

Pilots' National Pension Fund

**Annual Implementation
Statement – Scheme year
ending 31 December 2023**

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Section 1: Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Pilots’ National Pension Fund (“the Fund”) covering the scheme year (“the year”) to 31 December 2023.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Fund’s policy on engagement and voting (as set out in the Statement of Investment Principles (the “SIP”) has been followed during the year; and
- A description of voting behaviour (including the “most significant” votes made on behalf of the Trustee) and any use of a proxy voter during the year.

The Fund makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee has delegated some responsibilities. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited, to manage the Fund’s assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers and seeks to give effect to the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following website:

<https://ukmpa.org/?s=pnpf>

<https://www.britishports.org.uk/apbpnpf/>

Review of and changes to the SIP

The SIP in place as at the end of the Fund year was dated as at August 2023 and incorporated updates to reflect Trustee policies in relation to voting and stewardship. This update built on the view that the Trustee expects the Fiduciary Manager and underlying investment managers to address broad ESG considerations. The current policy is to delegate a number of stewardship activities to the Fiduciary Manager and its investment managers, however, the Trustee recognises that the responsibility for these activities remains with the Trustee. The update included the stewardship priorities set by the Trustee’s which were agreed as climate change and Biodiversity. After discussion, it was agreed that, as the proposed changes were relatively minor, the Sub-committee would not propose making the suggested amendments to the SIP at this time, but to wait until after the conclusion of the valuation process, at which point the SIP could be fully updated.

Section 2: Voting and Engagement

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005).

The Fiduciary Manager is therefore responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance ("ESG") factors are allowed for in the portfolio.

The Trustee's view is that ESG factors can have a significant impact on investment returns, particularly over the long-term. As a result, the Trustee believes that the incorporation of ESG factors is in the best long-term financial interests of the Fund's members. The Trustee has appointed a Fiduciary Manager who shares this view and has fully embedded the consideration of ESG factors in its processes. The Trustee incorporates an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to Sustainable Investing ("SI") (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

The Fiduciary Manager produces detailed reports on the SI characteristics of the highest-rated managers (such as those included in the Fund's portfolio) on an annual basis, with a summary of the ratings being provided to the Trustee as part of its ongoing portfolio monitoring. The Trustee received training on ESG and Stewardship in Q2 2023, where the stewardship priorities were reviewed and agreed. The Trustee's also reviewed the Sustainability metrics of the Fund over Q3 2023 which looked at the bottom up security level analysis of metrics such as carbon footprint, exposure to human rights violations and Board independence. Towards the end of the year in Q4 2023, the Trustee's also reviewed training on particular areas of sustainability risk including risk management processes and top-down targets set.

The Towers Watson Partners and Towers Watson Core Diversified Fund have the following consistent portfolio construction philosophy in relation to ESG and Sustainable Investing:

- Both the TW Partners Fund and TW Core Diversified Fund have an Article 8 Sustainable Finance Disclosure Regulation designation. This covers an investment fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices, amongst other requirements.
- The Investment Manager intends for both the TW Partners Fund and TW Core Diversified Fund to achieve at least a 50% reduction in greenhouse gases by 2030 and continue beyond that time to further reduce greenhouse gases with an aim of net zero emissions by 2050. Progress is measured using multiple climate metrics.

Through the investment in the TW Partners Fund, the Investment Manager managed risk and considered ESG integration in its investment processes and strategies through:

- UK forestry –The strategy will acquire unused agricultural land in the north of England and Scotland to plant trees and grow forests, capturing carbon in the process. The intention is to hold the forests that have been created for three to five years until the trees have established themselves after which there are various possible exit routes.
- Japanese Solar Panels - Invests (through a third-party manager) in Japanese renewable energy with some exposure to other solar energy. Invests in late stage construction and development of solar, biomass and battery storage in Japan.

Through the investment in the TW Core Diversified Fund, the Investment manager also managed risk and considered ESG integration in its investment processes and strategies through:

- A Global Prime Real Estate strategy which has introduced climate filters as an explicit screen in the investment process following direct engagement with the manager.

