

# BIG THINKING FOR SMALL SCHEMES

## Implementation Statement

Reading Transport Staff Retirement Scheme

30 June 2023



# 1. Introduction

Under regulatory requirements, trustees are required to prepare and review an implementation statement outlining their approach and stewardship dealing with certain specific matters with regards to their Environmental, Social and Governance (ESG) principles outlined in their latest Statement of Investment Principles (SIP).

This Statement sets out the principles governing decisions about the ESG aspect of investment of the assets of the Reading Transport Staff Retirement Scheme (the Scheme). In preparing it, the Trustees obtained written reporting on these matters from Barker Tatham Investment Consultants Limited as its investment consultants.

## 2. ESG Principles

### Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where pooled index fund vehicles are employed which track composite market indices it is not always possible to take ESG considerations into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expects its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees' views that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

The Scheme had in place over the Scheme year period a SIP dated May 2022. The Scheme is currently updating its SIP; however, their policies with regards to ESG will remain the same as the SIP it currently has in place. Further information on the Trustees' policies can be found in the latest SIP dated May 2022.

In the Trustees' opinion, their policies, as recorded in the SIP, have been followed over the 12-month period to 30 June 2023.

The following pages illustrate how the Trustees, through their fund managers, have followed their stewardship and engagement policies.

### 3. Investments Attitudes to ESG

Fund Manager/Fund	ESG Description
<p><b>LGIM</b></p> <p><b>Global Equity Fixed Weight (50:50) Fund</b></p> <p><b>World Emerging Market Equity Index Fund</b></p> <p><b>LDI Matching Core Fixed (Long) Fund</b></p> <p><b>LDI Matching Core Real (Long) Fund</b></p> <p><b>Self Sufficiency Credit Real Short Fund</b></p> <p><b>Sterling Liquidity Fund</b></p>	<ul style="list-style-type: none"> <li> <p><b>Fund Manager Overview</b></p> <p>LGIM’s ultimate goal is to protect and enhance the investment returns generated by their clients’ assets whilst aiming to have a long standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which they invest.</p> <p>LGIM has publicly committed to the following three goals as part of their five-year strategic plan:</p> <ul style="list-style-type: none"> <li>• Influencing the transition to a low-carbon economy</li> <li>• Making society more resilient with our financial solutions</li> <li>• Creating new investments for the future economy</li> </ul> <p>Further information on how they can receive these goals is publicly available on the parent company Legal &amp; General Group plc’s reporting on corporate responsibility.</p> <p><a href="https://www.legalandgeneralgroup.com/csr/csr-reports/">https://www.legalandgeneralgroup.com/csr/csr-reports/</a></p> </li> <li> <p><b>ESG Integration</b></p> <p>LGIM uses a bottom-up and a top-down approach to monitoring and analysis as well as using ESG information that comes out from engagement meetings with companies. LGIM’s ESG scoring tool assesses companies in 17 different sectors on their disclosure, policies and processes for managing ESG risks. LGIM has set up three long-term thematic working groups (demographics, energy and technology) that undertake top-down research and analysis of macroeconomic issues, related to responsible investment and ESG. The direct engagement with companies is a way LGIM seek to identify ESG risks and opportunities. LGIM have an escalation policy to tackle difficult and inter-connected ESG issues that materially impact the value of assets.</p> <p>LGIM have an Active ESG View tool that forms an essential component of the overall active research process. The tool brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. ESG risks vary across sectors and therefore the proprietary tool LGIM have developed evaluates sector specific ESG factors, spanning 64 specific sectors and sub-sectors. LGIM incorporate a qualitative</p> </li> </ul>

approach on top of this as data alone may not tell the full story.

- **Active Ownership (1 year to 30 June 2023)**

LGIM report annually on their active ownership to 31 March, however they provide reporting on their proxy voting to 30 June. LGIM's Corporate Governance team casts proxy votes in a manner consistent with the interests of all clients. They direct the vote of a significant proportion of a company's shares by exercising the shareholder rights of almost all clients. LGIM acknowledges that the Scheme as one of their clients, in giving LGIM their mandate, require LGIM to vote with the shares on the behalf of the Scheme. LGIM therefore aim to minimise abstaining from voting, only doing so if it is technically not possible to cast a vote in any other way.

