July 2023

Morgan Group Senior Staff Pension and Life Assurance Scheme

Private and Confidential

Introduction

This Implementation Statement has been prepared by the Trustee of the Morgan Group Senior Staff Pension and Life Assurance Scheme ("the Trustee") and relates to the Morgan Group Senior Staff Pension and Life Assurance Scheme ("the Scheme"). This statement covers the Scheme year from 1 April 2022 to 31 March 2023.

Under regulatory requirements, the Scheme is required to produce an Implementation Statement setting out:

a) How voting and engagement policies set out in the Statement of Investment Principles ("SIP") in respect of the Scheme year from 1 April 2022 to 31 March 2023 have been followed and
b) A description of any voting behaviour by or on behalf of the Scheme Trustee during the Scheme year.

From 1 October 2022, further Department of Work and Pensions ("DWP") guidance on the reporting of stewardship activities through Implementation Statements came into effect. This Statement aims to consider this guidance as the Trustee moves towards meeting the DWP's updated stewardship expectations.

Changes to the SIP over the period:

The Scheme's SIP was last updated in February 2023 to reflect the following:

- That the Trustee's investment objective changed from "achieving full funding by 2028" to "maintaining full funding" on a gilts + 0.5% basis, in response to the improvement in the Scheme's funding position since the previous SIP update.

- That the trigger process, which was designed to reduce the allocation to higher-returning assets in favour of lower-returning assets as funding ratio improved, has fallen away because the funding target has been reached.

- That Schroders' role, previously described as "implementation manager", was updated to reflect changes in the activities they undertake for the Scheme. These changes reflect the update to investment strategy over the period, which was enabled by the significant improvement in funding ratio. Changes to investment strategy are described further on in this document.

The Scheme's SIP can be found here.

How the Trustee has implemented its investment policies:

Governance:

There were no changes to the Scheme's governance structure over the year to 31 March 2023.

Investment Strategy and Risk Management:

The Scheme began its financial year targeting full funding on a gilts + 0.5% basis by 2028. Rising real yields during 2022 meant that both the Scheme's liability valuation and asset values – due to the interest rate and inflation hedging in place – fell such that the Scheme's deficit also fell.

In late December, the Scheme's sponsor made payment of the Scheme's remaining deficit repair contributions as a single lump sum to the Scheme, leaving the Scheme fully funded on the gilts + 0.5% basis.

To align with this significant improvement in funding, the Scheme evolved its investment strategy during late 2022:

- Increasing the hedge ratios to equal 100% of liabilities (previously hedge ratios were equal to the Scheme's funding ratio).
- Reducing return-seeking assets (by divesting entirely from some strategies and reducing allocations to others) and increasing the physical allocation to Liability Driven Investment (LDI).

The above changes materially reduce investment risk in the Scheme, whilst ensuring that the expected return on assets remains appropriate and were made feasible due to the lump sum contribution.

During the significant volatility in gilt markets in September and October 2022, the LDI hedging remained resilient and appropriately collateralised throughout. The Scheme's funding ratio was broadly unchanged during this volatile period.

In accordance with the SIP, on a quarterly basis the Trustee receives written reports from its investment advisor on the performance of the Scheme's investment managers against their relevant benchmarks using information provided by the investment managers, and also on the performance of the Scheme's investment strategy and position against agreed objectives, including risk, return and liquidity metrics.

Stewardship, engagement and voting behaviour

The Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term.

As per the Trustee's policy in the SIP, *"When selecting, monitoring and de-selecting asset managers, engagement and the extent to which wider ESG risks are included in the investment research and portfolio construction are factored into the decision-making process to the appropriate level for the* *specific asset class in question".*

The Scheme's investment adviser assesses a manager's ability to factor in environmental, social and governance ("ESG") risks into the decision-making process and the ability of a manager to carry out effective stewardship to promote the long-term success of investments. Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers. The Trustee recognises that its ability to influence investment managers' stewardship activities will depend on the nature of the investments held. As the Scheme's assets are wholly invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights over the underlying assets – the Trustee has limited scope to influence managers' stewardship activities.