In 2023, the AXA Long Term Credit undertook engagements with 31 issuers on ESG Topics, these had a strong focus on climate change as well as resources and ecosystems.

Company level engagement and rights attached to investments (including voting):

As set out in the SIP, the Trustee’s policy is to delegate the exercising of rights (including voting and stewardship) and the day to day ESG integration to the Fund’s investment managers. The Trustee does however retain ultimate responsibility for how this is implemented and therefore monitors how these are implemented in practice.

The Fiduciary Manager delegates voting rights and the execution of those rights to the underlying managers within the TW Partners Fund and TW Core Diversified Fund for the securities held. Further details on manager policies are provided in Appendix 1 to this Statement. The Fiduciary Manager has assessed each investment manager’s policies as part of its overall assessment of each investment manager’s capabilities. The Fiduciary Manager considered the policies to be consistent with the Trustee’s policies and objectives and ultimately, therefore is in the best financial interests of the members. As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to provide voting advice to the asset managers (in respect of the majority of the developed market equity allocations within the Fund’s portfolio) and to engage with the companies on their behalf, or in collaboration with them. As previously mentioned, the Trustee has set Climate change and Biodiversity as its stewardship priorities and therefore selected votes on these topics as the most significant for the Fund.

At the year end and as noted above, the Fund was invested in two in-house multi-asset growth funds managed by the Fiduciary Manager, each of which have an allocation to equity holdings in underlying pooled funds:

- Towers Watson Partners Fund
- Towers Watson Core Diversified Fund

The below data is for the 12-month period ending 31 December 2023.

Manager and fund	Portfolio structure	Voting activity
Towers Watson Partners Fund	Fund of funds	Number of meetings at which the manager was eligible to vote: 1,891 Number of resolutions on which manager was eligible to vote: 25,915 Percentage of eligible votes cast: 93.8% Percentage of votes with management: 86.9% Percentage of votes against management: 12.8% Percentage of votes abstained from: 0.3% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 60.8% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 3.6%

Towers Watson Core Diversified Fund	Fund of funds	<p>Number of meetings at which the manager was eligible to vote 3,211</p> <p>Number of resolutions on which manager was eligible to vote: 42,932</p> <p>Percentage of eligible votes cast: 94.7%</p> <p>Percentage of votes with management: 85.9%</p> <p>Percentage of votes against management: 13.6%</p> <p>Percentage of votes abstained from: 0.5%</p> <p>Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 66.0%</p> <p>Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 3.2%</p>
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Coverage in portfolio	Size of holdings	Most significant votes cast	
Towers Watson Partners Fund	0.3%	<p>Company:</p> <p>Resolution</p> <p>Decision/Vote</p> <p>Rationale for decision</p> <p>Rationale for classifying as significant</p> <p>Outcome of the vote</p>	<p>Berkshire Hathaway</p> <p>Climate Risk Disclosure</p> <p>For</p> <p>We support the audit committee responsibility for climate risk disclosure believing the significance of leadership on this issue over-rided the minor cost and inconvenience of compliance. Given the company already has disclosure representing 90% of emissions, and given the company's long-earned reputation for ethical stewardship, awaiting SEC guidance seems an inadequate delayed response. We voted against management but in line with ISS recommendations</p> <p>Given Warren Buffett's stature, his reluctance to be more assertive on this topic is a significant challenge to climate risk transparency and more broadly to Environmental stewardship.</p> <p>Against</p>
Towers Watson Partners Fund	0.2%	<p>Company:</p> <p>Resolution</p> <p>Decision/Vote</p> <p>Rationale for decision</p> <p>Rationale for classifying as significant</p> <p>Outcome of the vote</p>	<p>TotalEnergies SE</p> <p>Approve the Companys Sustainable Development and Energy Transition Plan</p> <p>Against</p> <p>Upon consideration of TotalEnergies' stated targets and the proposed shareholder resolution we assessed the current targets as reasonable in the context of a global energy transition. Thematic priority, as Climate Change, which includes engaging with companies on the quality of their disclosures; the credibility of their emission reduction plans; and the progress thereof, is one of the our key identified engagement priorities.</p> <p>For</p>
Towers Watson Partners Fund	0.3%	<p>Company:</p> <p>Resolution</p> <p>Decision/Vote</p> <p>Rationale for decision</p> <p>Rationale for classifying as significant</p> <p>Outcome of the vote</p>	<p>Apple Inc</p> <p>Report on Median Gender/Racial Pay Gap</p> <p>For</p> <p>Shareholder proposal promotes better management of ESG opportunities and risks</p> <p>Votes against management, large holding in the portfolio</p> <p>Against</p>

