

Thomson-Leng Superannuation Fund ('the Fund')


Annual Engagement Policy Implementation Statement for the Year Ended 31 March 2023

1. Introduction

This statement sets out how, and the extent to which, the Fund's Engagement Policy has been followed during the year running from 1 April 2022 to 31 March 2023 (the "Fund Year"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the SIP that was in place for the Fund Year, which is the SIP dated September 2022.

Sections 2.1 and 2.2 of this statement sets out the investment objectives of the Fund and changes which have been made to the Statement of Investment Principles ("SIP") during the Fund Year, respectively.

 A copy of the SIP is available at: <https://www.dcthomson.co.uk/pension-fund-statement-of-investment-principles/>

DWP released a set of Implementation Statement requirements on 17 June 2022, "Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance" to be adopted in all Implementation Statements for schemes with years on or after 1 October 2022. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

- A significant vote is defined as one that is linked to the Scheme's stewardship priorities/themes;
- A vote could also be significant for other reasons, e.g. due to the size of holding;
- Trustees are to include details on why a vote is considered significant and rationale for voting decision.

Sections 3 and 4 include information on the engagement and significant voting activities of the underlying investment managers of the Fund, and also sets out how the Fund's engagement and voting policy has been followed during the Fund Year. **The Trustee can confirm that all policies in the SIP on investment rights (including voting) and engagement have been followed during the Fund Year.**



2. Statement of Investment Principles

2.1. Investment Objectives of the Fund

The Trustee believes it is important to consider the policies in place in the context of the objectives they have set.

The Trustee's primary objective is to make sure the Fund can meet its obligations to the beneficiaries of the Fund. At a minimum this means paying members the value of their accrued account increased in line with the Fund's investment income at retirement. Discretionary contributions may also be allocated to member accounts by the Company in order to help member accounts reach aspirational levels although this is not guaranteed. Accordingly, the key long term objective of the Trustee is to generate a strong return on investments with an emphasis on income generation. The Trustee has also considered the need for liquidity within the investment arrangements to ensure they can pay benefits as they fall due and the need to understand the future cashflow profile of the Fund when agreeing to proposed discretionary increases.



2.2. Review of the SIP

The Trustee reviewed the Fund's SIP at the Trustee meeting in September 2022 after taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). The SIP was updated to show the appointment of Multrees Investor Limited as custodian of the Fund's assets and to reflect Wm Thomson's comments in Section 3 (Risk Management and Measurement) and Section 8 (Engagement with the Investment Manager). The Trustee consulted with the Sponsoring Employer in finalising the SIPs.

2.3. Policy on ESG, Stewardship and Climate Change

The Fund's SIP includes the Trustee's policy on ESG factors, stewardship and climate change. Further details are included in Section 7 of the SIP. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. In summary, The Trustee believes that Environmental, Social and Governance (ESG) factors can have an impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has given its appointed investment manager full discretion in evaluating ESG factors and exercising the voting rights and stewardship obligations attached to the investments, for the Fund's directly held securities. The Trustee also recognises that as the investment manager invests assets in pooled funds and investment trusts, these assets are subject to the Responsible Investment and Corporate Governance policies of the individual underlying investment managers which are monitored by the investment managers.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by the investment consultant on responsible investment. The training covered ESG factors, stewardship, climate change and ethical investing. This training was provided at the December 2020 Provident Fund Trustee meeting. At this meeting, the Trustee's investment beliefs were discussed with the investment consultant and investment manager to assist the Trustee with establishing their policy in this area. Following the discussions at the Trustee meeting, the updated policies were incorporated into the SIP agreed in September 2020. The Trustees keep policies under regular review with the SIP subject to review at least triennially. At the June 2023 Provident Fund Trustee meeting, the Trustee agreed that it would be helpful to start to consider what, as a group, their ESG and climate change views and beliefs are to help them develop a Trustee Board policy on ESG and climate change. The Trustee agreed to work in conjunction with Mercer to circulate an ESG belief questionnaire to the Trustee Directors and Wm Thomson to collate the Trustee Board's views and objectives on ESG issues.

