Implementation Statement, covering the Scheme Year from 1 July 2022 to 30 June 2023

The Trustee of the Hermes Group Pension Scheme (the "Scheme") 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 Scheme Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of the Trustee (including the most significant votes cast by the Trustee or on its 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 Scheme Year in December 2022 and in May 2023 to reflect the following:

- the review of the investment strategy in October 2022, as part of the Trustee's approach to maintaining the agreed interest rate and inflation hedging;
- the adoption of a 95% strategic interest rate hedge ratio as agreed by the Trustee in June 2022; and
- the Trustee's Net Zero ambition and expectation that the Scheme's investment managers and advisers help the Trustee achieve this ambition.

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 all of the policies in the Scheme's SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

2. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. These policies are:

- LGIM: 2022 UK Stewardship Code Summary (lgim.com)

The Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. 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 Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

The Trustee reviews LCP's responsible investment (RI) scores for the Scheme's existing managers as part of the Scheme's quarterly performance monitoring report. These scores cover the manager's approach to ESG factors, voting and engagement and are based on LCP's 2022 Responsible Investment Survey. The Trustee also considers individual fund RI scores and assessments which are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's manager and fund recommendations.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. At the December 2022 Trustee meeting, the Trustee discussed and agreed stewardship priorities for the Scheme which were:

- Climate change; and
- Corporate transparency.

These priorities were selected as market-wide risks and areas where the Trustee believes that good stewardship and engagement can improve long-term financial outcomes for the Scheme's members, as well as being areas that it thought members might consider most important, and has alignment with the Employer's priorities.

The Trustee's investment advisor, LCP, communicated these priorities to the managers on behalf of the Trustee in April 2023. In the correspondence, LCP confirmed what the Trustee's stewardship priorities are, as well as what the expectations of the investment managers are. All of the Scheme's investment managers have acknowledged the notification and confirmed that these priorities are taken into account in their ongoing stewardship and engagement activities with investee companies.

At the March 2023 Trustee meeting, the Trustee discussed and agreed to adopt a Net Zero ambition to help mitigate climate risk. A net zero ambition demonstrates to the Scheme's members and Scheme's investment managers that managing climate risk is an important priority for the Scheme and is in line with the Trustee's stewardship priorities. The majority of the Scheme's investment managers are signatories to the Net Zero Asset Managers initiative (NZAMI).

At the May 2023 Trustee meeting, the Trustee reviewed the FRC's feedback received by the Scheme's investment managers' following their FRC Stewardship Code submission.

The Trustee regularly invites the Scheme's investment managers to present at Trustee meetings. The Trustee met with Aegon at its meeting on 6 September 2022 and with Legal & General at its meeting on 1 December 2022 to discuss the Scheme's investments. When Aegon and Legal & General presented to the Trustee, the Trustee asked several questions about the managers' voting and engagement practices.

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. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

3. Description of voting behaviour during the Scheme Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme 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 Scheme's funds that hold equities as follows:

- L&G Low Carbon Transition Global Equity Index Fund
- L&G Low Carbon Transition Global Equity Index Fund (GBP Hedged)

In addition to the above, the Trustee contacted the Scheme's other asset managers (Abrdn, Aegon, Barings and M&G) that don't hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the Scheme Year. These managers confirmed that they did not have any voting opportunities over the period.

3.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which Legal & General has in place.

Legal and General Investment Management ("LGIM")

LGIM's voting and engagement activities are driven by ESG professionals. Their assessment of the requirements in these areas seeks to achieve the best outcome for LGIM's clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients. All decisions are made by LGIM's investment stewardship team and in accordance with its 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 companies.

