

# MCPS-PRS Alliance Pension Scheme and MCPS-PRS Alliance Pension Scheme (MCPS)

## Implementation Statement



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## Contents

Introduction .....	3
Executive summary .....	3
<b>1. Our Stewardship Policy .....</b>	<b>4</b>
1.1. What is Stewardship? .....	4
1.2. What is our Stewardship Policy? .....	4
1.3. How have we implemented our Stewardship Policy? .....	4
<b>2. Voting Activity .....</b>	<b>7</b>
2.1. How did our managers vote? .....	7
2.2. Use of proxy voting services .....	9
2.3. Examples of significant votes.....	10
<b>3. Engagement Activity .....</b>	<b>11</b>

## Introduction

This implementation statement (“Statement”) is produced alongside the Trustees Report and Accounts and is required by pensions regulations<sup>1</sup>. The Trustees of the MCPS-PRS Alliance Pension Scheme and MCPS-PRS Alliance Pension Scheme (MCPS) (the “Schemes”) have prepared this Statement to provide stakeholders with a transparent and accurate review of how it has acted in line with the Stewardship Policy, including engagement and voting set out in the Statement of Investment Principles (the “SIP”) during the accounting year.

This Statement includes details of:

- Compliance against the stewardship and voting policies;
- Any changes made to the Stewardship Policy during the year; and
- Specifically, how the Schemes’ investment managers voted and engaged on our behalf.

This Statement has been prepared by the Trustees to cover the period 31 December 2022 to 31 December 2023.

The Statement is publicly available at <https://www.psgovernance.com/communications/MCPS-PRS.html>

## Executive summary

The day-to-day management of the Schemes’ assets is delegated to Cardano Risk Management Limited (the “Solvency Manager”, also known as a “Fiduciary Manager”). In advance of the appointment, the Trustees took steps to ensure that the management of the Schemes’ assets and the Solvency Manager’s policies were aligned with the Trustees’ own policies. The Trustees continue to monitor the Solvency Manager, as part of its regular interactions with them.

We monitor the voting and engagement activity of the Schemes’ investment managers, and, through the Solvency Manager, challenge their decisions.

The Trustees focus our efforts on those investment managers where voting and engagement is material. The policies of those investment managers are summarised in this Statement, along with examples of the type of activity which took place during the period covered by this Statement. Some of the investment managers use investment approaches where stewardship is less likely to be relevant or significant. The Trustees are comfortable that our Solvency Manager has an appropriate approach to assess the stewardship and voting policies for all investment managers, and we receive a summary of the Solvency Manager’s overall assessments once a quarter.

<sup>1</sup> The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended)

## 1. Our Stewardship Policy

### 1.1. What is Stewardship?

“Stewardship” is the responsible allocation, management and oversight of capital to create long-term value for members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising the right to vote on any shares which are owned by the Schemes and engaging with the management of any companies or properties where an investment has been made.

### 1.2. What is our Stewardship Policy?

The Stewardship Policy in force during the financial year was:

*“The Trustees’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Solvency Manager encourages the Schemes’ investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.”*

### 1.3. How have we implemented our Stewardship Policy?

#### Fund structuring

The Trustees holds investments primarily on an indirect basis through pooled funds that are managed by the investment managers that our Solvency Manager appoints. In the case of the Alliance Scheme, the Scheme also holds some assets such as government bonds directly. The reason for the use of pooled funds is that:

- It provides a broader range of investment opportunities, which helps to improve the diversification of investments, which in turn helps to manage risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing the overall governance burden both on the Trustees and the Sponsor.

