

# The Merchant Navy Officers Pension Fund Implementation Statement – March 2024



## Why have we produced this Statement?

The Annual Implementation Statement is prepared by the Trustee of the Merchant Navy Officers Pension Fund (“the Fund”) covering the fund year (“the year”) to 31 March 2024.

The purpose of this statement is to:

1. Set out how, and the extent to which, in the opinion of the trustees, the Fund’s engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year.
2. Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of services of a proxy voter during that year.

This statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Fund’s Statement of Investment Principles (“SIP”).

A copy of this Implementation Statement has been made available on the following website: [https://www.mnopf.co.uk/publications\\_reports](https://www.mnopf.co.uk/publications_reports)

## What is the SIP?

The SIP sets out key investment policies including the Trustee’s investment objectives and investment strategy.

It also explains how and why the Trustee delegates certain responsibilities to third parties and the risks the Fund faces and the mitigated responses.

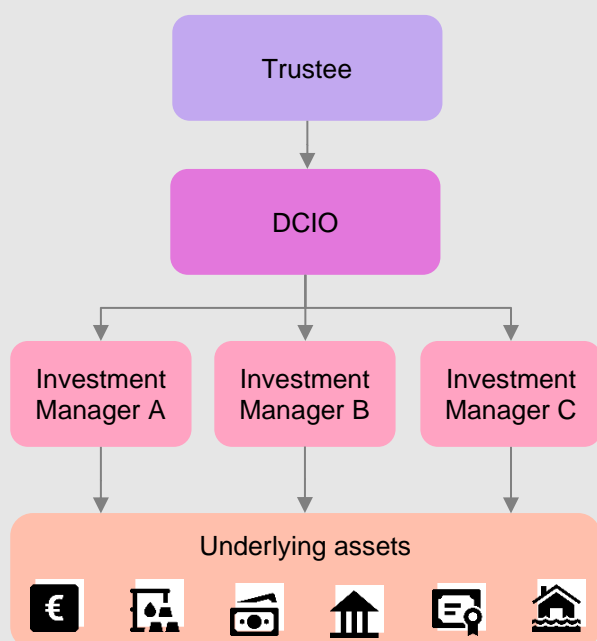
The Trustee last reviewed the SIP in September 2023 and is reviewed on an annual basis.

## What changes have we made to the SIP?

The Trustee have made the following changes to the SIP over the year:

1. Made a minor wording revision to its mission statement “to achieve sufficient funding to secure an uplift of at least 3% of members’ benefits”.
2. Updated the DCIO’s target allocations across the full range of invested asset classes.

## How are the Fund’s investments managed?



**Trustee** - The Trustee’s key objective is to ensure sufficient assets to pay members’ benefits as they fall due. The Trustee retains overall responsibility for the Fund’s investment strategy but delegates some responsibilities to ensure they are undertaken by somebody with the appropriate skills, knowledge and resources.

**Delegated Chief Investment Officer (“DCIO”)** – The Trustee appointed a DCIO to implement the Trustee’s investment strategy. The DCIO allocates the Fund’s assets between asset class and investment managers.

**Investment managers** – The DCIO appoints underlying investment managers either using a pooled vehicle or a segregated mandate where these assets are held directly in the Fund’s name. The DCIO will look for best in class specialist managers for each asset class.

**Underlying assets** – The investment managers pick the underlying investments for their specialist mandate e.g. shares in a company or government bonds.

### Why does the Trustee believe voting and engagement is important?

The Trustee's view is that Environmental, Social and Governance (ESG) factors can have a significant impact on investment returns, particularly over the long-term and therefore contribute to the security of members' benefits. The Trustee further believes that voting and engagement are important tools to influence these issues.

The Trustee has appointed a DCIO who shares this view and has embedded the consideration of ESG factors, voting and engagement in its processes.

The Trustee incorporates an assessment of the DCIO's performance in this area as part of its overall assessment of the DCIO's performance.

### What is the Trustee's voting and engagement policy?

When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations but has identified climate and human and labour rights as key areas of focus for the Trustee. The day-to-

day integration of ESG considerations, voting and engagement are delegated to the investment managers. The Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital.

Where ESG factors are considered to be particularly influential to outcomes, the Trustee expects the DCIO to engage with investment managers to improve their processes.

### What has the Trustee received over the year?

To ensure the Trustee is kept up to date with best practice in ESG considerations, voting and engagement, the Trustee received the Fund's annual Sustainable Investment Review, which covers

- The DCIO's approach to Sustainable Investment.
- Reporting on the sustainability credentials of the Scheme's investment portfolio (including climate change metrics).
- An assessment of the ESG integration and engagement of the Scheme's investment managers.

