

The Merchant Navy Officers Pension Fund

**Annual Implementation
Statement – Year ended
31 March 2022**

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1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Merchant Navy Officers Pension Fund (“the Fund”) covering the fund year (“the year”) to 31 March 2022.

The purpose of this statement is to:

- 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;
- 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.

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 delegates some responsibilities. In particular, the Trustee has appointed a Delegated CIO, Towers Watson Limited (trading as WTW), to advise on the Fund’s DB assets. So far as is practicable, the Delegated CIO considers 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:
www.mnopf.co.uk

2. Voting and engagement

As set out above, the Trustee has delegated responsibility to the Delegated CIO 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.

The Delegated CIO 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 its 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 Delegated CIO’s process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager’s approach to 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 Delegated CIO engages with investment managers to improve their processes.

The Delegated CIO produces a detailed Annual Sustainable Investment (SI) Review report on the SI characteristics of the highest-rated managers (such as those included in the Fund’s portfolio) on an annual basis. This report forms part of the Trustee’s ongoing portfolio monitoring which the Trustee last reviewed at its Q3 2021 meeting.

At the latest Annual SI Review it was reported that the vast majority of the Fund’s asset managers are operating at a neutral or strong standard. The Delegated CIO is directly engaging with the underlying investment managers in areas where they scored poorly to encourage improvements. Should insufficient progress be made on making improvements, the manager’s place in the portfolio will come under review.

In addition, the policies and processes adopted by the Trustee have impacted the Fund’s investments in numerous ways. A key example of this is within the Fund’s equity portfolio where the Trustee is

invested in the Towers Watson Global Equity Focus Fund which has excluded controversial weapons companies from the Fund's portfolio in accordance with MSCI's criteria. These categories of weapons are widely considered to be controversial as they can have indiscriminate, anti-humanitarian impacts on civilians, including weapons of mass destruction. Many are also subject to international conventions and agreements which several countries have ratified.

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

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Delegated CIO, and in turn to the Fund's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) are delegated to the Fund's investment managers.

The Trustee has a set of investment beliefs which cover various aspects including governance, asset classes and risk. The Trustee's sustainability beliefs are:

- As stewards of the Fund's assets, the Trustee has a responsibility to set policy over ESG factors rather than delegating the policy setting to the DCIO / investment managers
- It is important for equity managers to exercise their voting rights as this leads to better governance reasons and can produce better returns
- The Trustee should closely monitor how the DCIO incorporates Sustainability, ESG and stewardship considerations into its decision-making process
- The Trustee should provide regular communication to employers as well as members regarding Sustainability, ESG and stewardship developments.
- The Fund should engage with other Pension Schemes / investors to aim to create positive change across the investment industry.
- The Trustee supports investments with a positive social and environmental impact, but these investments must have no adverse impact on overall investment efficiency.
- Climate change, and a just transition to net zero carbon emissions, is a systemic and urgent global challenge which necessitates specific risk management, opportunity identification and collective action

The Trustee assess adherence with its sustainability beliefs annually – most recently in 2021 which confirmed activities were undertaken that ensure compliance with all beliefs. The Trustee looks to update its beliefs at least every three years. The sustainability beliefs were last updated in 2021, with the next review scheduled in 2024.

The Delegated CIO's annual sustainability report helps the Trustee to review and monitor latest sustainability and ESG considerations within the portfolio, against its beliefs framework. As part of the ESG report, the following aspects are included:

- A section on understanding the latest trends in ESG and how sustainable investing can have a positive impact on investment return.
- Annual monitoring of the investment managers the Fund invests in, including any areas of weaknesses identified.
- Case studies of investment managers incorporating sustainability within the decision-making process.
- A quantitative and qualitative assessment of carbon exposure and other ESG criteria in the Fund's portfolio.

Through the engagement undertaken by the Delegated CIO, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Delegated CIO considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The Delegated CIO engages with managers to improve their practices and may recommend the termination of a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Year.

The Fund is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity managers, or managers who own a significant amount of equity such as listed real estate (REITs) and listed infrastructure, as here there is a right to vote as an ultimate owner of a stock. Responses received are provided in the table below. Where managers provided multiple examples of "significant votes", the top three have been shown below.

Further information on the voting and engagement activities of the managers is provided in the table below.

The Fund's equity holdings as at 31 March 2022 were invested across five pooled funds:

- Towers Watson Investment Management (TWIM) Global Equity Focus Fund - an active global equity fund managed by the Delegated CIO which invests in number of underlying active managers
- State Street Global Advisers (SSgA) Infrastructure Equity MFG Fund – a passive global equity fund which focusses on equity related to infrastructure companies.
- Manager A – an active equity fund focussed on equities listed in China
- Manager B – an active emerging market equity fund
- Manager C – an active global equity fund focussed on equity related to prime properties.