LGIM's voting decisions are made internally within the corporate governance team, and independently from the investment teams. LGIM have in place supplementary regional policies setting out their voting approaches publicly on their website however various other factors may also help them form a view on voting matters. These consist of; previous engagement, third party research (e.g. ESG reports, broker research), company performance and LGIM's in-house views with respect to their investment teams.

The following paragraphs relate to the active ownership or approaches to ESG specific to the LGIM funds in which the Scheme is currently invested:

**Global Equity Fixed Weight (50:50) Fund**

Over the 12 months to 30 June 2023, LGIM were eligible to vote at 2,986 meetings and on 38,703 resolutions over the 12-month period. LGIM voted on 99.9% of resolutions. 81.8% of votes were votes for, 18.1% were votes against and 0.1% were votes abstained from.

**World Emerging Market Equity Index Fund**

Over the 12 months to 30 June 2023, LGIM were eligible to vote at 3,984 meetings and on 32,588 resolutions over the 12-month period. LGIM voted on 99.9% of resolutions. 80.7% of votes were votes for, 18.1% were votes against and 1.2% were votes abstained from.

**Matching Core LDI Real and Fixed Funds**

LGIM aims to embed ESG where appropriate. Following a research meeting with LGIM on their LDI ranges, we could expect a flexible incorporation of green gilt(s) in LDI mandates. These may be tailored to client-specific ESG objectives, such as targeting a minimum proportion in green gilts. LGIM also considers how ESG is incorporated in their choice of counterparties, which they use by reviewing quantitative and qualitative factors as well as overall governance.

**Self Sufficiency Credit Real Short Fund**

LGIM screens the companies in which they hold corporate bonds for ESG factors. They review quantitative and qualitative factors as well as overall governance. LGIM aims to embed ESG where appropriate. Following a research meeting with LGIM on their LDI funds, we could expect some incorporation of green gilt(s) in LDI mandates. LGIM also considers how ESG is incorporated in their choice of counterparties, which they use by reviewing quantitative and qualitative factors as well as overall governance.

A case study by LGIM looks at their engagement with Tencent Holdings Limited. At the meeting on 17 May 2023, LGIM voted against the election of Jacobus Petrus (Koos) Bekker as Director of the company. LGIM voted against the Management's recommendation as they deemed that the company would not meet the minimum standards with regard to climate risk management. LGIM also expected the Remuneration Committee to comprise of independent directors. Although the vote was approved, LGIM will continue to engage with the company and monitor their progress.

Another case study by LGIM looks at their engagement with Shell Plc. At the meeting on 25 May 2023, LGIM voted against the resolution to approve the Shell Energy Transition Plan, and against the management recommendation. LGIM recognised the substantial progress made by the company in meeting its 2021 climate commitments and welcomed the company's leadership in pursuing low carbon products. However, LGIM remained concerned by the lack of disclosure surrounding future oil and gas production plans and targets, which are key areas to demonstrate the company's alignment with the 1.5°C trajectory.