The Scheme's investment adviser continues to regularly monitor the Scheme's existing managers, with financially material ESG considerations in mind. Regular updates regarding this are relayed to the Trustee.

Over the period, the Trustee did not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, in line with the SIP.

All the Scheme's investment managers are signatories of the UK Stewardship Code. The code sets out a clear benchmark for stewardship as the responsible allocation, management, and oversight of capital to create long-term value. The Scheme's managers have not flagged any non-compliance with the principles of the code and the Trustee is comfortable they provide good quality and transparent reporting of their approach to stewardship.

Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more "active" in their approach to stewardship, the Trustee is undertaking discussions regarding its stewardship priorities and will review the above policy with a view to fully aligning with the new guidance and these stewardship themes.

Significance of stewardship in appointment and monitoring of investment managers:

The Scheme Trustee and the Joint Board meet with investment managers when required to discuss relevant matters, including sustainable investment, and voting and engagement aspects.

Over the year, the Scheme has not appointed any new investment managers.

Engagement

The Trustee delegates responsibility for engaging with individual issuers to the Scheme's investment managers. The Trustee understands that engagements carried out by investment managers are likely to vary in nature by asset class. Regardless, engagement is also considered to be of importance for all the Scheme's investment managers. The Trustee has highlighted engagement examples from managers in the appendix.

As part of moving towards the new DWP stewardship expectations, the Trustee plans to consider both how best to assess the engagement activities of the Scheme's managers and how best to then engage with the managers where necessary.

Voting

As set out above, the Trustee delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's Investment managers. The Trustee is not aware of any material departures from the managers' stated voting policies. Given the nature of these mandates and the fact that voting activities appear to be undertaken in line with the managers' voting policies, the Trustee is comfortable that the voting policies for the Scheme have been adequately followed over the period.

The Trustee meets its managers periodically, where the managers are required to present on these activities and the Trustee holds the managers accountable to the standards expected by the Trustee. Over the period, the Trustee met with Schroders, the manager that manages the bulk of the Scheme's assets, including investments to LDI.

The relevant Scheme managers provided details of their voting behaviour in line with the Pensions and Lifetime Savings Association's Vote Reporting Template. Their responses are summarised in the appendix to this document; information is sourced directly from the managers unless otherwise stated. In addition to voting information, examples of the Scheme's investment managers' engagement with debt issuers have been included.

In future, the Trustee plans to consider how best to assess the voting activity of the Scheme's managers and how best to then engage with the managers where necessary. The Trustee also plans to create its own definition of what it considers to be a significant vote which will be used in the next iteration of the Implementation Statement and thereafter reviewed and updated as necessary. In the interim, the Trustee has asked its voting managers to provide significant votes which took place at one of the fund's top 25 largest holdings (proxying where the Scheme itself has most exposure) and which the managers themselves deem to be significant. The managers' voting statistics are summarised in the appendix.

Looking ahead

It is the Trustee's belief that the policies set out in the SIP regarding the exercise of rights attaching to investments and the undertaking of engagement activities in respect of the investments have been followed over the year to 31 March 2023, and is appropriate for the circumstances of the Scheme.

Over the next year, the Trustee plans to consider how best to meet DWP's new expectation on stewardship and move to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee's approach will be taken with regard to the Scheme's governance constraints and in the best interest of the Scheme's members.

Appendix

Voting Disclosures and Significant Votes

The use of voting rights is applicable where physical equities are held: the Amundi Multi Strategy Growth Fund and Man Progressive Diversified Risk Premia Fund (Man PDRP). This appendix details voting behaviour and significant votes undertaken by these asset managers on behalf of the Scheme.

<u>Summary of voting over the period</u>

Voting Criteria	Amundi	Man
No. of meetings eligible to vote during the period	57	66
No. of resolutions eligible to vote during the period	916	765
% of resolutions voted	100.0	95.8
% of resolutions voted with management	81.0	88.8
% of resolutions voted against management	19.0	10.5
% of resolutions abstained	0.0	0.4
% of meetings with at least one vote against management	75.0	51.5
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	N/A	"Man Group appointed Glass Lewis as its proxy service provider. We use Glass Lewis's voting platform 'Viewpoint' to vote our shares electronically, receive research reports and custom voting recommendations. We have monitoring controls in place to ensure that the recommendations provided are in accordance with our ESG Voting Policy and that our votes are timely and effectively instructed. Specifically, our voting framework employs screening to identify high-value positions and the Stewardship Team manually reviews the pre-populated votes for such positions. In addition to this manual check, we also have in place electronic alerts to inform us of votes against our policy, votes that need manual input and rejected votes that require further action."
% of resolutions which you voted contrary to the recommendation of your proxy adviser?	N/A	4.0

*Note: figures may not sum to 100% due to rounding.