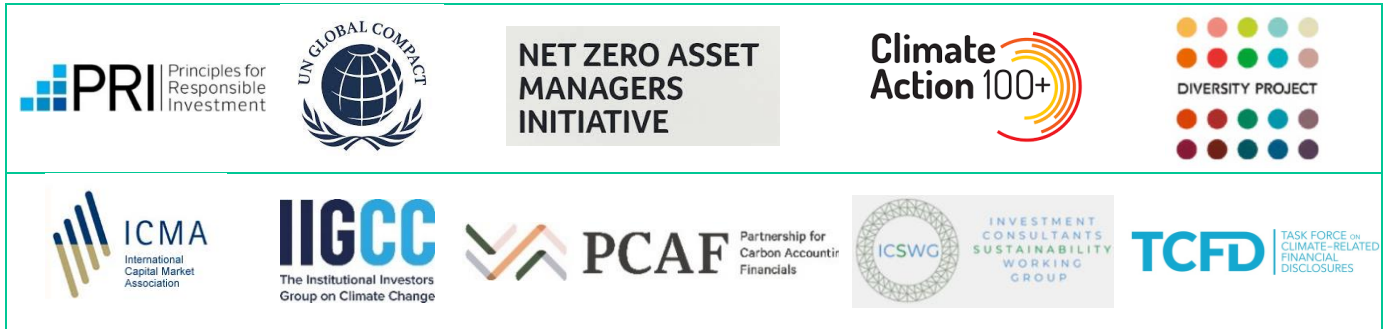
Where investments are made in pooled funds the Trustees follows the voting and engagement policies of the investment managers of the pooled funds. However, the Trustees remains responsible for ensuring that the investment managers our Solvency Manager appoints act consistently with the Schemes’ Stewardship Policy. The Trustees achieve this by ensuring that the Solvency Manager’s beliefs and policies on engagement, manager selection and manager monitoring are aligned with the Stewardship Policy.

For example, within the MCPS Scheme, over 2023 our Solvency Manager invested in a global sustainable equity fund that included explicit sustainability (as well as financial) performance targets. This enhanced the level of engagement possible with the companies we invest in and more actively aligned these efforts to our specific priorities.

## External engagements

The Trustees assesses that the Solvency Manager has been aligned with our Stewardship Policy throughout the year. The Solvency Manager has been a signatory to the UN Principles for Responsible Investment since 2011 and they are a signatory to the UK Stewardship Code 2020.

In addition, the Solvency Manager is a member of a range of sustainable investment organisations noted below.



## Engagement beliefs

The development of engagement beliefs is an important responsibility for the Trustees. We have delegated the day-to-day implementation of our beliefs to the Solvency Manager, having concluded that the Solvency Manager's core beliefs are consistent with our own.

The Solvency Manager is responsible on an ongoing basis for engaging with our investment managers. For managers where it is expected to have a meaningful impact, the Solvency Manager monitors voting records and the level of engagement with underlying investments.

The beliefs driving the Solvency Manager's approach to engagement are as follows.

### Quality over quantity

- The Solvency Manager is interested in a few meaningful quality engagements, with strong reporting (rather than, being interested in the quantity of votes). They want managers to prioritise the highest sustainability impacts in their portfolios

### Long-term

- The Solvency Manager encourages underlying managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years

### Real world impact

- The Solvency Manager is interested in engagement on topics that contribute to positive real-world sustainability impact (such as, reduction in absolute carbon emissions)

### Transparency

- Some engagement, perhaps even most engagement, will be unsuccessful. The Solvency Manager is realistic, and they prefer transparency from managers

### Collaboration

- Engagement is more efficient when managers collaborate – not just for the managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). The Solvency Manager encourages underlying managers to participate in collaborative initiatives, such as Climate Action 100+

## Innovation

- The Solvency Manager welcomes innovation, for example, third-party tools to assess a company's conviction on sustainability topics

## Integrated

- The Solvency Manager is interested in how (if at all) stewardship contributes to the investment thesis and whether managers link their stewardship to other engagement activity (for example, policy engagement)

## Engagement priorities

The Trustees have recently selected three stewardship priorities for manager engagement in order to improve alignment against our policies and beliefs as well as enhanced disclosure. These priorities are linked to the UN Sustainable Development Goals and aim to improve sustainability within the portfolio and have a direct real-world impact to our members' current and future landscape. The Trustees three stewardship priorities are:

- **Climate Crisis** (with a focus on climate change and net zero greenhouse gas emissions)
- **Environmental Impact** (with a focus on biodiversity, deforestation and water)
- **Human Rights** (with a focus on living wages gender equality and health & nutrition)

The Trustees expects the investment managers to incorporate these themes into their future voting practices and the Solvency Manager will monitor future manager disclosures to ensure alignment against our priorities.