3. Examples of Engagement Activity by the Fund's Investment Managers

The following are examples of engagement activity undertaken by one of the Fund's Equity investment managers. We have shown engagement activity undertaken by Baillie Gifford as the largest allocation to an individual investment manager in the Fund is held in the Scottish American Investment Company PLC, an investment trust managed by Baillie Gifford.

See section 4 below for more details on how the Trustee's policies on engagement have been implemented, as well as its policies on the exercise of investment rights (including voting).

Baillie Gifford engaged with...

1. Starbucks Corporation following the public criticism of the company's aggressive response to workers' unionisation to understand how Starbucks plan to engage with workers on this matter



Discussion: Baillie Gifford spoke to Chair Melody Hobson about Starbucks' aggressive response to unionisation efforts in the US and how it could lower the temperature of this relationship. She assured us that management respect the right to unionise and will negotiate with unionised branches 'in good faith'. She also accepted that it took a while for management to properly communicate to the employee base why it believes that a non-intermediated relationship offers its employees more flexibility. During the day and our conversations with other executives, management demonstrated that it prioritises worker satisfaction above many other considerations.

Outcome: Engagement assured Baillie Gifford of Starbucks' commitment to unions' right to unionise and its responsibility to negotiate in good faith.

2. Microsoft Corporation to understand its approach to data privacy, as we believe it to be one ESG risk that, if compromised, could significantly impact Microsoft's long-term business prospects and our trust in management

Discussion: Baillie Gifford's engagement call provided insights into the rules, processes and teams that determine decisions related to artificial intelligence (AI) at Microsoft - which, as a subset of data privacy, helps them understand human rights issues in development and data storage. It also offered examples of Microsoft's advocacy in regulating this space. However, while it provided evidence of independent analysis of human rights risks at Microsoft, Baillie Gifford were not reassured fully on the company's management of conflicts of interest between short-term business gains and data privacy concerns.

Outcome: Microsoft is demonstrating a lot of leadership in the data privacy and human rights arena - its reporting, governance structures, expertise and examples of turning down government requests to protect customers are strongly indicative of a company taking its responsibility seriously. However, given how dynamic this ESG risk is, Baillie Gifford will continue to monitor the company's approach.



4. Voting Activity and Engagement during the Fund Year

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Fund's directly held investments to the appointed investment manager, William Thomson & Sons ("Wm Thomson"). In addition, it is the Trustee's policy to obtain reporting on voting and engagement and periodically review the reports to ensure the policies are being met. Further details are set out in Section 8 (Engagement with the Investment Manager) of the SIP.

How has this policy been met over the Fund Year?

Over the year to 31 March 2023, voting and engagement summary reports from the Fund's investment managers were available to the Investment Committee for review to ensure that they were aligned with the Trustee's policy. The Trustee does not use the direct services of a proxy voter.

The Trustee supports the aims of the UK Stewardship Code and its investment managers are encouraged to report their adherence to the Code. The Fund's investment manager, Wm Thomson & Sons, is not a signatory to the current UK Stewardship Code.

Set out below is a sample of voting activity for this reporting period and overleaf a sample of the most significant votes cast on behalf of the Trustee by the Scottish American Investment Company PLC (the "SAIC"), the Fund's largest collective investment vehicle holding.