Summary of Significant votes over the period

The following table provides a significant vote example for each relevant manager, relevant for the period 1 April 2022 to 31 March 2023. In practice, the managers vote on a wider range of topics than the examples listed below.

The significant votes for Amundi and Man are shown below.

	Amundi	Man
Company name	Campbell Soup Company	Samsung SDI Co. Ltd.
Date of vote	30/11/2022	15/03/2023
Summary of the resolution	Shareholder proposal - Report on Climate Change - Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk	Elect JUN Young Hyun
Manager's vote	For	Against
Outcome of the vote	Rejected 8.8 % For	Passed
Rationale for the voting decision	Amundi considers that the assessment of climate risks should be available to employees investing in their retirement plan. Alternative ESG investment options should be available. Therefore, we consider that the proposal has merit.	No Net Zero targets. Insufficient gender diversity.

Summary of engagement from the Scheme's managers over the year

As per the Scheme's SIP, the Trustee expects their investment managers to practice good stewardship and engagement. The Trustee expects the nature of engagement to vary between asset classes, and that it is not restricted to equity investments. The managers provided an overview of engagement activity, and the Trustee selected an example for each manager that they consider noteworthy.

To focus the examples of engagement to those that are most relevant to the Trustee, the examples from relevant managers were collected with a focus on those with ESG or Stewardship themes.

Note: all managers were not able to provide examples of engagement for change and the Trustee will explore further engagement on this.

Amundi:

Company: Procter & Gamble

Focus of the engagement: Officially join Ellen MacArthur New Plastics Economy Global Commitment to align with peers.

Details of the engagement: Amundi started engagement in 2019 to encourage P&G to adopt plastic packaging targets that are more in line with industry best practices. At the start of the engagement, P&G had a commitment to be 100% recyclable by 2030 (90% by 2020), 20% plastic reduction per consumer, and a goal to double the use of recycled plastic resin by 2020. There were also initiatives in place to reduce polypropylene by working on alternatives. However, the company's approach to plastic pollution reduction and its accompanying targets lagged behind its peers. In particular, the company was not aligned with the Ellen MacArthur Foundation requirements.

Upon comparing these to P&G's objectives, Amundi observed that 2030 targets were set 5 years later than required and nothing was mentioned about any decrease of virgin plastic use in packaging and/or any elimination of unnecessary plastic packaging. Proctor & Gamble had mentioned ongoing support of and discussions with Ellen MacArthur, but there was no indication that they would sign on officially and set aligned commitments.

Outcome of the engagement: After a few years of engagement, in 2022 Amundi acknowledged the following key positive developments at the company:

a) 100% recyclable plastic packaging by 2030
b) P&G observes the impact of its activities with pictures of lands near to which they are operating and make sure their internal policies and processes are respected. The aim is to better manage the impact on the environment and on biodiversity.
c) Lead a pilot project with the idea of reducing the use of plastic lightweight plastic packaging, increase bio-based plastic resins and recycled contents.

Amundi continue to follow up on P&G's progress in 2023 to encourage the company to adopt a better strategy to manage plastic packaging and encourage increased disclosure. They would also like to see future alignment with Ellen MacArthur foundation requirements and evidence of mid-term 2025 targets on plastic but recognise these might be more challenging to implement in the short term due to the large scope of the company's product portfolio.

Man Group

Company: Electric Power Development ('J-Power')

Focus of the engagement: Set GHG emissions reduction targets aligned with the goals of the Paris agreement and for capex and remuneration to reflect these targets.

