

Implementation Statement, covering the Fund Year from 1 October 2022 to 30 September 2023 (the “Fund Year”)

The Trustee of the Smith & Nephew UK Pension Fund (the “Fund”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Fund Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Fund Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the [guidance](#) on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

1. Introduction

The SIP was reviewed and updated during the Fund Year in June 2023 with the main changes being to:

- reflect the purchase of the bulk annuity policy covering the Funds’ remaining members;
- update the voting and engagement policies to reflect the selection of some priority ESG themes to provide a focus for the Trustee’s monitoring of investment managers’ voting and engagement activities.

As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the Fund’s voting and engagement policies during the Fund Year.

2. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Fund’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

At the December 2022 meeting the Trustee received training on the DWP’s Stewardship Guidance and agreed the following priorities for the Fund: Business Ethics, Climate Change and Human Rights. These priorities were selected because the Trustee believes they represent key market-wide risks and are areas where good stewardship and engagement can improve long-term financial outcomes for our Fund’s members. The Trustee will review these priorities periodically. The Trustee communicated these priorities to the Fund’s managers in January 2023.

In February 2023 the Trustee reviewed its managers voting and engagement policies, in order to determine whether these aligned with the Trustee’s views. The Trustee also reviewed case studies of the managers’ votes and engagements which related to the Trustee’s stewardship priorities. This was done to allow the Trustee to better understand its managers’ different approaches to voting and engagement and form a view on their appropriateness for the Fund. The Trustee reviewed four different case studies across four managers covering climate change, human rights, business ethics and biodiversity. The Trustee was comfortable that the managers were able to provide examples of real-world engagement that address the Trustee’s three priority areas. However, the Trustee expects the quality of reporting to improve over time.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. However, following the completion of bulk annuity transaction in June 2023 which covered the Fund’s remaining members, the Fund’s remaining assets are invested in gilt and cash funds meaning that the opportunities for voting and engagement activities are more limited than has previously been the case.

3. Description of voting behaviour during the Fund Year

All of the Trustee's holdings in listed equities were held within pooled funds and the Trustee delegated to its investment managers the exercise of voting rights. Therefore, the Trustee was not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Fund Year. However, the Trustee monitors managers' voting and engagement behaviour on an annual basis and challenges managers where their activity has not been in line with the Trustee's expectations.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Fund's investments that hold equities as follows:

- LGIM Low Carbon Transition Developed Markets Equity Index Fund
- Newton Real Return Fund

3.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

LGIM's voting processes

LGIM's voting and engagement activities are driven by ESG professionals in its Investment Stewardship team. All client voting decisions are therefore made by the team in line with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents. 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, with the aim of fully integrating voting with engagement and to ensure consistent messaging to firms.

The team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares and for additional information only (meaning final voting decisions are made by the team, but voting recommendations are used to enhance research and ESG assessment tools). To ensure its proxy provider votes in accordance with its position on ESG, LGIM has a custom voting policy in place with specific voting instructions that apply to all markets globally. The Investment Stewardship team retains the ability to override any vote decisions that were based on its custom voting policy, for example due to additional information gained when engaging with a firm, and monitors votes including a regular manual check of votes that have been input on the ProxyExchange platform.

LGIM holds an annual 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 Investment Stewardship team. The views expressed at the roundtable form a key consideration in the development of LGIM's engagement policies, with ad-hoc feedback also taken into account.

Newton's voting processes

Newton has established overarching stewardship principles to guide voting decisions based on guidance established by internationally recognized governance principles including the OECD Corporate Governance Principles, the ICGN Global Governance Principles, the UK Investment Association's Principles of Remuneration and the UK Corporate Governance Code, in addition to other local governance codes.

All voting decisions are taken on a case-by-case basis, reflecting investment rationale, engagement activity and the company's approach to relevant codes, market practices and regulations. These are applied to the company's unique situation, while also taking into account any explanations offered for why the company has adopted a certain position or policy. It is only in the event that Newton recognises a material conflict of interest that Newton apply the vote recommendations of our third-party voting administrator.

Newton seeks to make proxy voting decisions that are in the best long-term financial interests of its clients and which seek to support investor value by promoting sound economic, environmental, social and governance policies, procedures and practices through the support of proposals that are consistent with four key objectives: to support the alignment of the interests of a company's management and board of directors with those of the company's investors; to promote the accountability of a company's management to its board of directors, as well as the accountability of the board of directors to the company's investors; to uphold the rights of a company's investors to effect change by voting on those matters submitted for approval; and to promote adequate disclosure about a company's business operations and financial performance in a timely manner.

In general, voting decisions are taken consistently across all Newton's clients that are invested in the same underlying company. This is in line with Newton's investment process that focuses on the long-term success of the investee company. Further, it is Newton's intention to exercise voting rights in all circumstances where it retains voting authority.

The Responsible Investment team reviews all resolutions for matters of concern. Any such contentious issues identified may be referred to the appropriate global fundamental equity analyst or portfolio manager for comment. Where an issue remains contentious, Newton may also decide to confer or engage with the company or other relevant stakeholders.

An electronic voting service is employed to submit voting decisions. Each voting decision is submitted via the electronic voting service by a member of the Responsible Investment team but can only be executed by way of an alternate member of the team approving the vote within the same system.

3.2 Summary of voting behaviour

A summary of voting behaviour over the Fund Year is provided in the table below.

