XPS Investment

Alanod Pension Fund ("the Fund") - Implementation Statement

Purpose

This statement provides information on how, and the extent to which, the Trustees' policies have been followed during the year ended 31 March 2022 ("the reporting year") in relation to a) the exercising of rights (including voting rights) attached to the Fund's investments, and b) engagement activities. In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

Following new requirements in relation to Environmental, Social and Governance ("ESG") and voting issues, the Trustees documented their policies in a Statement of Investment Principles dated 30 September 2020, which is available online at:

https://alanod.co.uk/wp-content/uploads/2020/10/200930-Signed-SIP.pdf

The Trustees' current policy in relation to voting and engagement

The Trustees encourage the Investment Manager, Aviva, to make decisions in the long-term interests of the Fund. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights in line with the investment mandate guidelines. The Trustees have considered their approach to ESG factors and climate change risks for the long term time horizon of the Fund and believe there can be financially material risks relating to them. The Trustees have fully delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Fund's Investment Manager, Aviva. The Trustees require Aviva to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

As the Fund invests in a with-profits fund, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the with-profits fund invests. They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Fund's investments to Aviva. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require Aviva to report on significant votes made on behalf of the Trustees.

Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

Voting activity

The main asset class where the investment managers will have voting rights is equities. The Fund has indirect allocations to UK and global public equities within the with-profits fund. Therefore, a summary of the voting behaviour and most significant votes determined by and cast by Aviva is presented in the rest of this document.

Aviva

Voting Information
Aviva Provident Mutual sub fund

Aviva voted on 90.14% of resolutions out of 1,298 eligible votes.

Investment Manager Client Consultation Policy on Voting

Aviva does not consult with clients ahead of each vote (given the significant practical challenges this would create), Aviva is always keen to understand client views on particular issues / companies and is happy to provide details of how it voted after the event. Aviva has also been involved in a pilot enabling end investors to have a voice and be empowered to be part of the voting process. More broadly, Aviva has been working with its client experience project team and is going to institutionalise a standard question asking clients about their stewardship preferences and priorities. Aviva believes this will be invaluable in shaping its voting policy and engagement plans to continue to meet client aims and expectations.

There may also be occasions where voting exceptions have been specifically agreed with clients in segregated funds, but generally Aviva retains responsibility for ensuring voting is carried out in a manner consistent with the client's approach to stewardship. If a pooled fund investor asked Aviva to vote a certain way, Aviva would not be able to do this unless it was consistent with Aviva's view / the vote direction was in the best interests of all investors in that fund.

Aviva may also contact clients if there is a conflict of interest situation - for example, in relation to the exercise of voting rights for shares in its parent company Aviva plc (Aviva's default position is not to vote these holdings as Aviva Investors will exercise no discretion).

Investment Manager Process to determine how to Vote

Voting decisions are based off Aviva's Voting Policy which is reviewed on an annual basis and updated subject to Board approval. Final decisions are made by Aviva's Stewardship function (i.e. ESG analysts) in conjunction with portfolio managers who inform the decision making process by bringing their knowledge and assessment of company strategy and any special circumstances.

Aviva uses governance and other research from a number of sources to support it in making voting decisions. These include the Investment Association's IVIS service and ISS. Aviva uses research for data analysis only and do not automatically follow any voting recommendations.

Given the number of companies Aviva owns in its portfolios (including index funds), Aviva seeks to prioritise engagement by size of holding and where it is most likely to benefit clients. This allows Aviva to consider additional context from the company which occasionally results in it changing a vote. In addition, every year Aviva writes to the large majority of the companies it holds to notify them of its voting policy (highlighting any changes it has made), and also direct them to its voting records, where they are able to see how Aviva has voted at their AGMs etc and its reasons for not supporting any resolutions.

Aviva believes it has a strong record of opposing resolution and holding boards to account.
Aviva maintains a database to record its voting and engagement with companies which allows it to review the effectiveness of its work. For Aviva's priority engagements its intention is to review these on a quarterly or half yearly basis.

