

Implementation Statement, covering the Plan Year from 1 April 2023 to 31 March 2024 (the “Plan Year”)

The Trustee of The Philip Morris Group Pension Plan (the “Plan”) 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 Plan Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Plan Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their 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 Plan Year in June 2023 to reflect the addition of the Plan’s stewardship priority, climate change. 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 Plan’s voting and engagement policies during the Plan 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. However, the Trustee takes ownership of the Plan’s stewardship by monitoring and engaging with managers, and escalating as necessary as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Plan’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement. Under LCP’s advice, the Trustee invested in two new pooled funds, the SSGA Sterling Corporate Bond All Stocks ESG Screened Index Sub-Fund and the SSGA Sterling Liquidity Sub-Fund in July 2023.

In the previous Plan year, following the introduction of DWP’s guidance, the Trustee agreed to set a stewardship priority to focus monitoring and engagement with their investment managers on specific ESG factors. The Trustee selected climate change as its priority. This priority was selected as a key market-wide risk where the Trustee believes that good stewardship and engagement can improve long-term financial outcomes for the Plan’s members.

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 Plan Year

All of the Trustee’s holdings in listed equities were within pooled funds and the Trustee had delegated to its investment manager, SSGA, the exercise of voting rights. Therefore, the Trustee was not able to direct how votes were exercised and the Trustee itself has not used proxy voting services over the Plan 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 equity funds that the Plan held before the Trustee fully redeemed its holdings:

- State Street Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund
- State Street Emerging Markets ESG Screened Index Equity Sub- Fund

- State Street Europe ex UK ESG Screened Index Equity Sub- Fund
- State Street Japan ESG Screened Index Equity Sub-Fund
- State Street North America ESG Screened Index Equity Sub-Fund
- State Street UK ESG Screened Index Equity Sub-Fund

3.1 Description of the voting processes

For assets with voting rights, the Trustee relied on the voting policy which its manager, SSGA, had in place. The Trustee was comfortable that the policy was aligned with the Trustee's views

State Street Global Advisors (SSGA)

SSGA use a variety of third-party service providers to support its stewardship activities. Data and analysis from service providers are used as inputs to help inform SSGA's position and assist with prioritization. However, all voting decisions and engagement activities are undertaken in accordance with SSGA's in-house policies and views, ensuring the interests of its clients remain the sole consideration when discharging SSGA's stewardship responsibilities. SSGA has contracted Institutional Shareholder Services (ISS) to assist it with managing the voting process at shareholder meetings. SSGA use ISS to:

1. *act as its proxy voting agent (providing SSGA with vote execution and administration services);*
2. *assist in applying its voting guidelines;*
3. *provide research and analysis relating to general corporate governance issues and specific proxy items; and,*
4. *provide proxy voting guidelines in limited circumstances.*

In addition, SSGA also have access to Glass Lewis and region specific meeting analysis provided by the Institutional Voting Information Service. Research and data provided by these third parties complement SSGA's in-house analysis of companies and individual ballot items. All final voting decisions are based on SSGA's proxy voting policies and in-house operational guidelines.

As an investment manager, SSGA have discretionary proxy voting authority over most of its client accounts. SSGA carefully votes these proxies in the manner that will protect and promote the long-term economic value of its client investments.

SSGA's Stewardship team's activities are overseen by its ESG Committee, who are responsible for reviewing its stewardship strategy, engagement priorities and proxy voting guidelines, and monitors the delivery of voting objectives. In addition, SSGA's ESG Committee provides oversight of its Stewardship team, reviews departures from its proxy voting guidelines, and reviews conflicts of interest involving proxy voting.

SSGA enhance the services provided by its in-house resources through third-party service providers. The most notable of these are third-party data providers such as Institutional Shareholder Services (ISS) who are utilised to assist SSGA with managing the voting process at shareholder meetings. In the voting process, SSGA use ISS to help us monitor our voting rights across the asset classes in which we invest.