	<p>In February 2023, LGIM supported Fujitec Co. Ltd.'s significant shareholder, Oasis', proposal to replace six directors of the company. LGIM supported this proposal to replace the incumbent directors following successive governance failures and concerns about undue levels of family influence at the company. LGIM was concerned with the firm's flawed governance processes and its conduct at the last AGM, which resulted in an irreparable loss of faith in the firm's leadership, and in the incumbent outside directors' ability to overcome the family's strong influence on the Board. The shareholders successfully voted to replace 3 incumbent directors with 4 new independent directors. LGIM believes this vote is significant as such successful shareholder activism is rare in Japan, and director independence and Board composition is an important area of good governance.</p> <p>A further case study looks at the company Amazon.com, Inc., and how they report on Median and Adjusted gender and racial pay gaps. At the meeting on 24 May 2023, LGIM voted in favour of the proposal, and against the Management recommendation, as they expect companies to disclose meaningful information on their gender pay gap and the initiatives they are applying to close any stated gap. LGIM believes that this is an important disclosure so that investors can assess the progress of a company's diversity and inclusion initiatives. LGIM firmly believes that Board diversity is a crucial step towards building a better company, economy and society.</p> <ul style="list-style-type: none"><li>• <b>References</b> LGIM aims to implement best practice reporting to stakeholders including an:<ul style="list-style-type: none"><li>○ Annual Active Ownership report</li><li>○ Quarterly ESG Impact Report</li><li>○ Public monthly voting reports</li></ul></li></ul>
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<b>CBRE</b>	
<b>Osiris Property Fund</b>	<ul style="list-style-type: none"> <li>• <b>Fund Manager Overview</b> The approach to ESG within this fund is limited as the sector holds some challenges for the ESG investor. Green leases are currently scarce, if not absent altogether, across operational real estate and for most ESG investors they are the ultimate goal. Without them a vital means of collaborating between owner and operator is missing. Compounding this, the nature of long income is a challenge itself. For all the financial certainty it provides, it means that day to day building operation remains in the hands of the tenant, leaving the owner with little control and less influence when it comes to driving their ESG strategy. The investor has to accept a more passive position without the opportunity for active asset management that might also yield additional capital growth. Effectively the achievement of an ESG driven investment strategy rests largely with the operator and its willingness to collaborate with the owner. As ESG practice continues to permeate every sector of business the possibility of common aims increases, but without green leases collaboration will always be at the election of the operator.</li> </ul> <p>Osiris have an aim to have more than 50% of their portfolio integrated with ESG by 2030, which is up from 10% as of 2020.</p> <p>However, the fund is in the process of winding down and detailed ESG reporting regarding this fund is unlikely to become available.</p> <ul style="list-style-type: none"> <li>• <b>References</b> As above, CBRE have limited material on ESG which can be found on the following website: <ul style="list-style-type: none"> <li>○ <a href="https://www.cbre.co.uk/services/business-lines/building-consultancy/build-insight/articles/esg-investing-and-operational-real-estate">https://www.cbre.co.uk/services/business-lines/building-consultancy/build-insight/articles/esg-investing-and-operational-real-estate</a></li> </ul> </li> </ul>
<b>Aegon</b>	
<b>Diversified Growth Fund</b>	<ul style="list-style-type: none"> <li>• <b>Fund Manager Overview</b> Aegon claim responsible investment is a key element of our investment philosophy and process as they believe investment practices can help generate long-term value for their clients. As such they have the following principles: <ul style="list-style-type: none"> <li>• Responsible Investing aligns with clients' interests</li> <li>• Responsible Investing can contribute to long-term value</li> <li>• Environmental and social risks are investing risks</li> </ul> </li> </ul>

- Integrating ESG factors can help uncover opportunities
- Active ownership is active management

- **ESG Integration**

Aegon's ESG integration process is focused on managing the financial risks and identifying opportunities by including more information in investment analysis to help inform decision making. Aegon believe that ESG integration does not explicitly seek to make ethical, sustainable or responsible value judgements and instead there are potential ESG factors that could be material. Some of the potential environmental factors are climate change, energy efficiency and waste pollution. Social factors considered involve human rights and labour standards as well as workplace safety. Governance issues vary from board independence to shareholder rights. More information on this can be seen on page 11 of Aegon's Responsible Investment Report in 2022.

Key benefits to Aegon's ESG integration:

- Deepen knowledge – providing a more comprehensive view of investments
- Strengthen convictions – make more confident decisions as research-driven investors
- Promote a long-term focus – focus on trends, risks and opportunities

Some examples of ESG factors considered:

- Energy efficiency
- Employee relations
- Anti-corruption policies

- **Active Ownership across all eligible Aegon funds (1 year to 30 June 2023)**

As active asset managers, Aegon believe that their responsibility extends beyond today's investment opportunities. With a long-term focus, they have built a robust active ownership program that includes exercising shareholder voting rights in the best interest of their clients and engaging with bond or equity issuers in an effort to mitigate ESG risk, to help better understand the opportunities that companies face and encourage more sustainable practices.