The team uses Institutional Shareholder Services' ("ISS") '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, which are reviewed on an annual basis, with ad-hoc feedback also taken into account

3.2 Summary of voting behaviour

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

	Fund 1	Fund 2
Manager name	LGIM	LGIM
Fund name	Low Carbon Transition Global Equity Index Fund	Low Carbon Transition Global Equity Index fund- GBP Hedged
Total size of fund at end of the Scheme Year	£3.4bn	£0.9bn
Value of Scheme assets at end of the Scheme Year (£ / % of total assets)	£1.5m / 0.9%	£4.6m / 2.8%
Number of equity holdings at end of the Scheme Year	2,811	2,811
Number of meetings eligible to vote	4,546	4,546
Number of resolutions eligible to vote	46,501	46,501
% of resolutions voted	99.9%	99.9%
Of the resolutions on which voted, % voted with management	79.6%	79.6%
Of the resolutions on which voted, % voted against management	19.8%	19.8%
Of the resolutions on which voted, % abstained from voting	0.6%	0.6%
Of the meetings in which the manager voted, % with at least one vote against management	64.4%	64.4%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	11.7%	11.7%

Note: Figures may not sum due to rounding

3.3 Most significant votes

Commentary on the most significant votes over the Scheme Year, from the Scheme'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. The Trustee will consider the practicalities of informing managers ahead of the vote for next year's Statement.

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 criteria[1] 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 its "significant votes" to mean those that:

- align with the Trustee's stewardship priorities; and /or
- are a material fund holding.

The Trustee has reported on two of these significant votes per fund. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee.

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 votes which have such a degree of controversy that there is high client and/or public scrutiny;
- votes where there is significant client interest either directly communicated by clients to the Investment Stewardship team (at LGIM's annual Stakeholder roundtable event), or where there is a significant increase in requests from clients;
- sanction vote as a result of a direct or collaborative engagement; and
- vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

In regard to votes cast by LGIM (set out below), LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as its engagement is not limited to shareholder meeting topics.

LGIM's voting behaviour was aligned with the Scheme's stewardship priorities over the year.

JP Morgan ChaSe & Co., May 2023

- **Summary of resolution:** Report on Climate Transition Plan describing efforts to align financing activities with GHG targets.
- **Approx size of the holding at the date of the vote (as a % of the portfolio):** 0.7%
- **The reason the Trustee considered this vote to be "most significant":** Relates to one of the Trustee's chosen stewardship priorities – climate change.
- **Why this vote is considered to be most significant by LGIM:** LGIM considered this vote to be significant as it pre-declared its intention to support. LGIM continues to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met.
- **Company management recommendation:** Against **Fund manager vote:** For.
- **Rationale:** LGIM generally supports resolutions that seek additional disclosures on how it aims to manage its financing activities in line with its published targets. LGIM believes detailed information on how a company intends to achieve the 2030 targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company.

[1] 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.

- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, a communication was set to the company ahead of the meeting.
- **Outcome of the vote and next steps**: Against. LGIM will continue to engage with the company and monitor progress.

The Coca-Cola Company, April 2023

- **Summary of resolution:** Report on congruency of political spending with company values and priorities.
- **Approx size of the holding at the date of the vote (as a % of the portfolio)**: 0.5%
- **The reason the Trustee considered this vote to be "most significant":** Relates to one of the Trustee's chosen stewardship priorities – corporate transparency.
- **Why this vote is considered to be most significant by LGIM:** LGIM believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors including, for example, climate accountability and public health. In addition, LGIM expects companies to be transparent in their disclosures of their lobbying activities and internal review processes involved.
- **Company management recommendation:** Against **Fund manager vote:** For.
- **Rationale:** LGIM expects companies to be transparent in their disclosures of their lobbying activities and internal review processes involved. While LGIM appreciates the level of transparency Coca-Cola provides in terms of its lobbying practices, it is unclear whether the company systematically reviews any areas of misalignment between its lobbying practices and its publicly stated values. LGIM believes that the company is potentially leaving itself exposed to reputational risks related to funding organisations that take positions that are contradictory to those of the company's stated values, and potentially attracting negative attention that could harm the company's public image and brand. Producing a report on the congruency of political spending with company values and priorities may help the company to identify and question its previous political spending priorities.
- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, a communication was set to the company ahead of the meeting.
- **Outcome of the vote and next steps**: Against. LGIM will continue to engage with the company and monitor progress.