The KSB Pension Scheme – Implementation Statement 2021

1. Introduction

This document reviews the extent to which the Trustees of the KSB Pension Scheme (the “Scheme”), has adhered to the policies and procedures on the exercise of rights (including voting) and undertaking of engagement activities with investment managers, as set out in the Scheme’s Statement of Investment Principles (“SIP”) dated September 2020. This was the SIP in place at the Scheme’s year-end date, 31 December 2021.

2. Executive summary

Over the Scheme year, the Trustees:

- Reviewed the voting eligibility and activity of those funds that invest in equities. The Trustees are generally satisfied that their investment managers have appropriately carried out their stewardship duties. The stewardship activities for funds that do not hold equities have not been reviewed as part of this exercise, as the Trustees feel there is less scope to influence the practices of these issuers.

Further details on each of these matters is presented in the pages that follow.

3. Voting policies and histories

Trustees’ voting and stewardship policies

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Scheme’s investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments. The Trustees will continue to ensure that the stewardship policies of the Scheme’s investment managers are embedded in their investment processes.

As part of this exercise, the Trustees reviewed the voting activity of funds where there is an increased ability to influence positive practises (namely those that invest in equities). The following funds have been reviewed:

- Legal & General Investment Management (“LGIM”) UK Equity Index Fund
- LGIM North America Equity Index Fund
- LGIM Europe (ex UK) Equity Index Fund
- LGIM Japan Equity Index Fund
- LGIM Asia Pacific ex Japan Developed Equity Index Fund
- BNY Mellon Real Return Fund

LGIM's voting policies and process

LGIM's Investment Stewardship team make all voting decisions, in accordance with LGIM's 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 is intended to ensure LGIM's 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'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 of their clients. LGIM's voting policies are reviewed annually and take into account feedback from clients.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services ("IVIS") to supplement the research reports that are received from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any voting decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

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 LGIM continue to develop their voting and engagement policies and define strategic priorities in the years ahead. LGIM also consider client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

BNY Mellon voting policies and process

Newton Investment Management ("Newton") (who manage the BNY Mellon Real Return Fund) prefer to retain discretion in relation to exercising voting rights and have established policies and procedures to ensure the exercise of global voting rights.

Newton intend to exercise voting rights in all markets where they retain voting authority. All voting decisions are made by Newton; the recommendations of the appointed voting service provider (Institutional Shareholder Services) is only given precedence in the event of a material potential conflict of interest.

All voting notifications are communicated to Newton's responsible investment team through an electronic voting platform. The responsible investment team reviews all resolutions for contentious issued, aided by advice from proxy research service providers. Voting decisions take into account local market best practice, rules and regulations while also supporting their investment rationale.

Contentious issues may be referred to the appropriate analyst for comment. Where an issue remains contentious, Newton may also decide to confer with the company or other interested parties for further clarification. Each voting decision taken by a member of the responsible investment team has to be authorised by an alternate member of the team. Newton's corporate actions team is responsible for the administrative elements surrounding the exercise of voting rights by ensuring Newton have the risk to exercise individual clients' votes and that these are exercised.

Where Newton plan to vote against management on an issue, they often engage with the company in order to provide an opportunity for their concerns to be allayed. In such situations, it would not be a surprise should they vote against management. Newton only communicate their voting intentions ahead of the meeting direct to the company and not to third parties. Newton do alert a company regarding an action they have taken at their annual general meeting ("AGM") through an email, to explain their thought process. They then often hold a call with the board/investor relations teams to gain a better understanding of the situation and communicate further. This can often be in tandem with the sponsoring global industry analyst.

Newton employ the services of voting service providers to help inform their voting intentions. Voting decisions are taken on a case-by-case basis, and Newton do not have a rigid policy with their voting service provider. Only in the event of a conflict of interest do Newton follow the recommendations of a service provider. As part of their outsourcing service policy, Newton conduct due diligence of their voting service provider at least twice a year.

Newton's voting policy and procedures have been formulated and approved by their Responsible and Ethical Investment Oversight Group. Implementation of the voting policy and procedures involves the head of responsible investment and responsible investment analysts in collaboration with the global section analysts and portfolio managers.

Voting statistics

The table below sets out the key statistics on voting eligibility and action over the Scheme year.