	LGIM Low Carbon Transition Developed Markets Equity Index Fund	Newton Real Return Fund
Reporting period	1 October 2022 – 30 September 2023 (full redemption on 11 July 2023*)	1 October 2022 – 30 September 2023 (full redemption on 11 July 2023*)
Total size of fund at end of the Fund Year	£2,037m	£3,044m
Value of Fund assets at end of the Fund Year (£ / % of total assets)	nil	nil
Number of equity holdings at end of the Fund Year	1,468	67
Number of meetings eligible to vote	1,594	73
Number of resolutions eligible to vote	22,563	1,155
% of resolutions voted	99.9%	99.3%
Of the resolutions on which voted, % voted with management	78.0%	92.3%
Of the resolutions on which voted, % voted against management	21.8%	7.7%
Of the resolutions on which voted, % abstained from voting	0.2%	nil
Of the meetings in which the manager voted, % with at least one vote against management	81.5%	44.0%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	16.2%	4.7%

*The Fund fully disinvested from the LGIM Low Carbon Transition Developed Markets Equity Index Fund and the Newton Real Return Fund on 11 July 2023. Both managers are unable to provide data for the invested period only. Hence, the data from Newton and LGIM covers the full Fund Year.

9.3 Most significant votes

Commentary on the most significant votes over the Fund Year, from the Fund's asset managers who hold listed equities, is set out below.

The Trustee did not inform its managers which votes it considered to be most significant in advance of those votes.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria² for creating this shortlist. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to mean those that:

- occurred during the period in which the Fund was invested;
- align with the Trustee's stewardship priorities;
- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor;
- have a high media profile or are seen as being controversial;
- are shareholder resolutions which received material support.

The Trustee has reported on three of these significant votes per fund only as examples of the most significant votes. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee. The Trustee excluded the next steps for each vote, since the Pension Fund fully redeemed from both funds during the Fund Year.

Newton Real Return Fund

Newton's defines significant votes as ones that are likely to generate significant scrutiny from end clients or other stakeholders. They may relate to resolutions that receive a particularly high proportion of dissent from investors or involve a corporate transaction or resolutions raised by shareholders.

The Trustee considers the following three Newton votes to be among their "most significant votes" over the Fund Year until the full redemption date (11 July 2023):

Lockheed Martin Corporation, April 2023

- **Summary of resolution:** Report on efforts to reduce greenhouse gas emissions in alignment with Paris Agreement goal
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** 1.0%
- **Why this vote is considered to be most significant:** Due to the rarity of a shareholder proposal receiving substantial support. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** Newton agreed that more information on the company's plans to transition towards a low carbon economy would help shareholders better assess this risk.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

Unilever Plc, May 2023

² [Vote reporting template for pension scheme implementation statement – Guidance for Trustees \(plsa.co.uk\)](#). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.

- **Summary of resolution:** Approve remuneration report
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 1.2%
- **Why this vote is considered to be most significant:** It failed due to substantial levels of shareholder dissatisfaction with the pay decisions made by the company. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** For
- **Fund manager vote:** Against
- **Rationale:** Newton did not believe there was compelling rational to grant the significant executive pay increases being proposed.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

NextEra Energy, Inc., May 2023

- **Summary of resolution:** Disclose board skill and diversity matrix
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 0.5%
- **Why this vote is considered to be most significant:** Due to the materiality of the issue at hand and high level of support for the shareholder's motion. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** Newton believed the disclosure of a board skills and diversity matrix would help shareholders to assess how the company is managing related risks.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

LGIM Low Carbon Transition Developed Markets Equity Index Fund

LGIM determines the voting situations it deems to be significant to include but not be limited to:

- high profile votes which have such a degree of controversy that there is high client and/or public scrutiny
- votes where there is significant client interest for a vote that has been directly communicated by clients to the Investment Stewardship team
- sanction votes as a result of a direct or collaborative engagement; and
- votes linked to an L&G engagement campaign in line with L&G's 5-year ESG priority engagement themes.

The Trustee considers the following three LGIM votes to be among their "most significant votes" over the Fund Year until the full redemption date (11 July 2023):

Amazon.com, Inc. , May 2023

- **Summary of resolution:** Report on median and adjusted gender/racial pay gap
- **Relevant stewardship priority:** Human Rights
- **Approx size of the holding at the date of the vote:** 2.0%
- **Why this vote is considered to be most significant:** LGIM views gender diversity as a material issue for its clients and the assets it manages on their behalf. Additionally, it is linked to one of the Trustee's stewardship priorities.

- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote:** Failed

Alphabet Inc., June 2023

- **Summary of resolution:** Approve recapitalization plan for all stock to have one vote per share
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 1.3%
- **Why this vote is considered to be most significant:** A material number of shareholders (30.2%) supported the proposal despite it not being successful. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM expects companies to apply a one-share-one-vote standard to strengthen shareholder rights
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

JPMorgan Chase & Co., May 2023

- **Summary of resolution:** Disclose transition plan describing efforts to align the financial activities with 2030 emission reduction target.
- **Relevant stewardship priority:** Climate change
- **Approx size of the holding at the date of the vote:** 0.8%
- **Why this vote is considered to be most significant:** LGIM pre-declared its intention to support the resolution. LGIM sees the issue of decarbonisation of the banking sector as key to ensuring the Paris Agreement goals are met. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM generally support resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published emission reduction targets.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote:** Failed