### What are the DCIO's policies?

#### Climate change and net zero pledge

The Trustee believes Climate Change is a current priority when engaging with public policy, investment managers and corporates.

The DCIO has committed to targeting net zero greenhouse gas emissions by 2050 at the latest, with a 50% reduction by 2030, in the portfolios that it manages including the Fund's portfolios.

#### Public policy and corporate engagement

The DCIO partners with EOS at Federated Hermes, whose services include public policy engagement, and corporate voting and engagement on behalf of its clients (including the Trustee).

Some highlights from 2023 include:

1. Engagements with 1,041 companies on a total of 4,272 issues and objectives.
2. 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
3. Voting recommendations on 128,101 resolutions, with 22,716 against management.
4. Active participation in a range of global stewardship initiatives.

#### Industry collaboration initiatives

The DCIO engages in several industry initiatives including:

- Signatory, UK Stewardship Code.
- Co-founder of the Net Zero Investment Consultants Initiative.
- Member of Net Zero Asset Managers Initiative.
- Signatory of the Principles for Responsible Investment (PRI).
- Member of the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC).
- Co-founder of the Investment Consultants Sustainability Working Group.
- Founding member of the Diversity Project.
- Supporter of the Transition Pathway Initiative.

## How does the DCIO assess the investment managers?

**Investment manager appointment** - The DCIO considers the investment managers' policies and activities in relation to ESG factors and stewardship (which includes voting and engagement) at the appointment of a new manager. In 2023 the DCIO conducted engagements with over 150 managers on sustainability and stewardship. In 2022 it also introduced engagement priorities on climate, modern slavery and engagement reporting for all asset managers.

**Investment manager monitoring** - The DCIO produces detailed reports on the investment managers' ESG integration and stewardship

capabilities on an annual basis. We have provided the DCIO's ratings of the equity managers' ESG integration and stewardship capabilities in the later pages where appropriate.

**Investment manager termination** - The DCIO engages with investment managers to improve their practices and increases the bar by which they are assessed as best practice evolves. The DCIO may terminate an investment manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no investment managers were terminated on these grounds during the year.

## Example of engagement carried out over the year

### High yield manager Environment - Climate issue

Issue: This manager is an underlying exposure that sits within the DCIO's broader high yield credit portfolio. As the DCIO increased its minimum standards and expectations over time in relation to SI, this manager became a clear laggard relative to other exposures in the portfolio, lacking a framework for both ESG integration and engagement. The DCIO communicated its concerns with the manager who committed to a plan to significantly improve their capabilities and resources spent here. During this process, the DCIO stopped allocating new capital to this manager.

Outcome: The manager has now made significant process on their SI capabilities, as well as the commitments made as part of the engagement process. They have developed a new ESG integration framework, as well as a checklist for both new and existing investments to ensure all holdings are analysed using correct ESG data sources, and any concerns are documented. They have also started producing ESG reporting, such as emissions at a portfolio level.

The manager has now also shown a number of positive ESG engagement examples with underlying holdings. Whilst this remains a work in progress, this has become a much greater focus for analysts at the firm, which is viewed positively.

### Equity manager General ESG issue

Issue: Concerns over engagement reporting and reassessment of ESG integration

Outcome: Reporting transparency on ESG front was lagging in the past year. The manager developed an engagement tracker which will assist the client reporting and the manager also appeared willing to provide more transparency. Also, the manager re-assessed their ESG integration and stewardship practices which were acceptable.

### Private markets manager General ESG issue

Issue: Refreshment of recruitment policies including going through the staff handbook and the reviewing of interviewing processes.

Outcome: The manager is now thinking about including an independent Board member and using a more diverse interview panel for a better inclusion and diversity.

## What are the voting statistics we provide?

The Fund is invested across a diverse range of asset classes which carry different ownership rights, for example bonds do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity investment managers.

The managers' voting activity is provided in Appendix 1. The Trustee identified key ESG risks for the Fund, and therefore the following criteria have been used to determine the most significant votes, where at least one needs to apply:

- Aligned to stewardship priorities for the Fund of climate change and/or human and labour rights.
- Financial outcome for members, including size of holding.
- High profile vote, including not supporting company management.

The Trustee has decided not to publicly disclose active investment manager names as the Trustee believes this could impact the investment manager's ability to generate the best investment outcome.