As outlined above, the Fund is invested in both active and passive equity funds. For the active funds, the Trustee has decided not to publicly disclose investment manager names. This decision relates to the underlying investment managers in the TWIM and Manager A, B and C. Given the nature of these investments, the Trustee believes that publicly disclosing the names of the Fund's investment managers could impact the investment manager's ability to generate the best investment outcome for the Fund and ultimately, the Fund's members.

The Delegated CIO views that TWIM GEFF acts as a strong steward of capital through engagements made by underlying managers and through Equity Ownership Services ("EOS") at Federated Hermes who has been specifically appointed to act in this regard on behalf of the capital in the fund. Underlying managers are continuously monitored and evaluated on their engagement activities, which in 2021 are rated either as a Strength or Neutral by the Delegated CIO. EOS is rated as a Strength on their ESG engagement activities, where at least one milestone was moved forward for c.53% of objectives over 2021. EOS' latest engagement plan can be accessed [here](#).

The Delegated CIO's view is that SSgA's strategic priorities are heavily tied to ESG, customisation and taking more control of headline index design while using less expensive third party index providers to help implement. A question remains over SSgA's ability and willingness to significantly evolve their stewardship activities and best practices. The Delegated CIO continues to engage for further improvement on ESG issues, with these becoming now regular conversations particularly on the potential to decarbonise at accelerated rates.

The Delegated CIO's view on Manager A is that due to the strategy's fundamental investment approach we expect environmental, social, and governance (ESG) risks and opportunities to be considered within their portfolio management process. Corporate engagement and asset stewardship is a key part of the investment process for the team and has been a key part of the investment process across all of its investment strategies. Overall, the Delegated CIO views the SI approach of Manager A to be good.

The Delegated CIO views Manager B's approach to SI as acceptable. Over the year, Manager B has made improvements to its practices relating to ESG integration and engagement by upgrading its third-party research provider to Sustainalytics, developing a Stewardship Policy and enhancing its ESG Policy. The Delegated CIO continues to engage for further improvement.

The Delegated CIO's view on Manager C is positive as the manager publicly supports sustainable investment initiatives and the firm's policy covering ESG integration and analysis is publicly disclosed. In the last calendar year, Manager C has made improvements to its practices relating to ESG integration. Manager C will review each resolution on a case-by-case basis in arriving at a voting recommendation and does so by adhering to a clearly defined set of principles.

The Trustee delegates the exercise of voting rights to its investment managers. Voting activity is undertaken in line with the voting policy of the investment manager. The Delegated CIO has assessed the investment manager's voting policies as part of its overall assessment of the investment manager's capabilities. The Delegated CIO considers the managers policies to be appropriate, and consistent with the Trustee's policies and objectives and ultimately, therefore in the best financial interests of the Fund's members. Additional oversight on the implementation of this policy is provided through the Delegated CIO's partnership with EOS at Federated Hermes (see below). The Trustee has identified key ESG risks for the Scheme as climate change action and human and labour rights and therefore selected votes on these topics as the most significant for the Fund where possible. Implications on the voting outcome for the SSgA Infrastructure Equity MFG Fund are unavailable, and we are currently querying with the manager on when we can expect to receive this information.

TWIM: Global Equity Focus Fund

Voting activity	Number of votes eligible to cast: 2826 Percentage of eligible votes cast: 100% Percentage of votes with management: 89% Percentage of votes against management: 10% Percentage of votes abstained from: 1%			
Most significant votes cast	Company	Microsoft	Facebook	Amazon
	Size of holdings	3.1%	3.0%	2.0%
	Resolution	Report on Gender/Racial Pay Gap	Report on platform misuse	Report on the impacts of plastic packaging
	Decision /Vote	For	For	Against – management were not notified in advance
	Rationale for decision	Promotes appropriate accountability and incentivisation on gender and diversity	Platform misuse poses perhaps the key risk to the company. Per the saying “what gets measured, gets managed”, additional management attention on this topic is most welcome. To the extent that the Community Standards report is already measuring much of this, then that simply lowers the incremental cost of this report	Promotes transparency around environmental issues

	Outcome of vote	Failed	Failed	Failed
	Implications of the outcome	Continue to consider proposals whether from management or shareholders which enhance company diversity	Alignment between economic and voting ownership is important for the long-term shareholder interests. We had an extensive engagement on this issue.	We consider ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.
	Rationale for classifying as significant	We consider diversity to be a critical factor influencing the long-term performance and sustainability of a company.	We consider ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.	Voted against management
Use of proxy voting	Within the Towers Watson Investment Management Global Equity Focus Fund, the underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. The Fund also uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers within the fund are ultimately responsible for the votes.			