Statistic / Fund	LGIM North America Equity Index	LGIM Japan Equity Index	LGIM Asia Pacific (ex Jap) Dev Equity Index	LGIM UK Equity Index	LGIM European (ex UK) Equity Index	BNY Mellon Real Return
Number of equity holdings	642	513	406	572	488	97
Meetings eligible to vote at	638	442	329	707	463	112
Resolutions eligible to vote on	7,846	5,306	2,308	9,923	7,665	1,614
Proportion of eligible resolutions voted on (%)	100	100	100	100	100	99
Votes with management (%)	71	86	72	93	82	85
Votes against management (%)	29	14	27	7	17	16
Votes abstained from (%)	<1	0	<1	0	<1	0
Meetings where at least one vote was against management (%)	94	75	67	46	75	44
Votes contrary to the recommendation of the proxy adviser (%)	23	11	16	6	8	12

Note: Totals may not sum due to rounding.

The Trustees were satisfied with the voting activity undertaken by the Scheme's investment managers over the year.

4. Conflicts of interest

This section assesses whether the managers are affected by the following conflicts of interest, and how these are managed.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;

2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;

3. The asset management firm's stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;

4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer;

5. Differences between the stewardship policies of managers and their clients.

LGIM

LGIM have not directly commented on which of the above conflicts of interest they are affected by.

The Trustees received a copy of the conflicts of interest policy from LGIM and will request sight of this document and details of any relevant conflicts of interest annually from LGIM.

Newton

Newton have declared that, in relation to the Real Return Fund, they were not affected by the five conflicts of interest detailed above in the reporting period. They have also declared that there were no other conflicts of interest that impaired their ability to manage the Real Return Fund.

5. Significant votes

Appendix 1 lists the most significant votes cast (as defined by the managers) in relation to the funds listed on page 1.

LGIM

In determining significant votes, LGIM's Investment Stewardship team consider the criteria provided by the Pensions & Lifetime Savings Association ("PLSA") guidance. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

LGIM have determined their ten most significant votes at a firmwide level. Consequently, fewer than ten votes have been provided for their funds. Furthermore, because of this approach, LGIM have not disclosed the size of the holding (as a proportion of the fund size).

Newton

Newton regard material issues as all votes against management, including where they support shareholder resolutions that the company's management are recommending voting against. As active managers, Newton invest in companies that they believe will support the long-term performance objectives of their clients. By doing so, Newton are making a positive statement about the business, the management of risks and the quality of management. Voting against management, therefore, is a strong statement that Newton thinks there are areas for improvement. As such, by not supporting management, Newton thinks that this is material, which is different to a passive investor where there is no automatic assumption of a positive intent in ownership. As such, Newton report publicly their rationale for each instance where they have voted against the recommendation of the underlying company's management.

At the fund level, Newton considers each instance of voting against management to be significant but if required to prioritise these instances, they take an objective approach that includes the fund's weighting in each security. This reflects their investment process and ensures the prioritised list includes those instances that could be most impactful to the long term value to the fund as well as those that may have an immediate impact to the fund.

Appendix 1 – Most Significant Votes

LGIM North America Equity Index Fund

Company name	Facebook, Inc.	McDonalds Corporation
Date of vote	May 2021	May 2021
Summary of the resolution	Resolution 1.9 Elect Director Mark Zuckerberg	Resolution 5 Report on Antibiotics and Public Health Costs
How you voted	Withhold	LGIM voted in favour of the shareholder resolution (against management).
Rationale for the voting decision	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.	LGIM voted in favour as they believe the proposed study will contribute to informing shareholders and other stakeholders of the negative externalities created by the sustained use of antibiotics in the company's supply chain and its impact on global health, with a particular focus on the systemic implications. Antimicrobial resistance (AMR) is a key focus of the engagement strategy of LGIM's Investment Stewardship team. LGIM believes that, without coordinated action today, AMR could prompt the next global health crisis, with a potentially dramatic impact on the planet, its people, and global GDP. Whilst LGIM applauds the company's efforts over the past few years on reducing the use of antibiotics in its supply chain for chicken and beef as well as pork, LGIM believes AMR is a financially material issue for the company and other stakeholders, and LGIM wants to signal the importance of this topic to the company's board of directors.
Outcome of the vote	97.2% of shareholders supported the resolution.	11.3% of shareholders supported the resolution.
Implications of the outcome	LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with the company and monitor progress.
On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of their voting policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM considers this vote to be significant as LGIM took the rare step of publicly pre-declaring it before the shareholder meeting. Publicly pre-declaring their vote intention is an important tool for LGIM's engagement activities. LGIM decide to pre-declare their vote intention for a number of reasons, including as part of their escalation strategy, where they consider the vote to be contentious, or as part of a specific engagement programme.