SSGA's Stewardship team reviews its Proxy Voting Guidelines with ISS on an annual basis or on a case-by-case basis as needed. ISS affects the proxy votes in accordance with SSGA's Proxy Voting Guidelines. Voting matters that are nuanced or that require additional analysis are referred to and reviewed by members of SSGA's Stewardship team. Members of SSGA's Stewardship team evaluate the proxy solicitation to determine how to vote based on facts and circumstances consistent with its Proxy Voting Guidelines, which seek to maximize the value of SSGA's client accounts.

As an extra precaution, SSGA's Stewardship team will refer significant issues to the ESG Committee for a determination of the proxy vote. In addition, other measures are put in place in terms of when and whether or not to refer a proxy vote to the ESG Committee. For instance, SSGA's Stewardship team takes into account whether a material conflict of interest exists between its clients and those of its firm or its affiliates. If such a case occurs,

there are detailed guidelines for how to address this concern (refer to the Mitigating Conflict of Interest Guidelines for additional details).

SSGA votes at over 20,000 meetings on an annual basis and prioritizes companies for review based on factors including the size of SSGA's holdings, past engagement, corporate performance and voting items identified as areas of potential concern. Based on this assessment, SSGA will not only allocate appropriate time and resources to shareholder meetings, but will also assign specific ballot items of interest to ensure maximization of value for its clients.

3.2 Summary of voting behaviour

A summary of voting behaviour over the Plan Year is provided in the table below. SSGA was unable to provide voting data for the period of 1 April 2023 to the date of full redemption for the equity funds (July 2024), so data is for the Plan year to 31 March 2024.

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6
Manager name	SSGA					
Fund name	Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund	Emerging Markets ESG Screened Index Equity Sub-Fund	Europe ex UK ESG Screened Index Equity Sub-Fund	Japan ESG Screened Index Equity Sub-Fund	North America ESG Screened Index Equity Sub-Fund	UK ESG Screened Index Equity Sub-Fund
Total size of fund at end of the Plan Year	£0.6bn	£4.2bn	£0.9bn	£0.5bn	£2.9bn	£1.4bn
Value of Plan assets at end of the Plan Year (£ / % of total assets)	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Number of equity holdings at end of the Plan Year	373	1,985	416	497	597	555
Number of meetings eligible to vote	433	4,402	502	509	643	685
Number of resolutions eligible to vote	3,349	35,882	8,941	6,096	9,156	12,193
% of resolutions voted	99.3%	97.0%	97.6%	100.0%	98.4%	54.1%
Of the resolutions on which voted, % voted with management	80.5%	81.9%	87.9%	92.4%	86.9%	83.5%
Of the resolutions on which voted, % voted against management	19.6%	18.1%	11.8%	7.7%	12.9%	16.5%
Of the resolutions on which voted, % abstained from voting	0.3%	1.8%	0.4%	0.0%	0.4%	0.2%
Of the meetings in which the manager voted, % with at least one vote against management	69.5%	52.5%	63.3%	53.9%	61.5%	65.2%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	11.9%	5.2%	7.5%	6.5%	12.4%	16.1%

Source: SSGA. Votes of abstain can be counted both as a vote of abstain but also as a vote against management. Hence, vote with management, vote against management and abstain from voting may add up to more than 100%.

The Trustee (via its advisors) has challenged SSgA on the 54.1% of resolutions voted for the UK ESG Screened Index Equity Sub-Fund (as a relatively low proportion). SSgA stated that this figure was driven by an inability of a service provider to process split voting with fractional shares following the introduction of Investor Voting Choice by SSGA in 2023 in respect of that fund. SSgA confirmed that the service provider fixed the issue in Q3 2023 and is now able to process such split votes and so they would not anticipate a reoccurrence of this issue.

3.3 Most significant votes

Commentary on the most significant votes over the Plan Year, from the Plan's asset manager who held listed equities, is set out below.

