



Community Staff Pension Fund

Implementation Statement for year ended 31 March 2023
July 2023

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Introduction

This statement has been prepared by the Trustees of the Community Staff Pension Fund (the “Trustees” and the “Fund” respectively) with input from its Investment Consultants. The statement demonstrates how the Trustees have acted on certain policies within their Statement of Investment Principles (SIP).

Each year the Trustees must produce an Implementation Statement that demonstrates how they have followed certain policies within their SIP over the Fund year. This Implementation Statement covers the year from 1 April 2022 to 31 March 2023.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit (DB) investments held by the Fund. Note that this excludes any Additional Voluntary Contribution investments held by the Fund.

Trustees of DB pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including a description of their voting behaviour, the most significant votes cast and any use of a proxy voter on their behalf over the year.

SIP policies

This Implementation Statement should be read in conjunction with the Fund’s SIPs covering the year under review which gives details of the Fund’s investment policies along with details of the Fund’s governance structure and objectives. Over the year to 31 March 2023 the Fund’s SIP included policies such as:

- “The Trustees’ policy is to invest in pooled investment vehicles. It is the Investment Manager that is responsible for the exercise of rights (including voting rights) attaching to these investments.”
- “The Trustees’ policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Fund’s interests in the investments, having regard to appropriate advice.”
- “The Trustees expect the Investment Manager to engage with investee companies (and other relevant persons including, but not limited to, investment managers, issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees’ investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.”
- “The Trustees recognise the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustees have set an appropriate monitoring framework to ensure the Fund’s Investment Manager is regularly reviewed. The monitoring framework is intended to promote greater transparency and improved understanding of the reasons behind performance trends and key risk exposures.”

This Implementation Statement reviews the voting and engagement activities as well as the extent to which the Trustees believe the new policies have been followed over the 12-month period to the year end 31 March 2023. The Trustees also stated the following policies in the SIP covering the exercise of voting rights and engagement activities related to its investments:

- “The Trustees recognise the importance of regular monitoring of the Investment Manager’s performance, remuneration and compliance against ESG policy to ensure that the Fund’s assets are being managed appropriately. Regular monitoring and communication with the Investment Manager, with specific reference to ESG factors, will incentivise the Fund’s Investment Manager to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.”
- “In addition to performance measures, the Trustees will review the engagement activity of the Investment Manager to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustees will also monitor the voting activity of the Investment Manager to ensure votes are being used and are aligned to their views on ESG.”
- “If the Trustees believe that the Fund’s Investment Manager is no longer acting in accordance with the Trustees’ policies, including those regarding ESG and engagement with investee organisations to assess and improve their medium to long-term financial and non-financial performance, the Trustees will take the following steps:

- engage with the Investment Manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement Investment Manager or managers which are more closely aligned with the Trustees' policies and views."

Description of voting and engagement behaviour

The Trustees review and monitor the voting and engagement activity taken by the investment manager, Legal & General Investment Management ("LGIM") on their behalf. Information published by LGIM provides the Trustees with comfort that their voting and engagement policies have been followed during the year.

Over the year to 31 March 2023, the Fund was invested in one mandate where the underlying assets included publicly listed equities. This is the sterling hedged share class of the All World Equity Index Fund managed by LGIM. The following table shows LGIM's voting summary covering the Fund's investment in the All World Equity Index Fund:

LGIM All World Equity Index Fund – GBP Hedged	1 April 2022 – 31 March 2023
No. of meetings eligible to vote at	6,728
No. of resolutions eligible to vote on	68,320
Eligible resolutions voted on	99.9%
Of resolutions voted on, resolutions voted with management	79.1%
Of resolutions voted on, resolutions voted against management	19.7%
Of resolutions voted on, resolutions abstained from voting	1.2%
Percentage of eligible meetings where LGIM voted at least once against management	63.4%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser	10.4%

Note that totals may not sum due to rounding.

Proxy voting

The Trustees did not employ a proxy-voting service during the year under review.