LGIM Japan Equity Index Fund

Company name	Mitsubishi UFJ Financial Group, Inc.	Shin-Etsu Chemical Co. Ltd.
Date of vote	June 2021	June 2021
Summary of the resolution	Resolution 3 Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement	Resolution 3.1 Elect Director Saito, Yasuhiko
How you voted	For	LGIM voted against the resolution (management recommendation: for).
Rationale for the voting decision	Climate change: A vote in favour of this shareholder proposal is warranted as LGIM expects companies to be taking sufficient action on the key issue of climate change. While LGIM positively note the company's recent announcements around net-zero targets and exclusion policies, they think that these commitments could be further strengthened and LGIM believes the shareholder proposal provides a good directional push.	LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on their behalf. For 10 years, LGIM have been using their position to engage with companies on this issue. As part of LGIM's efforts to influence investee companies on having greater gender balance and following a campaign on gender diversity in Japan in 2019, LGIM decided to escalate their voting policy. In 2020, LGIM announced they would be voting against all companies in the large-cap TOPIX 100 index that do not have at least one woman on their board. In 2021, LGIM expanded the scope of this policy to vote against TOPIX Mid 400 companies that do not have at least one woman on the board.
Outcome of the vote	22.7% of shareholders supported the resolution.	90.7% of shareholders supported the resolution.
Implications of the outcome	LGIM will continue to engage on this important ESG issue.	LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
On which criteria have you assessed this vote to be "most significant"?	LGIM views climate change as a financially material issue for clients, with implications for the assets they manage on their behalf. This was also a high profile proposal in Japan, where climate-related shareholder proposals are still rare.	LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on their behalf.

LGIM Asia Pacific (ex Japan) Developed Equity Index Fund

Company name	Sands China Ltd.	Suntec Real Estate Investment Trust
Date of vote	May 2021	April 2021
Summary of the resolution	Resolution 2a Elect Robert Glen Goldstein as Director	Resolution 1 Adopt Report of the Trustee, Statement by the Manager, and Audited Financial Statements and Auditors' Report
How you voted	LGIM voted against the resolution (against management)	Against
Rationale for the voting decision	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 LGIM have been voting against all combined board chair/CEO roles. Furthermore, LGIM have published a guide for boards on the separation of the roles of chair and CEO, and we have reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure.
Outcome of the vote	94.7% of shareholders supported the resolution.	98.6% of shareholder supported the resolution.
Implications of the outcome	LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with the company and monitor progress.
On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of their voting policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, their flagship engagement programme targeting some of the world's largest companies on their strategic management of climate change.

LGIM UK Equity Index Fund

Company name	Imperial Brands plc	Informa Plc
Date of vote	March 2021	June 2021
Summary of the resolution	Resolutions 2 and 3, respectively, Approve Remuneration Report and Approve Remuneration Policy.	Resolution 3, Re-elect Stephen Davidson as Director Resolution 5, Re-elect Mary McDowell as Director Resolution 7, Re-elect Helen Owers as Director Resolution 11, Approve Remuneration Report
How you voted	LGIM voted against both resolutions.	Against Resolutions 3, 5, 7, and 11 (against management recommendation).
Rationale for the voting decision	The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. A higher base salary has a consequential ripple effect on short and long-term incentives, as well as pension contributions. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association. An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Further, LGIM would expect companies to adopt general best practice standards. Prior to the AGM, LGIM engaged with the company outlining what their concerns over the remuneration structure were. They also indicated that they publish specific remuneration guidelines for UK-listed companies and keep remuneration consultants up to date with their thinking.	The company's prior three Remuneration Policy votes – in 2018, June 2020, and at a General Meeting that was called in December 2020 – each received high levels of dissent, with 35% or more of votes cast against. At the December 2020 meeting, the Remuneration Policy and the Equity Revitalisation Plan (EVP) received over 40% of votes against. The EVP was structured to award the CEO restricted shares to a value of 600% of salary. LGIM has noted their concerns with the company's remuneration practices for many years. Due to continued dissatisfaction, LGIM again voted against the proposed Policy at the December 2020 meeting. However, despite significant shareholder dissent at the 2018 and 2020 meetings, the company implemented the awards under the plan, a few weeks after the December meeting. Additionally, the Remuneration Committee has adjusted the performance conditions for the FY2018 long-term incentive plan (LTIP) awards while the plan is running, resulting in awards vesting where they would otherwise have lapsed. Due to consistent problems with the implementation of the company's Remuneration Policy and the most recent events as described above, LGIM has voted against the Chair of the Remuneration Committee for the past three years. Given the company has implemented plans that received significant dissent from shareholders without addressing persistent concerns, LGIM has taken the decision to escalate their vote further to all incumbent Remuneration Committee members, namely Stephen Davidson (Remuneration Committee Chair), Mary McDowell and Helen Owers.
Outcome of the vote	Resolution 2 (Approve Remuneration Report) received 40.26% votes against. Resolution 3 (Approve Remuneration Policy) received 4.71% of votes against.	Resolution 3 53.4% of shareholders supported the resolution. Resolution 5 80% of shareholders supported the resolution. Resolution 7 78.1% of shareholders supported the resolution. Resolution 11 38.3% of shareholders supported the resolution.