## Manager selection and monitoring

When selecting investment managers, the Solvency Manager scrutinises the stewardship, voting and engagement policies. Activities of investment managers are assessed before the initial investment to ensure they align with our Stewardship Policy. The Solvency Manager monitors our investment managers on an ongoing basis; ensuring their activities align with our Stewardship Policy and engaging with our investment managers to help them improve their stewardship approach. The Solvency Manager closely monitors investment managers who do not meet our stewardship standards and actively works with them to improve their policies, processes and reporting.

The Trustees monitor voting and engagement activity of our investment managers and challenges their activity through the Solvency Manager. We categorise our managers according to how material voting and engagement is in their mandate, focusing efforts on managers where voting and engagement is material.

The Alliance Scheme also invests in a series of Private Market investments. Most of these strategies own controlling stakes in the underlying businesses, meaning that stewardship and engagement is evidenced in a much broader way than, for example, investing in companies listed on a stock market (i.e. public market investments).

One important way for a Private Markets investment manager to add value is to ensure that each business has the best corporate governance possible – dictating and controlling the policies and make up of senior leadership (versus voting at shareholder meetings). Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report.

## Compliance statement

To the best of our knowledge, the Trustees have complied with the Stewardship Policy over the year.

## 2. Voting Activity

The Shareholder Rights Directive (SRD II) and the UK Stewardship Code 2020 both emphasise the importance of institutional investors and investment managers engaging with the companies in which they invest. They stress the importance of exercising shareholder voting rights effectively. Voting only applies to equities held by the Schemes and given the use of pooled funds, there is limited scope for the Trustees to directly influence voting. Voting is carried out by the investment managers on behalf of the Trustees.

### 2.1. How did our managers vote?

The tables below provide a summary of the voting activity undertaken by our managers during the year.

Note: the managers included denote those where voting and engagement are seen as material aspects of their investment process, rather than necessarily those investments we have the largest exposure to. In addition, not all managers in this category will always have voting opportunities in any given year. Although all investment managers that the Schemes invests with, directly or indirectly, are subject to the Schemes' engagement policy and monitored accordingly, some managers are not subject to engagement / stewardship disclosure obligations. In some cases, aspects of a manager's voting activity may not be included in this document; for example, where we have concerns that public disclosure would be detrimental to the success of the investment strategy for the Schemes.

#### AKO

	Manager response
Number of meetings the manager was eligible to vote at over the year	40
Number of resolutions the manager was eligible to vote on over the year	701
% of eligible resolutions the manager voted on	97.0%
% of votes with management	90.0%
% of votes against management	8.0%
% of resolutions the manager abstained from	2.0%

#### Cardano Global Sustainable Equity Fund

	Manager response
Number of meetings the manager was eligible to vote at over the year	833
Number of resolutions the manager was eligible to vote on over the year	9146
% of eligible resolutions the manager voted on	99.0%
% of votes with management	84.6%
% of votes against management	15.1%
% of resolutions the manager abstained from	0.3%

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## Egerton

	Manager response
Number of meetings the manager was eligible to vote at over the year	28
Number of resolutions the manager was eligible to vote on over the year	493
% of eligible resolutions the manager voted on	91.9%
% of votes with management	96.5%
% of votes against management	2.4%
% of resolutions the manager abstained from	1.1%

## Kadensa

	Manager response
Number of meetings the manager was eligible to vote at over the year	92
Number of resolutions the manager was eligible to vote on over the year	1604
% of eligible resolutions the manager voted on	100.0%
% of votes with management	84.9%
% of votes against management	15.1%
% of resolutions the manager abstained from	0.0%