Details of the engagement: A coalition was formed between Man Group and the Australasian Centre for Corporate Responsibility ('ACCR'), HSBC Asset Management and Amundi, whom each individually held concerns in relation to J Power's climate commitments. Working collectively, the newly formed investor group agreed on several specific issues. These issues being that the company: has not set science-aligned short- and medium-term targets; is investing in prolonging the life of coal-fired power stations rather than rapid closure and diversification seems like a very large scale risk to shareholders that rests on an unclear evidence base, especially in relation to emerging or undeveloped technologies; does not publish an internal carbon price; and that its relationship with governments, in Japan and Australia, adds to the risk profile.

Man Group, as part of the wider investor group, co-filed the first institutional investor group-led climate shareholder proposals filed in Japan. The decision to file followed a series of meetings with the company and a letter exchange outlining the investor group's expectations. During this process it became evident that the company was not prepared to meet these asks.

Three proposals were filed:
a) set Paris-aligned emissions reduction targets.
b) disclose alignment of future capital investment against targets.
c) disclose how its remuneration policy incentivises climate goals.

Outcome of the engagement: The resolutions received 26%, 18% and 19% support, respectively, representing a strong call by J-Power shareholders to strengthen the firm's decarbonisation strategy and for continued engagement to monitor the company's response to these matters.

Schroders

"ESG engagement is a fundamental factor in our holistic investment process. For any given credit, the impact of the ESG score coupled with its engagement can provide the portfolio managers with more or less conviction on a credit, it can alter the position sizing and can impact the time horizon over which they are willing to hold it. Given voting is not usual in securities held by the US Fixed Income desk – the extent of an escalation of an engagement will be to sell out of the position or not participate in any new issuances. See below a case where we did not participate in a new issuance due to ESG concerns."

Company: Meta Platforms Inc.

Focus of the engagement: non-participation in a new issue due to ESG concerns

Details of the engagement: In August 2022, Meta came to market with its first ever bond offering, aiming to raise between $8-$10 billion in senior unsecured debt. Although the valuations and long-term fundamentals were attractive, there were numerous concerns that weighed in on decision whether to participate in this new issuance or not. Our main reservations were mostly ESG-centred and focused on the following:

1) Data Privacy concerns
2) Regulatory pressure and bipartisan pressure/investigations
3) Risk of Antitrust action – possible break up.
4) EU and US State level privacy legislation
5) Apples iOS has updated the software to restrict the ability of apps to collect data, which poses a challenge in advertisement relevance.
6) Meta expects $10B hit due to IOS Data Restrictions

Outcome of the engagement: As a result of these additional concerns, our analyst believed the pricing of the issuance did not compensate for these additional, non-financial risks and advised our investment managers to pass on the offering.

TwentyFour

Company: Petroleos Mexicanos

Focus of the engagement: Integrating ESG efforts and initiatives into strategic plans and efforts to reduce gas flaring.

Details of the engagement: On December 13, TwentyFour asked management about upcoming strategic plans, and more specifically, if and how they intend to integrate the company's ESG efforts and initiatives into these decisions. They also asked the company to provide an update on its efforts and projects to reduce gas flaring. The company responded that it is not expecting to conduct any massive layoffs despite the more challenging economic environment. However, when assessing personnel decisions, Pemex will continue to take into account its plan developed in 2015 to promote inclusion, equality and non-discrimination. While the company does not have any ESG clauses in its employment contracts, each employee signs a contract that requires them to follow the industrial security, health and environmental standards and procedures. Pemex also confirmed it has not cut

back on any employee resources such as sick days, parental leave or employee support programs as part of any cost cutting efforts.
Gas flaring in Q4 2022 stood at 5% (there was 95% use of gas), however, there was a one-time negative impact in October in which 439mmcfd were burned due to a maintenance clearance at one plant and the delay in the program relating to closure of wells with high N2 content. Maintenance programmes are currently being completed, as are infrastructure works for gas conditioning with the purpose of meeting the goal in gas use. The company's expectation is to conclude 2022 with a slight decrease compared to the average gas flared in 2021, and TwentyFour await the official report to update these figures.

Outcome of the engagement: TwentyFour noted that the company's response was overall satisfactory, and they continue to monitor gas flaring volumes.