

IMPLEMENTATION STATEMENT (FORMING A PART OF THE TRUSTEE REPORT)

Implementation Statement, covering the Scheme Year from 1 July 2023 to 30 June 2024

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, 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 voting and engagement policies in the SIP were reviewed and updated during the Scheme Year as part of the review of the [SIP](#) completed in April 2024, to reflect the agreed stewardship priorities to provide a focus for the monitoring of the investment managers' voting and engagement activities. Further detail and the reasons for these changes are set out in Section 2. 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 Scheme's voting and engagement policies during the Scheme 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. These policies are:

- Legal and General Investment Management ("LGIM"): - [How LGIM uses proxy voting services](#)

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.

The Trustee reviews recent industry developments on a quarterly basis as part of its regular reporting.

At the September 2023 Trustee meeting, the Trustee reviewed the FRC's feedback received by the Scheme's investment managers following the FRC Stewardship Code submission. This was previously reviewed during the prior Scheme Year but had since been updated to include an update from Aegon, one of the Scheme's managers.

The Trustee regularly invites the Scheme's investment managers to present at Trustee meetings. The Trustee met with Abrdn on 7 September 2023, LGIM on 4 December 2023 and Barings at its meeting on 5 March 2024 to discuss the Scheme's investments. When Abrdn, LGIM and Barings presented to the Trustee, the Trustee asked several questions about the managers' voting and engagement practices, and were comfortable with the responses provided.

The Trustee is conscious that responsible investment is rapidly evolving, including voting and engagement, and expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with the 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:

- LGIM Low Carbon Transition Global Equity Index Fund
- LGIM 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 do not 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 LGIM have 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	£5.1bn	£1.5bn
Value of Scheme assets at end of the Scheme Year (£ / % of total assets)	£0.9m / 0.6%	£2.7m / 1.8%

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Number of equity holdings at end of the Scheme Year	2,829	2,829
Number of meetings eligible to vote	4,782	4,782
Number of resolutions eligible to vote	47,600	47,600
% of resolutions voted	99.8%	99.8%
Of the resolutions on which voted, % voted with management	78.9%	78.9%
Of the resolutions on which voted, % voted against management	20.5%	20.5%
Of the resolutions on which voted, % abstained from voting	0.7%	0.7%
Of the meetings in which the manager voted, % with at least one vote against management	65.0%	65.0%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	11.2%	11.2%

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 continue to consider the practicalities of informing managers ahead of 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 to provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria¹ 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:

- align with the Trustee's stewardship priorities of climate change and corporate transparency;
- are a material fund holding; or
- have a high media profile or are seen as being controversial.

The Trustee has reported on five of these significant votes per fund only as the most significant votes. 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:

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.

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- 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 behavior was aligned with the Scheme's stewardship priorities over the year.

Unilever Plc. May 2024,

- **Summary of resolution:** Approve Climate Transition Action Plan.
- **Company management recommendation:** For **Fund manager vote:** For.
- **Approx size of the holding at the date of the vote:** 0.2%
- **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 is publicly supportive of so called "Say on Climate" votes. LGIM expects the transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile nature of such votes, LGIM deems such votes to be significant, particularly when LGIM votes against the transition plan.
- **Rationale:** A vote for the Climate Action Plan ("CTAP") is applied as LGIM understands it to meet LGIM's minimum expectations. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with a 1.5°C Paris goal. Despite the SBTi recently removing their approval of the company's long-term scope 3 target, LGIM note that the company has recently submitted near term 1.5 degree aligned scope 3 targets to the SBTi for validation and therefore at this stage LGIM believes the company's ambition level to be adequate. LGIM will therefore remain supportive of the net zero trajectory of the company at this stage.
- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM website. As part of this process, LGIM will not engage with investee companies three weeks prior to an AGM.
- **Outcome of the vote and next steps:** Pass, LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Banco Santander SA. March 2024,

- **Summary of resolution:** Approve remuneration policy.
- **Company management recommendation:** For **Fund manager vote:** Against
- **Approx size of the holding at the date of the vote:** 0.1%
- **The reason the Trustee considered this vote to be "most significant":** Relates to one of the Trustee's chosen stewardship priorities – corporate governance.
- **Why this vote is considered to be most significant by LGIM:** LGIM considers this vote to be significant as it is in application of an escalation of its voting policy on the topic of the combination of Board Chair and CEO.
- **Rationale:** A vote against was applied because awards are permitted to vest for below median relative performance which therefore fails the pay for performance hurdle. LGIM also highlighted that the 5% salary raises for 2024 and future year increases to be given to the Executive Directors, including the Chair, will likely exacerbate existing concerns with the significant pay packages.

- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM website. As part of this process, LGIM will not engage with investee companies three week prior to an AGM.
- **Outcome of the vote and next steps:** Pass, LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Walmart Inc. June 2024,

- **Summary of resolution:** Establish a company compensation policy of paying a living wage.
- **Company management recommendation:** Against **Fund manager vote:** For
- **Approx size of the holding at the date of the vote:** 0.4%
- **The reason the Trustee considered this vote to be “most significant”:** The company has a high media profile and may be considered high profile.
- **Why this vote is considered to be most significant by LGIM:** This shareholder resolution is considered significant as LGIM has been engaging with Walmart on the topic of living wages for several years. In 2023 LGIM launched its income inequality engagement campaign which targeted 15 of the largest global food retailers asking them to set out their policy on living wages for workers within their own operations and their supply chain. Walmart, as the largest food retailer in the world, is part of this campaign. While the company has improved on some areas of LGIM's requests in terms of training opportunities, the company does not have a policy on the living wage, and its minimum wage of \$14 per hour for store employees is much less than the living wage, which is around \$25 per hour.
- **Rationale:** A vote in favour was applied as LGIM encourages the company to establish a compensation policy that ensures employees earn a living wage. This is because paying a living wage may reduce the potential negative financial impacts that stem from low worker morale/poor health/absenteeism/presenteeism, high staff turnover etc.
- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM website. As part of this process, LGIM will not engage with investee companies three week prior to an AGM.
- **Outcome of the vote and next steps:** Fail, LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Nippon Steel Corp. June 2024,

- **Summary of resolution:** Amend articles to introduce executive compensation system linked to greenhouse gas emission (“GHG”) reduction target and disclose how compensation policy contributes to achievement of the target.
- **Company management recommendation:** Against **Fund manager vote:** For
- **Approx size of the holding at the date of the vote:** >0.1%
- **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 shareholder resolution to be significant as LGIM is clear in its expectations of Climate Transition Plans that companies should disclose credible, 1.5°C aligned short-, medium- and long-term emission reduction targets covering scope 1, 2 and material scope 3 emissions. The current disclosures published by Nippon Steel do not provide LGIM with confidence that these expectations are met.
- **Rationale:** LGIM expects companies within sectors that can have a significant effect on climate change to link part of their pay to delivering on their climate mitigation goals. This is because LGIM believes that linking GHG reduction targets to executive pay can act as a motivational incentive for the company to execute on its decarbonisation strategy.
- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM website. As part of this process, LGIM will not engage with investee companies three week prior to an AGM.
- **Outcome of the vote and next steps:** Fail, LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Apple Inc. February 2024,

- **Summary of resolution:** Report on the use of Artificial Intelligence (“AI”).
- **Company management recommendation:** Against **Fund manager vote:** For
- **Approx size of the holding at the date of the vote:** 4.8%
- **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 did not consider this vote to be most significant although due to the high-profile nature, our investment adviser believes it is of significance to the Trustee.
- **Rationale:** LGIM believes investors would benefit from further disclosure and transparency on the company’s use of and internal governance over AI.
- **Was the vote communicated to the company ahead of the vote:** LGIM pre-declared its vote intention for this meeting on the LGIM website. As part of this process, LGIM will not engage with investee companies three week prior to an AGM.
- **Outcome of the vote and next steps:** Fail, LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

3.4 Votes in relation to assets other than listed equity

The following comments were provided by the asset managers in relation to the Scheme’s funds which don’t hold listed equities but invest in assets that may have had voting opportunities during the Scheme Year:

Aegon European Asset Backed Securities (“ABS”) Fund

Voting is very rare for the Aegon ABS fund and in principle always related to technical adjustments of the transaction documentation, such as cash flows of trigger dates or necessary language to comply with changing regulation. Aegon’s policy is to vote in line with the mandate restrictions and in the best economic interest on the client. Investment decisions within the limits of the mandate restrictions are not consulted with clients beforehand.

When Aegon receives a notification for a vote, it first investigates the situation and the options. If the issuer has not already reached out to Aegon, it reaches out to the issuer to make sure the situation and motives are fully clear. All of the 5 votes Aegon experienced over the Scheme year were related to technical adjustments of the transaction documentation, such as cash flows or trigger dates or necessary language to comply with changing regulation. The best vote for the clients is determined within the ABS investment team, in case input or advice from experts is needed. Aegon’s votes are cast via its Blackrock Aladdin systems and needs authorisation of at least two portfolio managers. Aegon have not made use of proxy voting services of the Scheme year, as voting for ABS is very rare and technical in nature. Given the unlikelihood of voting opportunities Aegon treats all votes as significant.