The Trustee did not inform its manager which votes it considered to be most significant in advance of those votes.

Given the large number of votes which are cast by the manager 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 the manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the manager could use the PLSA's criteria¹ for creating this shortlist. By informing its manager of its stewardship priority, climate change, and through its regular interactions with the manager, the Trustee believed that its manager would understand how it expected them to vote on issues for the companies they invest in on its behalf.

State Street Global Advisors

State Street Global Advisors identified "significant votes" as follows:

1. All votes on environmental-related shareholder proposals.
2. All votes on compensation proposals where we voted against the management's recommendation.
3. All against votes on the re-election of board members due to poor ESG performance of their companies (as measured by SSGA's proprietary R-Factor ESG score).
4. All against votes on the re-election of board members due to poor compliance with the local corporate governance score of their companies (as measured by SSGA's proprietary R-Factor Corporate Governance score).
5. All against votes on the re-election of board members due to a lack of gender diversity on the board

Due to the number of significant votes provided by SSGA, the Trustee has chosen a subset of votes to report on in the Statement (one for each fund). For each vote, the approximate size of holding and whether the vote intention was communicated ahead of the vote was not available from the investment manager at the time of writing.

BP Plc, 27 April 2023.

- **Summar of the resolution:** Approve shareholder resolution on climate change targets.
- **Type of issue:** Environmental.
- **Company management recommendation:** Against. **Fund manager vote:** Against.
- **Rationale:** This proposal did not merit support as the company's disclosure and/or practices related to climate change are already broadly in line with SSGA's guidance.
- **Outcome of the vote:** Resolution failed.

Equinor ASA, 10 May 2023.

- **Summar of the resolution:** Identify and manage climate-related risks and possibilities, and integrate them into the company's strategy.
- **Type of issue:** Environmental.
- **Company management recommendation:** Against. **Fund manager vote:** Against.

¹ [Vote reporting template for pension Plan implementation statement – Guidance for Trustees \(plsa.co.uk\)](https://www.plsa.co.uk). Trustees are expected to select "most significant votes" from the long-list of significant votes provided by their investment managers.

- **Rationale:** This proposal did not merit support as the company's disclosure and/or practices related to climate change are broadly in line with SSGA's guidance.
- **Outcome of the vote:** Resolution failed.

Alphabet Inc., 02 June 2023.

- **Summar of the resolution:** Report on framework to assess company lobbying alignment with climate goals.
- **Type of issue:** Human rights.
- **Company management recommendation:** Against. **Fund manager vote:** For.
- **Rationale:** SSGA supported the proposal as the company's disclosures related to climate change are not in line with SSGA's guidance.
- **Outcome of the vote:** Resolution failed.

Chubu Electric Power Co., Inc., 28 June 2023.

- **Summar of the resolution:** Amend articles to decommission Hamaoka Nuclear Power Station.
- **Type of issue:** Environmental.
- **Company management recommendation:** Against. **Fund manager vote:** Against.
- **Rationale:** This proposal did not merit support as the company's disclosure and/or practices related to nuclear power are reasonable.
- **Outcome of the vote:** Resolution failed.

Emirates Telecommunications Group Co. PJSC, 11 April 2023.

- **Summar of the resolution:** Approve amended Board Remuneration Policy.
- **Type of issue:** Governance.
- **Company management recommendation:** For **Fund manager vote:** Against.
- **Rationale:** The company failed to disclose adequate information on this proposal.
- **Outcome of the vote:** Resolution passed.

QBE Insurance Group Limited, 12 May 2013.

- **Summar of the resolution:** Advisory vote to ratify named Executive Officers' compensation.
- **Type of issue:** Governance.
- **Company management recommendation:** For. **Fund manager vote:** Abstain.
- **Rationale:** SSGA abstained on this proposal due to pay for performance concerns.
- **Outcome of the vote:** Resolution passed.