## MI Metropolis

	Manager response
Number of meetings the manager was eligible to vote at over the year	23
Number of resolutions the manager was eligible to vote on over the year	392
% of eligible resolutions the manager voted on	100.0%
% of votes with management	96.0%
% of votes against management	4.0%
% of resolutions the manager abstained from	0.0%

## Polar Capital

	Manager response
Number of meetings the manager was eligible to vote at over the year	62
Number of resolutions the manager was eligible to vote on over the year	634
% of eligible resolutions the manager voted on	95.4%



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% of votes with management	87.6%
% of votes against management	12.4%
% of resolutions the manager abstained from	0.0%

## Sands

	Manager response
Number of meetings the manager was eligible to vote at over the year	62
Number of resolutions the manager was eligible to vote on over the year	490
% of eligible resolutions the manager voted on	100.0%
% of votes with management	96.1%
% of votes against management	2.7%
% of resolutions the manager abstained from	1.2%

## Sunriver

	Manager response
Number of meetings the manager was eligible to vote at over the year	17
Number of resolutions the manager was eligible to vote on over the year	157
% of eligible resolutions the manager voted on	82.0%
% of votes with management	91.0%
% of votes against management	4.0%
% of resolutions the manager abstained from	5.0%

## 2.2. Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The investment manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the Financial Reporting Council's (FRC) Stewardship Code.

We recognise that by having a suitable Stewardship Policy in place and using our Solvency Manager to monitor voting activity, investment managers can create more engagement over time; particularly smaller, more boutique managers with less in-house expertise and resource.

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The table below outlines the use of proxy voting services by the Schemes' investment managers where voting is deemed to be of material importance.

Manager	Use of proxy voting service
<b>AKO</b>	No use of proxy adviser
<b>Amia Capital</b>	Broadridge Proxy Edge Service
<b>Cardano Global Sustainable Equity Fund</b>	Use Glass Lewis as a proxy provider to deliver vote recommendation and execution services. Glass Lewis applies the custom voting policy of Cardano and an audit process is in place with Glass Lewis to ensure the policy is applied correctly.
<b>Egerton</b>	No proxy advisor, but utilises the services of third-party tools including Broadridge Proxy Edge to cast votes
<b>Kadensa</b>	ISS
<b>MI Metropolis</b>	ISS
<b>Polar Capital</b>	ISS
<b>Sands</b>	ISS, Glass Lewis, and SES (for India Holdings) standard voting policy
<b>Sunriver</b>	ISS

## 2.3. Examples of significant votes

When collating voting statistics for our managers, we also asked our managers to provide examples of significant votes cast. The tables below outline a sample of responses received.

### Egerton

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Canadian National Railway	01/04/2023	Shareholder proposal to accept Canadian National Railway's climate action plan	For	For	Climate Crisis

## Kadensa

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Microsoft Corporation	07/12/2023	Report on risks of operating in countries with significant human rights concerns	For	Against	Human Rights

## MI Metropolis

Company Name	Date of Vote	Summary of the resolution	How the manager voted	Rationale / Outcome	Relevant engagement themes
Berkshire Hathaway	06/05/2023	Report on physical and transitional climate-related risks and opportunities	For	Against	Climate Crisis

## 3. Engagement Activity

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship. The Solvency Manager is passionate about active engagement, as opposed to disinvestment or exclusions practices, in order create positive real-world change. Through engagement, investment managers can build relationships with the companies in which they invest, helping to steward companies on a range of topics, including sustainability.

The tables below provide examples of engagement activity of the Schemes' investment managers where engagement should be a material activity in the management of the assets.