SSqA: Infrastructure Equity MFG Fund

Voting activity	Number of votes eligible to cast: 1103 Percentage of eligible votes cast: 98% Percentage of votes with management: 85% ¹ Percentage of votes against management: 14% ¹ Percentage of votes abstained from: 0% ¹			
Most significant votes cast	Company	TERNA Rete Elettrica Nazionale SpA	Power Assets Holdings Limited	Power Assets Holdings Limited
	Size of holdings	2.3%	1.9%	1.9%
	Resolution	Advisory Vote to Ratify Named Executive Officers' Compensation	Elect Director	Elect Director
	Vote Cast	Against - management were not notified in advance	Against - management were not notified in advance	Against - management were not notified in advance

¹ Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.

	Rationale for decision	Apparent failure to link pay & appropriate performance	Concerns related to approach to board gender diversity	Overboarded and too many other time commitments
	Outcome of vote	Pass	Pass	Pass
	Implications of the outcome	Information unavailable	Information unavailable	Information unavailable
	Rationale for classifying as significant	Voted against management	Voted against management	Voted against management
Use of proxy voting	In order to facilitate SSgA's proxy voting process for each investment above, SSgA retains Institutional Shareholder Services Inc. (ISS), a firm with expertise in proxy voting and corporate governance. SSGA utilizes ISS's services in three ways. First, as SSgA's proxy voting agent, ISS provides SSGA with vote execution and administration services. Second, ISS applies SSGA's Proxy Voting Guidelines where appropriate (see more detail below). Lastly, ISS provides the highest level of research and analysis related to general corporate governance issues and specific proxy items.			

Manager A: an active emerging markets equity fund focussed on China A Shares

Voting activity	Number of votes eligible to cast: 794 Percentage of eligible votes cast: 100% Percentage of votes with management: 94% Percentage of votes against management: 6% Percentage of votes abstained from: 0%			
Most significant votes cast	Company	China Mengniu Dairy Co	Midea Group Co. Ltd	Yunda Holding Co. Ltd
	Size of holdings	4.7%	4.6%	1.0%
	Resolution	Elect Simon Dominic Stevens; Elect NIU Gensheng	2021 provision of guarantee for controlled subsidiaries	Adjustment of Performance Appraisal for Previous Employee Restricted Shares Plan; Authorization to the Board to Handle Matters Regarding the Employee Restricted Shares Plan
	Decision /Vote	Against - management were not notified in advance	Against - management were not notified in advance	Against - management were not notified in advance

	Rationale for decision	Committee independence; less than 75% attendance	Excessive guarantees	The performance hurdle versus peers was a concern
	Outcome of vote	Passed	Passed	Passed
	Implications of the outcome	<p>The manager tends to be more stringent in their recommendations against outcome of the votes when it comes to governance matters. Small matters count and they feel there is always scope for our Chinese portfolio companies to become even better over time.</p> <p>The manager also hopes to communicate with them in future meetings on areas for improvement. It is also an area for the manager to be even more proactive in the future, i.e., communicating proactively with portfolio companies on their vote-against decisions afterwards.</p> <p>The manager wants to understand the background and raise these issues with portfolio companies. The manager votes on a case-by-case basis and builds a foundation for constructive engagements with portfolio companies.</p>		
	Rationale for classifying as significant	Against management	Against management	Against management
Use of proxy voting	<p>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.</p>			

Manager B - an active emerging market equity fund

Voting activity	<p>Number of votes eligible to cast: 524</p> <p>Percentage of eligible votes cast: 96%</p> <p>Percentage of votes with management: 90%</p> <p>Percentage of votes against management: 5%</p> <p>Percentage of votes abstained from: 5%</p>			
Most significant votes cast	Company	Apollo Hospitals Enterprise Limited	Wuxi Biologics (Cayman) Inc.	TCS Group Holding Plc
	Size of holdings	5.5%	3.4%	2.3%
	Resolution	Elect Rama Bijapurkar as director	Authorize reissuance of repurchased shares	Eliminate pre-emptive rights
	Decision /Vote	For	Against	For