Implications of the outcome	LGIM continues to engage with companies on remuneration both directly and via IVIS, the corporate governance research arm of The Investment Association. LGIM annually publishes remuneration guidelines for UK listed companies.	LGIM will continue to seek to engage with the company and monitor progress.
On which criteria have you assessed this vote to be "most significant"?	LGIM are concerned over the ratcheting up of executive pay; and believe executive directors must take a long-term view of the company in their decision-making process, hence the request for executives' post-exit shareholding guidelines to be set.	LGIM consider this vote to be significant as they took the rare step of publicly pre-declaring it before the shareholder meeting. Publicly pre-declaring their vote intention is an important tool for their engagement activities. LGIM decide to pre-declare their vote intention for a number of reasons, including as part of their escalation strategy, where they consider the vote to be contentious, or as part of a specific engagement programme.

LGIM Europe (ex UK) Equity Index Fund

Company name	Total SE	Atlas Copco AB
Date of vote	May 2021	July 2021
Summary of the resolution	Resolution 6 Re-elect Patrick Pouyanne as Director	Resolution 9.b. Re-elect Hans Straberg as Board Chairman
How you voted	LGIM voted against the resolution (against management)	Against
Rationale for the voting decision	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 LGIM are voting against all combined board chair/CEO roles. Furthermore, LGIM have published a guide for boards on the separation of the roles of chair and CEO, and have reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.	LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on their behalf. For 10 years, LGIM have been using their position to engage with companies on this issue. As part of their efforts to influence investee companies on having greater gender balance, LGIM expects companies in well-governed markets to have at least 30% women on their boards.
Outcome of the vote	77.4% of shareholders supported the resolution.	N/A
Implications of the outcome	LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of their voting policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on their behalf.

BNY Mellon Real Return Fund

Company name	AstraZeneca Plc	Citigroup Inc
Date of vote	11-May-21	27-Apr-21
Summary of the resolution	Elect Directors X4, Approve Remuneration Policy, Amend Restricted Stock Plan	Amend Proxy Access Right
How you voted	AGAINST	AGAINST management proposals and FOR the shareholder proposal
Rationale for the voting decision	Votes were instructed against the remuneration policy, a new performance share plan, and members of the remuneration committee. Newton did not consider that the company had provided the necessary justification for significant increase in the variable pay awards that were granted to senior executives.	Newton voted in favour of one shareholder resolution that management recommended voting against. This was in relation to improving minority shareholder rights by way of providing shareholders with access to propose directors for election to the company's board.
Outcome of the vote	3.4%, 1.3%, 2%, 26% AGAINST Elect Director, 39.8% AGAINST Approve Remuneration Policy, 38.3% AGAINST Amend Restricted Stock Plan	32.1% FOR Amend Proxy Access Right
Implications of the outcome	UK best practice recognises that shareholder dissent in excess of 20% on remuneration-related proposals is significant and should result in proactive steps being taken by the company. In this case, with almost 40% of votes against pay proposals, the company is expected to consult with shareholders to determine and address underlying concerns.	The vote outcome, while not a majority, will be understood by the board as a matter of significant interest to the company's shareholders. It is a matter that should be addressed to avoid a further or increased public demonstration of concern.
On which criteria have you assessed this vote to be "most significant"?	The level of shareholder dissent merits this vote as significant.	This vote demonstrates the increased tendency of shareholders to vote in support of such proposals. In addition the actual level of support, at 32.1%, is considered significant.