### Public Market Engagement Activity

#### Cardano Global Sustainable Equity Fund

Key points	Engagement activity
<p><b>Engagement Theme:</b> Living Wages</p> <p><b>Industry:</b> Retail</p> <p><b>Outcome:</b> During engagement discussions, Sainsbury's announced a rise in its hourly rates for London based employees and all direct employees were receiving, at a minimum, the real living wage rates for the year.</p>	<p>Cardano co-filed a resolution to encourage Sainsbury's to pay their employees a real living wage. The resolution was co-filed with the ShareAction Good Work Coalition, which engages companies to push for better working practices.</p> <p>There is a strong business case to say that companies with strong labour rights, policies and practices, including the provision of a real living wage, have a competitive advantage to attract and keep skilled employees.</p> <p>The resolution gathered 17% of shareholder support at the AGM and the announcement to pay all direct Sainsbury's employees a real live wage meant a pay rise for around 19,000 workers.</p>

## Barings

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate Change</p> <p><b>Industry:</b> Banks</p> <p><b>Outcome:</b> Positive responses from banks in completing the questionnaire and engaging in follow-up dialogue.</p>	<p>Engaged with senior management of emerging markets banks, based on their response to the climate risk questionnaire. This has included conversations related to reporting their financed emissions disclosures and setting up credible Science Based Targets for reduction in the carbon footprint disclosed.</p> <p>Going forward, Barings will work with the EMIA Financial Sector Working Group to increase the scope of banks engaged with, to encourage improved data collection on carbon footprint, as well as evidence of building climate risk analysis into its new loan underwriting in order to pursue engagement objectives. Barings will also continue to engage with banks on an individual basis (outside of the EMIA platform).</p>

## Wellington

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate change</p> <p><b>Industry:</b> Agriculture</p> <p><b>Outcome:</b> Wellington will continue to meet with the company regularly to measure their development in ESG initiatives.</p>	<p>Wellington continued to engage with a holding company who are one of the largest protein producers in the world, headquartered in Brazil.</p> <p>Given the nature of the business and its geographical location, some of the most pressing issues in this space relate to deforestation of the Amazon and governance issues related to previous corruption issues.</p> <p>One aspect of addressing and moving forward with this issue is through tracking suppliers. Currently, the company track 100% of direct suppliers, and are aiming to track all indirect suppliers by 2025.</p>

## Kadensa

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate Crisis</p> <p><b>Industry:</b> Manufacturing</p> <p><b>Outcome:</b> The company has engaged with ESG rating agencies to seek to improve upon their low ESG Rating.</p>	<p>Following on from a low ESG rating, Kadensa have engaged with the senior management of an underlying company to assess the management's plan and commitment to address their low rating and track progress.</p> <p>The underlying company had received a low ESG rating despite efforts to integrate ESG within their business. Over recent years, management had focussed on increasing ESG integration through initiatives at product level (launched EV and hybrid options), factory level (renewable energy installation), and staff level (encouraging employees to commute more sustainably).</p> <p>Through repeated meetings, Kadensa have confirmed with the company that they will connect with relevant ESG rating agencies to communicate their ESG efforts and understand the rating agencies' best practices.</p> <p>Most recently the company have confirmed that they have invited the</p>

ESG ratings agencies to visit their factory to learn about their ESG initiatives to the hopes to improve their rating

## Private Market Engagement Activity

### Kitty Hawk

Key points	Engagement activity
<p><b>Engagement Theme:</b> Climate Crisis</p> <p><b>Industry:</b> Education</p> <p><b>Outcome:</b> Formed a plan with the school to remove fossil fuels and integrate renewable energy sources to achieve their carbon neutral goal.</p>	<p>Over the reporting period, Kitty Hawk worked with a school portfolio investment and commissioned an Estate Decarbonisation Plan for one of the schools. The school intends on becoming one of the first carbon neutral school groups in the UK.</p> <p>The comprehensive study reviewed the required activities to remove fossil fuels and integrate renewable energy systems. The recommendations include a mixture of different technologies staged over the next ten years. This would stagger the investment and line the different initiatives up with other parts of the school's maintenance and growth programme.</p> <p>The options have been presented in the Estate Decarbonisation Plan study with support from Kitty Hawk's investment team which may also inform the approaches taken at other schools in the portfolio.</p>

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