**Diversified Growth Fund**

Over the 12 months to 30 June 2023, Aegon were eligible to vote at 102 meetings and on 1,341 resolutions. Aegon voted on 80.7% of resolutions. 95.3% of votes were votes for, 4.1% were votes against and 0.7% were votes abstained from.

Some examples include:

- Avon Protection Plc – Q1 2023  
Aegon voted against approval of Remuneration Policy & Report. Aegon had previously expressed concerns to the company regarding their approach to setting salary levels immediately after strong share price performance. Following a significant fall in share price over the past year, Avon Protection appointed a new CEO. However, despite the company's poor performance, the new CEO's salary was set at a premium to the outgoing CEO and was inconsistent with similar-sized companies. This was against Aegon's Remuneration policy.
  
- Universal Display Corporation - Q2 2022  
At the meeting on 15 June 2023, Aegon voted against the re-election of several directors. Aegon's concerns were centred on the long tenures of several directors and their membership on the Audit Committee. Elizabeth Gemmill, Chair, had served the Board for 26 years and Aegon deemed this director as not independent. Aegon voted against her re-election since they consider that such a vital committee should be fully independent. Aegon also voted against the re-election of Lawrence Lacerte who had served the Board for 23 years. Neither director was considered to be financially qualified and Aegon questioned the appropriateness of their continued membership. Aegon also abstained on the re-election of Hartley, C, despite having served as a director for 22 years, as he was the only one considered to be financially qualified.
  
- **References**
  - More information on Aegon's ESG policies and principles, Active Ownership and specific data referred to above can be found on the following link: <https://www.aegonam.com/globalassets/aam/responsible-investment/2022-ri-report/aegon-am-responsible-investment-report-2022.pdf>
  - Aegon Proxy Vote Report Q1 2023
  - Aegon Sustainable DGF – Voting Rights – 12 months to 30 June 2023

<p><b>Schroders</b></p>	
<p><b>Diversified Growth Fund</b></p>	<ul style="list-style-type: none"> <li> <p>• <b>Fund Manager Overview</b></p> <p>In 2017, the Schroders Sustainable Investment Team introduced a sustainability accreditation process to help distinguish how environmental, social and governance (ESG) factors are considered across our products. This is intended to help investors understand the different roles that ESG plays in their investment processes. There are three key sustainability categories</p> <ul style="list-style-type: none"> <li>• Screened - Negative screening beyond cluster munitions, anti-personnel mines and biological and chemical weapons.</li> <li>• Integrated - ESG factors are systematically integrated into the investment process and can be clearly evidenced.</li> <li>• Sustainable - Sustainability is a building block of the investment process.</li> </ul> </li>   <li> <p>• <b>ESG Integration</b></p> <p>Schroders embeds ESG into their multi-asset approach through: research with priority sustainability tools and ESG integrated multi-asset research; asset allocation via a 30-year asset class return adjusted for climate change and tactical trade screening for sustainability; stock selection/engagement with sustainable security selection expertise, active engagement and voting; and ESG measurement through a sustainability budget and measurement through a variety lenses.</p> </li>   <li> <p>• <b>Active Ownership – Schroder Diversified Growth Fund (1 year to 30 June 2023)</b></p> <p>Schroders report quarterly on their active ownership. Over the twelve-month period to 30 June 2023, Schroder were eligible to vote at 1,289 meetings and on 15,882 resolutions. Schroders voted on 94.5% of the resolutions they were eligible for. 89.6% of their votes were with management, 9.9% of their votes were against and 0.5% of resolutions were abstained from voting.</p> <p>Schroders also provided some information over the year period to 30 June 2023. Schroders participated in 849 engagements discussing 1,573 topics consisting of 935 Environmental, 338 Social and 300 Governance issues.</p> <p>The top 6 engagement topics over the year to 30 June 2023 consisted of Climate Change, Corporate Governance, Diversity and Inclusion, Human Capital Management, Human Rights, Natural Capital and Biodiversity.</p> </li> </ul>

• **References**

More information can be found in the following documents:

- Schroder DGF quarterly investment reports.
- Integrating Sustainability into Schroder Diversified Growth Fund
- <https://www.schroders.com/en/strategic-capabilities/sustainability/>