Holding	Number of Proposals eligible to vote on	Vote Date	Vote Instruction
Apple	17	10/03/2023	For 12 proposals, 5 against. The SAIC opposed a shareholder resolution requesting the company report annually on its operational dependence on China. The company explained that it has an Enterprise Risk Committee which assesses, and reports to the board, all business related risks, and while the company could offer more disclosure around the discussions the committee is having, the SAIC do not have concerns that the committee is fulfilling its role at this time.
Starbucks Corp	16	23/03/2023	For 12 proposals, 4 against. The SAIC supported a shareholder proposal on freedom of association. In light of several recent high profile controversies, the SAIC believe that shareholders would benefit from a more thorough examination of the compliance of the company's policies and practices with international fundamental rights.
Microsoft	20	13/12/2022	For 15 proposals, 5 against.
Cisco Systems	15	08/12/2022	For 13 proposals, 2 against. The SAIC opposed executive compensation because they did not believe the performance conditions were sufficiently stretching.
Coca Cola	16	26/04/2022	For 12 proposals, 5 against and 1 abstain.

Source: WM Thomson



Sample of the most significant votes

For the purposes of this report, a significant holding is defined as being the top three direct equities by market value at 31 March 2023. The top three direct equity holdings on 31 March 2023 were BP plc, Shell plc and SSE plc. The priority themes being focussed on in this slide are:

- Climate Change: including low-carbon transition and physical damages resilience,
- Human Rights: including modern slavery, pay and safety in the workforce and supply chains; and
- Diversity, Equity and Inclusion: including inclusive and diverse decision making.





Resolution passed



Resolution not passed

Company	Approximate size of the holding in the Fund (%)	Date of vote	How the Manager voted	Stewardship theme	Rationale of Manager vote	Final outcome following the vote
BP plc	1.79	12/05/2022	For	Climate change	Wm Thomson, on behalf of the Fund, supported a resolution to approve the report detailing the ambition and actions to achieve net zero carbon. No material concerns noted.	
BP plc	1.79	12/05/2022	Against	Climate change	Wm Thomson, on behalf of the Fund, voted against a resolution to ask that BP set and publish targets that are aligned with the goal of the Paris Climate Agreement as well as to publish the strategy used to support these aims and provide updates on progress. This resolution appears to be part of a wider organised campaign to bring resolutions to the AGMs of multiple oil and gas producers. While Wm Thomson were cognizant of the risks of climate change and the urgency these shareholders feel, the company already has a binding agreement in place to publish the requested data following a resolution at the 2019 AGM.	
Shell plc	2.15	24/05/2022	Against	Climate change	Wm Thomson, on behalf of the Fund, supported a resolution to ask that Shell set and publish targets that are aligned with the goal of the Paris Climate Agreement as well as to publish the strategy used to support these aims and provide updates on progress. This resolution appears to be part of a wider organised campaign to bring resolutions in this vein to the AGMs of multiple oil and gas producers. While Wm Thomson were cognizant of the risks of climate change and the urgency these shareholders feel, the specifics of the reporting sought by this resolution are already being published in line with the existing strategy.	

Source: Wm Thomson

Company	Approximate size of the holding in the Fund (%)	Date of vote	How the Manager voted	Stewardship theme	Rationale of Manager vote	Final outcome following the vote
Shell plc	2.15	24/05/2022	For	Diversity, Equity and Inclusion	Wm Thomson, on behalf of the Fund, supported a resolution related to the election or re-election of directors. No issues were identified with any individual, and it was noted that 6 of the 11 proposed individuals are female, which was considered sufficiently diverse. Please note no data was available regarding the board member's ethnicity, gender identity or sexual orientation, and so these factors were not considered.	
SSE plc	1.86	21/07/2022	For	Human Rights (pay)	Wm Thomson, on behalf of the Fund, supported a resolution to approve an amendment to the existing Performance Share Plan. It was noted that there was an increase of award opportunities of 50% of salary for the CEO and other executives. This was explained by these being reflective of the stretch levels associated with the Net Zero Acceleration Programme, and shareholding requirements were increased concurrently.	
SSE plc	1.86	21/07/2022	For	Climate Change	Wm Thomson, on behalf of the Fund, supported a resolution to seek approval for the Net Zero Transition report. No concerns were noted.	

Source: Wm Thomson