

Implementation Statement, covering the Fund Year from 1 October 2021 to 30 September 2022

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.

1. Introduction

The SIP was reviewed and updated on 25 October 2022 with the main changes being to:

- reflect several agreed changes to the investment strategy;
- reflect that BMO Global Asset Management has been acquired by Columbia Threadneedle Investments; and
- update wording regarding the Trustee’s responsible investment (“RI”) beliefs, in particular to clarify that the Trustee will consider credible investment options that give increased weight to ESG considerations.

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

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.

In March 2022, the Trustee reviewed LCP’s responsible investment scores for the Fund’s existing managers and funds, along with LCP’s qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP’s ongoing manager research programme and it is these that directly affect LCP’s manager and fund recommendations. The manager scores and red flags are based on LCP’s Responsible Investment Survey 2022. All managers and funds received good ratings (3 or 4 with the 4 being the strongest), except for the M&G Alpha Opportunities Fund which achieved a score of 2, reflecting LCP’s view that M&G had not evolved as quickly as their peers with regards to how responsible investment factors are integrated into the investment process. The Trustee was satisfied with the results of the review and no further action was taken.

In August 2022, the Trustee invested in the LGIM Low Carbon Transition Fund to reduce the Fund’s exposure to climate risk and improve stewardship (through voting and engagement) by holding physical equities rather than equity derivatives within the LDI portfolio. The Trustee was also comfortable that LGIM is considered a market leader with regards to its stewardship activities.

3. Description of voting behaviour during the year

a. Newton’s voting processes

Newton’s head of responsible investment is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company’s individual circumstances, Newton’s investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, Newton may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). All voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence.

It is also only in these circumstances when Newton may register an abstention given Newton's stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures Newton does not provide confusing messages to companies.

Newton employs a variety of research providers that aid it in the vote decision-making process, including proxy advisors such as ISS. Newton utilises ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

Voting decisions take into account local market best practice, rules and regulations while also supporting Newton's investment rationale.

b. 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.

c. GMO's voting processes

GMO has engaged ISS as its proxy voting agent to:

- Research and make voting recommendations or, for matters for which GMO has so delegated, to make the voting determinations;
- Ensure that proxies are voted and submitted in a timely manner;
- Handle other administrative functions of proxy voting;
- Maintain records of proxy statements received in connection with proxy votes and provide copies of such proxy statements promptly upon request;
- Maintain records of votes cast; and
- Provide recommendations with respect to proxy voting matters in general.

GMO will generally vote proxies in accordance with the voting recommendations contained in the applicable ISS Sustainability Proxy Voting Guidelines, as in effect from time to time, subject to such modifications as may be determined by GMO.

There may be circumstances under which a portfolio manager or other GMO investment professional believes that it is in the best interest of a client or clients to vote proxies in a manner inconsistent with the proxy voting guidelines

described. In such an event, the GMO investment professional will inform GMO's Corporate Actions Group of its decision to vote such proxy in a manner inconsistent with the proxy voting guidelines.

12.2 Summary of voting behaviour over the Year

A summary of voting behaviour over the respective reporting periods is provided in the table below.

	Newton Real Return Fund	LGIM Low Carbon Transition Developed Markets Equity Index Fund	GMO Global Real Return (UCITS) Fund
Reporting period	1 October 2021 – 30 September 2022	1 October 2021 – 30 September 2022 (inception on 24 August 2022*)	1 October 2021 – 28 June 2022 (full redemption on 29 June 2022)
Total size of fund at end of the reporting period	£4,310m	£1,507m	£936m
Value of asset holding at end of the Fund Year	£42.5m	£28.2m	nil
Number of equity holdings at end of the reporting period	71	1,562	1,350
Number of meetings eligible to vote	80	1,770	1,408
Number of resolutions eligible to vote	1330	23,979	15,929
% of resolutions voted	100.0%	99.7%	96.9%
Of the resolutions on which voted, % voted with management	88.0%	78.7%	87.5%
Of the resolutions on which voted, % voted against management	12.0%	21.1%	10.7%
Of the resolutions on which voted, % abstained from voting	0%	0.2%	1.7%
Of the meetings in which the manager voted, % with at least one vote against management	45%	80.4%	48.1%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	8.1%	14.7%	0.6%

* The Fund invested in the LGIM Low Carbon Transition Developed Markets Equity Index Fund on 24 August 2022, though, LGIM were unable to provide data for the invested period only. Hence, the LGIM data covers the full Fund Year.