LGIM votes by proxy as, given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Services' (ISS) electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service (IVIS). To ensure LGIM's proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

How engagement policies have been followed

The Trustees intend to review a summary of the voting and engagement activity taken on their behalf on a regular basis going forwards. The information published by the Investment Manager on their voting policies has provided the Trustees with comfort that their voting and engagement policies have been followed during the Fund year.

As set out in the SIP, the Trustees expect LGIM to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	Y	The voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	Y	The Trustees believe that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustees also believe that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration. LGIM has clear voting policies covering each of these topics and has acted on them throughout the Fund year on behalf of the Trustees.
Capital structure	Y	LGIM has policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance. For example, LGIM has a policy that newly issued shares should not expose minority shareholders to excessive dilution.
Conflicts of interest	Y	Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with company performance.
Risks	Y	LGIM has clear voting policies on ensuring that companies manage risk effectively and have robust internal controls. As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors.
Corporate governance	Y	LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. LGIM has reinforced their position on leadership structures across our stewardship activities such as via individual corporate engagements and director conferences.
Social and environmental impact	Y	<p>LGIM has stated that it will vote against the chair of the board if it believes insufficient action is being taken on the issue of climate change.</p> <p>LGIM has engaged with companies that have poor climate scores relative to their size and for those that don't meet minimum standards and if these minimum standards are not met over time, LGIM may look to divest until progress is shown.</p>

Significant votes

In determining significant votes, LGIM's Investment Stewardship team takes into account 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.

A large number of the most significant votes cast by LGIM related to the election of directors with the majority of instances being against such resolutions or in favour of requiring an independent board chair. LGIM has a longstanding

policy advocating for the separation of the roles of CEO and board chair noting the belief that the two roles are substantially different and require distinct skills and experiences. Since 2015 LGIM has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 LGIM has adopted the view of voting against all combined board chair/CEO roles.

A number of significant votes also related to favouring of reports or goals related to climate change such as a Report on Physical Risks of Climate Change for Alphabet Inc. LGIM noted its expectation of companies to be taking sufficient action on the key issue of climate change.

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. LGIM have provided examples of what they believe to be the most significant votes cast on the Trustees behalf during the period.

Engagement with investee companies

Exercising voting rights is not the only method of influencing behaviours of investee companies. Non-equity investments such as the Fund's corporate bond holdings can also include engagement activities but these investments do not carry voting rights.

The Trustees expect the investment manager to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments.

LGIM actively engages with the investee companies through direct messages, meetings, and engagements via email to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

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 clients. LGIM's voting policies are reviewed annually and take into account client feedback.

Over the 12 months to 31 March 2023, LGIM undertook 1,088 engagements with 950 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 571 on environmental topics;
- 327 on social topics;
- 433 on governance issues; and
- 123 on other topics including finance and strategy.

The top five engagement topics included climate change, remuneration, board composition, strategy and climate impact pledges.

The engagement statistics for each of the funds invested in, excluding the Over 5 Year Index-Linked Gilts Index Fund, are shown below. The engagement statistics are for the 12-month period to 31 March 2023.

Fund	Environmental	Social	Governance	Other
All World Equity Index Fund	360	205	249	95
AAA-AA-A Corporate Bond Over 15 Year Index Fund	40	18	32	15
Managed Property	23	1	8	1

Extent to which the Trustees' policies have been followed during the year

Having reviewed the actions taken by LGIM, the Trustees believe that their policies on engagement and voting rights (where applicable) have been implemented appropriately and in line with the Investment Manager's policies over the year. The Trustees will continue to monitor the actions taken on their behalf each year whilst pressing for improved information from LGIM, particularly with respect to ESG factors.

If the Investment Manager deviates substantially from the Trustees' stated policies, the Trustees will initially engage with LGIM in an attempt to influence its policies on ESG and stewardship. If it is concluded that the difference between the policies and LGIM's actions are material, the Trustees will consider terminating the mandate and appointing a replacement manager more closely aligned with the Trustees' policies and views.

For and on behalf of the Community Staff Pension Fund

August 2023

Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