The Trustee has also included the DCIO's assessment of the investment manager's ESG integration and stewardship (including voting and engagement) capabilities where appropriate. The Trustee has identified the most significant votes to provide representation of the different types of manager/mandates in place.


## In conclusion...

...The Trustee is satisfied that over the year, all SIP policies and principles were adhered and in particular, those relating to voting and engagement.

## Appendix 1 – Manager Voting

### Global Listed Infrastructure Manager

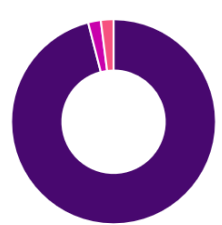
Voting activity over the year



**Fiduciary Manager's assessment**

**Voting activity over the year**

Number of eligible votes cast: 356  
Percentage of eligible votes cast: 100%



■ For: 96% ■ Against: 2% ■ Abstain: 2%

**Significant vote**

**Company:** Aena SME, SA  
**% of Manager's Fund:** 5.0%

**Vote topic:** Voting on a consultative basis, on the updated report of the Climate Action Plan (2022)

**Issue:** No explicit targets on the LTO (Landing & Take Off) cycle Scope 3 emission measures and no quantitative objectives included in the plan.

**Voting instruction:** Abstain the resolution  
**Outcome:** Passed the resolution

**Why a significant vote?** Identified as a key ESG topic (climate change) and a significant portfolio position. The investment manager does not endorse the Climate Action Plan as it does not provide a clear direction for the most significant segment of emissions for the Airport. The vote cast did not support company management.

**Next steps:** Manager contacted the investor relations team to see if they can quantify these targets, and their longer-term views around the use of SAF. Future expectations are references to appropriate Scope 3 goals and targets.

**Significant vote**

**Company:** Aeroports De Paris ADP  
**% of Manager's Fund:** 4.6%

**Vote topic:** Approval of the resolution presented by the Social and Economic committee on the social policy and the revision of the employment plan

**Issue:** Revision to the firm's hiring plan to revert to 2019 staff levels by 2024

**Voting instruction:** Against resolution  
**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The intended revision to revert to 2019 staff levels by 2024 was beyond the firm's recruitment and labour retention/attraction plans (this vote was in line with company management, although still significant).

**Next steps:** With the investment manager's decision to vote in line with company management, the manager saw no explicit amendments to the processes as a result of the outcome.

**Voting policy:** When proxy voting is to occur, the investment team sector lead provides voting recommendations which are then tabled at the manager's Investment Committee (IC) for review and approval. Recommendations are made having regard to the various environmental, social, and governance factors of each of the resolutions to be voted on. Voting instructions are submitted via [ProxyEDGE](#).

**Use of proxy voting:** The proxy vote recommendations submitted to the investment committee (IC) contain a summary of all ESG risks and key issues identified for that company including, where relevant, recommendations for voting on specific issues.

### China A-Shares Value Manager

Voting activity over the year



**Fiduciary Manager's assessment**

**Voting activity over the year**

Number of eligible votes cast: 1,655  
Percentage of eligible votes cast: 100%



■ For: 84% ■ Against: 12% ■ Abstain: 4%

**Significant vote**

**Company:** Will Semiconductor Co., Ltd. Shanghai  
**% of Manager's Fund:** 2.2%

**Vote topic:** Amend Rules and Procedures Regarding Meetings of Board of Supervisors

**Issue:** The company failed to disclose adequate information on the proposed bylaw amendments

**Voting instruction:** Against resolution  
**Outcome:** Limited information provided

**Why a significant vote?** The vote cast did not support company management. This vote demonstrated the investment manager's case-by-case approach to amendment proposals.

**Next steps:** The investment manager will continue to review proposed bylaw amendments to ensure adequate disclosure of an appropriate rationale for such amendments

**Significant vote**

**Company:** Jointown Pharmaceutical Group Co., Ltd.  
**% of Manager's Fund:** 2.0%

**Vote topic:** Approve Provision of Guarantee

**Issue:** The level of guarantee to its subsidiaries is disproportionate to the level of ownership

**Voting instruction:** Against resolution  
**Outcome:** Limited information provided

**Why a significant vote?** The vote cast did not support company management. This vote demonstrated the investment manager's approach to Provision of Guarantee proposals

**Next steps:** The investment manager will continue to review cost of financing proposals as it relates to provision of guarantees to ensure fairness of terms for shareholders

**Voting policy:** The members of the Responsible Investing Team responsible for proxy voting apply the manager's Proxy Voting and Governance Policy. Votes of their significant holdings are consulted with covering investment analysts. All executed votes are also reviewed by their independent offshore-approval team.