Towers Watson Core Diversified Fund	0.3%	Company: Resolution Decision/Vote Rationale for decision Rationale for classifying as significant Outcome of the vote	Berkshire Hathaway Inc. Report if and How Company will measure, disclose and reduce GHG emissions For Shareholder proposal promotes better management of ESG opportunities and risks Vote against management, large holding in the portfolio. Against
Towers Watson Core Diversified Fund	0.1%	Company: Resolution Decision/Vote Rationale for decision Rationale for classifying as significant Outcome of the vote	JPMorgan Chase & Co. Disclose 2030 Absolute GHG reduction targets associated with lending and underwriting For Shareholder proposal promotes better management of ESG opportunities and risks Vote against management, large holding in the portfolio. Against
Towers Watson Partners Fund	1.2%	Company: Resolution Decision/Vote Rationale for decision Rationale for classifying as significant Outcome of the vote	Microsoft Report on risks related to AI generated misinformation and disinformation For (against management) Shareholder proposal promotes better management of ESG opportunities and risks Vote against management in relation to a material Company holding Approved
Towers Watson Partners Fund	0.2%	Company: Resolution Decision/Vote Rationale for decision Rationale for classifying as significant Outcome of the vote	Glencore Xstrata Plc Shareholder resolution in respect of the next Climate Action transition plan Against (with management) Manager is comfortable with Glencore's managed transition plan and disclosure In line with Trustee priorities and in relation to material topic Not approved
Towers Watson Core Diversified Fund	1.2%	Company: Resolution Decision/Vote Rationale for decision Rationale for classifying as significant Outcome of the vote	Alphabet Report on risks of doing business in countries with significant human rights concerns For The proposal was regarding greater transparency related to business conducted in place with significant human rights concerns. The siting of cloud datacenters and strategy for mitigating related country risk seems like appropriate and material topics for discussion. The manager believes transparency on country risk is a non-controversial proposal and serves both Social and Governance interests. Against

Industry wide / public policy engagement:

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS to undertake public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council. Voting and engagement activities by EOS over 2023 included:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives. More than 22% of engagements were related to climate change and c.8% were related to natural resource stewardship, including biodiversity (a stewardship priority for the Fund).
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations on 128,101 resolutions, with 22,716 against management.
- Active participation in a range of global stewardship initiatives.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.
- Co-founding the Net Zero Investment Consultants Initiative
- Becoming a member of Net Zero Asset Managers Initiative
- Being a founding member of The Diversity Project
- Supporting the Transition Pathway Initiative

Section 3: Summary and conclusions

The Trustee considers that all SIP policies and principles were adhered to over the year and remains satisfied with the voting policies of the underlying managers and how these are being implemented.

Signed: Heather McGuire

Date: 11 June 2024

On behalf of the Trustee of the Pilots' National Pension Fund

Appendix 1: Manager voting policies

Towers Watson Investment Management's voting policy is provided below

Towers Watson Partners Fund's underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. For the Towers Watson Global Equity Focus Fund, in which the Towers Watson Partners Fund invests, the manager also uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes.

As at the year end the Towers Watson Core Diversified Fund held majority of its equity holdings via the Asset Management Exchange (AMX) platform which uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes. There was also an allocation of equity holdings with an active manager in a China Equity Fund. The voting policies of each of these managers are set out below.

The active manager – China equity's voting policy is provided below

“[We use] Glass Lewis as proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows us to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows us to submit voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to our clients. “

The Trustee remains comfortable with the appropriateness of the manager voting policies outlined above.