	Rationale for decision	While Manager B is wary about the number of Boards that Rama Bijapurkar sits on, they have become comfortable enough with this after speaking to the company. Rama will bring valuable marketing experience. According to the company, her responsibilities as a Professor are also not overly taxing in terms of time commitments.	Manager B would like to have the ability to review and vote on such issuances, but on the other hand, companies should also have the flexibility to transact ordinary business without undue burden or cost. Therefore, the need for flexibility must be balanced with providing reasonable protection for shareholder interests.	Manager B believes management has earned the right to the flexibility of up to 12.5% dilution for M&A and investments in a highly competitive and dynamic space.
	Outcome of vote	Pass	Pass	Pass
	Implications of the outcome	Monitor overboarding concerns	-	-
	Rationale for classifying as significant	The criteria we selected to assess the significance of the vote were the dissent level, shareholder proposals we voted 'For', times we voted 'Against' management or ISS, historical votes on similar proposals, and overall relevance to the strategy.		
Use of proxy voting	Manager B vote their proxies themselves but consider the recommendations of proxy advisors such as ISS and Glass Lewis in their voting decisions. In voting proxies manager B should consider the short and long-term implications of each proposal. In voting proxies, manager B typically is neither an activist in corporate governance nor an automatic supporter of management. However, because manager B believes that the management teams of most companies it invests in generally seek to serve shareholder interests, manager B believes that voting proxy proposals in the client's best economic interests usually means voting with the recommendations of these management teams. Any specific voting instructions provided by an advisory client or its designated agent in writing will supersede this Policy.			

Manager C – an active global fund focussed on real estate equity

Voting activity	Number of votes eligible to cast: 607 Percentage of eligible votes cast: 100% Percentage of votes with management: 97% Percentage of votes against management: 3% Percentage of votes abstained from: 0%			
Company	Prologis, Inc. (PLD-US)	American Tower Corporation	Kilroy Realty Corporation ("KRC")	

Most significant votes cast	Size of holdings	8.0%	1.7%	3.7%
	Resolution	Advisory Vote to Ratify Named Executive Officers' Compensation	Amend articles/bylaws - shareholder proposal to reduce the ownership threshold for shareholders to call a special meeting from 25% to 10%. The proposal also called for the removal of a provision which excluded shareholders who had owned shares for less than one continuous year from being able to call a special meeting.	Advisory Vote to Ratify Named Executive Officers' Compensation
	Decision /Vote	Against	For	For
	Rationale for decision	Our rationale for voting against this item was primarily based on pay-for-performance misalignment and executive compensation being excessive relative to peers.	Believe the existing ownership threshold of 25% is too high, requiring an aggregate investment of approximately US\$28bn in order for a shareholder to call a special meeting. Although arguably still too high, a 10% ownership threshold as proposed provides less of an obstacle for shareholders.	ISS believe KRC should not have renewed the COO's employment contract with the pre-existing cash severance package as it is above current market levels. However, the company explained that: (a) The COO's employment contract is a legacy contract originated in 2007 (b) The cash severance package would be triggered if the contract was not renewed – or was renewed on terms less favourable to the COO (c) The company no longer adopts such employment contracts (d) Other proxy advisors have not raised this as a concern. Given it is economically better for

				the COO to retire than to force the company to renegotiate, they believe a vote for the proposal is warranted.
	Outcome of vote	Failed	Failed	Passed
	Implications of the outcome	Information unavailable	Information unavailable	Information unavailable
	Rationale for classifying as significant	Size of holding, and voting against management	Against management recommendation	Voting against ISS recommendation
Use of proxy voting	<p>The manager will vote on all resolutions that it has the ability to vote on in accordance with client investment management agreements. In the event that the manager receives a direction from a separately managed client account in relation to the appointment of a proxy and the way the proxy should be voted, the manager will use its best endeavours to implement the direction. In the absence of any direction, the manager will exercise the right to vote as it sees fit, having regard to the objective of the investment mandate and taking into consideration any material conflicts of interests identified. For pooled products, the manager will determine how to vote in accordance with the Proxy Voting Policy. The proxy votes are submitted via the ISS (Institutional Shareholder Services) Proxy Exchange portal, to facilitate and assist with the voting process.</p>			

Industry wide / public policy engagement:

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) for a number of years to enhance its stewardship activities. One element of this partnership is undertaking 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, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2021:

- Engagements with over 1,200 companies on a total of 4,154 issues and objectives representing assets under advice of \$1.64tn.
- 64 responses to consultations or proactive equivalents and 71 discussions with relevant regulators and stakeholders.
- Voting recommendations in relation to over 128,000 resolutions, with over 20,000 being against management.
- Active participation in a number of stewardship initiatives including Climate Action 100+, PRI, Investor Alliance for Human Rights and the International Corporate Governance Network.

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;
- Co-founding the Net Zero Investment Consultants Initiative with eleven other investment consultants in 2021, with a commitment across its global Investment business;
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets ;
- 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.

3. Conclusion

The Trustee considers that all SIP policies and principles were adhered to during the year.

Approval

Approved by the Trustee on 28 September 2022