12.3 Most significant votes over the Fund Year

Commentary on the most significant votes over the Fund Year, from the Fund's asset managers who hold listed equities, is set out below. Where possible we have shown examples that correspond to the Trustee's agreed stewardship priorities, being business ethics, climate change and human rights.

Newton Real Return Fund:

Newton has determined all votes against management as material. As an active manager, Newton is invested in companies that it believes will support the long term performance objectives of its clients. By doing so, it is 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 of improvement that need addressing.

The Trustee considers the following three Newton votes to be among their "most significant votes" over the Fund Year:

Alphabet Inc., June 2022:

Newton voted against management in support of shareholder proposals for Alphabet to produce reports on climate change lobbying policy, racial equity, human rights practices and others.

The company faced allegations concerning racial discrimination and questions around the due diligence process it follows when assessing the risk of doing business in countries with significant human rights concerns. Additionally, it had emerged that Alphabet was a member of several trade organisations that aim to obstruct climate policy, which is at odds with Alphabet's goal of running on carbon-free energy by 2030. Newton believed it was necessary for the company to provide greater disclosure around these issues so shareholders could adequately assess the risks they posed.

Bayer AG., April 2022:

Newton voted against the company's existing executive remuneration arrangements because they did not agree that the supervisory board had exercised discretion over the short-term incentive plan for executives appropriately, illustrating their dissatisfaction regarding the pay practices of the company.

Newton saw this as a key reason that executive compensation had been continually increasing in recent years, despite Bayer's share price lagging the benchmark.

ConocoPhillips, May 2022:

Newton voted against proposed changes to executive remuneration and the ratification of the company's auditor. As well as this, they supported a shareholder proposal requesting reporting on greenhouse gas targets across the company's value chain.

Newton voted against the proposed changes to the remuneration arrangements because they were concerned that awards were constantly earned above targets, raising doubts that they effectively incentivised good performance. The company's auditor had a tenure approaching 74 years, which Newton believed may have compromised its independence and objectivity. The vote for increased disclosure around emission targets was due to concerns that the board had not been responsive to previously agreed proposals concerning the disclosure of Scope 3 emissions.

LGIM Low Carbon Transition 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 period from 24 August 2022 (when the Pension Fund invested) to 30 September 2022:

NetApp, Inc., September 2022:

LGIM voted against electing T. Michael Nevens as Director because the NetApp had an all-male Executive Committee.

Since 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time. LGIM views gender diversity as a financially material issue for its clients. This vote was deemed significant due to the escalation and expansion of LGIM’s stance on all-male Executive Committees.

Conagra Brands, Inc., September 2022:

LGIM voted in favour of the resolution requiring independent Board Chairmen because they expect companies to separate the roles of Chair and CEO due to risk management and oversight. LGIM believes that 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 they have voted 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 reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.

Twitter, Inc., September 2022:

LGIM voted against a proposal to introduce lucrative settlement payments to top executives in the event that their employment is terminated (so called golden parachutes).

LGIM does not support the use of golden parachutes as they do not think it is fair or aligned with maximising the long-term growth and performance of a business. This vote was considered to be significant given the high profile nature of the meeting. Golden parachute payments were a particularly pertinent issue for Twitter at the time as the takeover by Elon Musk was gathering momentum.

GMO Real Return (UCITS) Fund:

The GMO Global Real Return (UCITS) Fund is managed by GMO’s Asset Allocation team and they take investment exposures from a number of underlying GMO investment teams, some of which are fundamental and some are quantitative or combined in style. As such GMO has indicated that it is not possible to determine what constitutes a “significant vote” at the portfolio level. GMO therefore was not able to provide the Trustee with a list of significant votes so we have not been able to provide further details on GMO’s significant votes, in addition to the information set out in the table above. The Trustee itself takes the view that votes against management may reasonably be considered to be significant, which are referred to in that table.

The Trustee fully redeemed the Fund’s holdings with GMO on 29 June 2022.