by EOS over 2021 included:

- Engagements with over 1,200 companies on a total of 4,154 issues and objectives representing assets under advice of \$1.64tn.
- 64 responses to consultations or proactive equivalents and 71 discussions with relevant regulators and stakeholders.

- Voting recommendations in relation to over 128,000 resolutions, with over 20,000 being against management.
- Active participation in a number of stewardship initiatives including Climate Action 100+, PRI, Investor Alliance for Human Rights and the International Corporate Governance Network.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.



## Section 3: Summary and conclusions

We consider that all SIP policies and principles were adhered to.

Signed: \_\_\_\_\_

Date: 14 June 2022

On behalf of the Trustee of the Pilots' National Pension Fund

# Appendix 1: Manager voting policies

## **Towers Watson Investment Management's voting policy is provided below**

Towers Watson Partners Fund's underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. For the Towers Watson Global Equity Focus Fund, in which the Towers Watson Partners Fund invests, we also use EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes.

As at the year end the Towers Watson Core Diversified Fund held majority of its equity holdings via the Asset Management Exchange (AMX) platform which uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes. There was also an allocation of equity holdings with an active manager in a China Equity Fund. The voting policies of each of these managers are set out below.

## **The active manager – China equity's voting policy is provided below**

"[We use] Glass Lewis as proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows us to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows us to submit voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to our clients. "