**Use of proxy voting:** The Chinese Equity Fund uses Glass Lewis as their proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows the manager to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows submission of 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 clients.

The voting information provided by the China A-Shares Value Manager was limited but the above provides examples of voting against company management, which is one of the criteria set by the Trustee determining 'significant' votes.

# Emerging Markets Growth Equity Manager

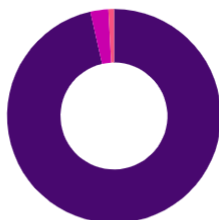
## Voting activity over the year



Fiduciary Manager's assessment

### Voting activity over the year

Number of eligible votes cast: 477  
Percentage of eligible votes cast: 100%



■ For: 96% ■ Against: 3% ■ Abstain: 1%

### Significant vote

**Company:** Amazon.com, Inc.

**% of Manager's Fund:** 4.9%

**Vote topic:** Human Rights Risk Assessment

**Issue:** Mandating a transparency assessment of Amazon's labour rights and health and safety

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believed that, given the proliferation and importance of artificial intelligence and machine learning, this risk assessment would give Amazon an opportunity to be a thought leader through transparency. The vote cast did not support company management.

**Next steps:** The investment manager will continue to vote this way in the future.

### Significant vote

**Company:** Amazon.com, Inc.

**% of Manager's Fund:** 4.9%

**Vote topic:** Commission a Third-Party Audit on Working Conditions

**Issue:** Assessment of working conditions for Amazon's workforce

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believes that scrutiny has reached the point where more transparency would be helpful in understanding the working conditions at the US's second largest employer. The vote cast did not support company management.

**Next steps:** The investment manager will continue to vote this way in the future.

**Voting policy:** The manager has unrestricted authority to vote proxies on behalf of clients and will vote in the best interests of its clients and in a manner that is consistent with its fiduciary duties. Where clients have imposed restrictions or guidelines on or issued instructions to the manager with respect to voting proxies, the manager will adhere to such restrictions, guidelines, and/or instructions. Clients with their own general or specific proxy voting and governance policies may wish to have their proxies voted by an independent third party or other named fiduciary or agent at the client's expense.

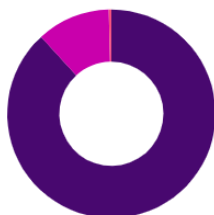
**Use of proxy voting:** The manager votes their proxies themselves but considers the recommendations of proxy advisors such as ISS and Glass Lewis in their voting decisions. In voting proxies, the manager considers the short and long-term implications of each proposal. In voting proxies, the manager typically is neither an activist in corporate governance nor an automatic supporter of management.

# Towers Watson Investment Management – Global Equity Focus Fund (GEFF)

## Voting activity over the year

### Voting activity over the year

Number of eligible votes cast: 3252  
Percentage of eligible votes cast: 99.2%



■ For: 88% ■ Against: 11% ■ Abstain: 1%

### Significant vote

**Company:** Alphabet

**% of GEFF:** 5.7%

**Vote topic:** Human rights

**Issue:** The shareholder resolution was regarding greater transparency related to business conducted in jurisdictions with significant human rights concerns.

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believes transparency on country risk is a non-controversial proposal and serves both social and governance interests. The vote cast did not support company management.

**Next steps:** The investment manager will vote for similar measures in the future.

### Significant vote

**Company:** Microsoft Corporation

**% of GEFF:** 4.9%

**Vote topic:** Report on climate risk in retirement plan options

**Issue:** Manager voted for this shareholder proposal as they believe that it promotes transparency and addresses a potential ESG risk.

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (climate change) and a significant portfolio position. Greater transparency allows shareholders to better assess the underlying risks and opportunities. The vote cast did not support company management.

**Next steps:** The investment manager will continue to promote greater transparency across all holdings if it does not put the company in a competitive disadvantage

**Voting policy:** As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. TWIM expects all of the underlying managers who hold equities over a reasonable timeframe to vote all shares they hold.

**Use of proxy voting:** TWIM has appointed EOS at Federated Hermes (EOS) to provide voting recommendations to enhance engagement and achieve responsible ownership. EOS also carries out public policy engagement and advocacy on behalf of all of their clients. In addition, EOS is expanding the remit of engagement activity they perform on the manager's behalf beyond public equity markets, which will enhance stewardship practices over time.