There will be times when, despite engagement with companies, Aviva's concerns have not been adequately addressed. Under these circumstances, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy. As part of Aviva's escalation process, it may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise its voting rights against the board. As a last resort Aviva may requisition a general meeting of a company or a resolution at an Annual General Meeting, or support others who are doing so. Aviva may also make public statements where it believes this is appropriate. However, Aviva expects this to happen only in the most extreme cases.

How does this manager determine what constitutes a 'Significant' Vote?

Aviva looked at a number of criteria for the list of votes undertaken for the fund including: the impact on the company (both short and long term) if the resolution was or wasn't approved ; the materiality of the shareholder resolutions; the level of public and / or media interest in certain companies and resolutions; and how significant the holdings are in relation to the fund and to Aviva Investors (acknowledging that the larger the aggregate / percentage holding, the more ability Aviva has in affecting change). It is evident in some of the votes selected that these reflected multiple criteria explained above, but it is important to note that this the selection process was quite subjective.

Does the manager utilise a Proxy Voting System? If so, please detail

Aviva subscribes to proxy advisory services for independent research and recommendations including recommendations based on its own policy (where certain resolutions will be referred to Aviva for further consideration). These providers include the IVIS service, ISS-Ethix and MSCI. Aviva uses research for data analysis only as it has its own voting policy, which is applied to all its holdings. Aviva also takes into consideration the views of the fund manager and the conversations with the company through its voting specific engagement.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Anglo American Plc	**Resolution 1. Approve Matters Relating to the Demerger of Thungela Resources Limited**	**Aviva supported the resolution.**	**The demerger was approved with 94% of the votes cast.**
The vote was to demerge the Company's thermal coal operations in South Africa, to operate as a separate independent entity, under the name Thungela Resources Ltd. Aviva supported the demerger as it forms part of the responsible transition / Anglo American's strategy to continue reducing its thermal coal production footprint and overall trajectory towards those products that enable a low carbon economy. Aviva notes that engagement with the company on climate change is of course ongoing and the speed of change is a substantial factor in its investment considerations. Aviva views the demerger as another step in the right direction.			
AstraZeneca Plc	**Resolution 7. Approve Remuneration Policy**	**Aviva voted against the resolution.**	**The resolution was approved (with 60% of the votes cast).**
Aviva's vote against reflected concerns over significant increases to variable pay for the second consecutive year, and the rationale for this was not considered to be sufficiently compelling. The bonus for the CEO is being increased from 200% to 250% of salary and the LTIP from 550% of salary to 650%. Last year Aviva did not support this due to			

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<tr><td colspan="4">increases they had made and Aviva is disappointed to see further increases this year. Further, AstraZeneca have not reduced the vesting levels at threshold to reflect the increase in quantum (e.g. LTIP awards equivalent to 130% of salary can vest for median/threshold performance which Avia feels is too generous).

Although the resolution was approved, such a large vote against is not helpful for shareholder (and wider stakeholder) relations and clearly shows that the company is not taking shareholder concerns over quantum seriously enough. As this is such a high profile name, it is likely that Aviva will escalate its concerns (such as through collaboration with other shareholders) if the company does not take meaningful steps to fix relations with shareholders.</td></tr>
<tr><td>Barclays Plc</td><td>Shareholder Resolution 29. Approve Market Forces Requisitioned Resolution</td><td>Aviva voted against the shareholder resolution.</td><td>The resolution was not approved (14% of the votes cast were in favour, although including abstentions, approx. 25% did not vote against).</td></tr>
<tr><td colspan="4">This resolution was filed by a group of retail shareholders coordinated by Market Forces, an Australian non-governmental campaign group, requesting the Company to:
1. Set, disclose and implement a strategy, with further and improved short, medium, and long-term targets, to phase out its provision of financial services to fossil fuel (coal, oil and gas) projects and companies in timeframes consistent with the Paris Agreement.
2. Report annually on progress under that strategy, starting from 2022, including a summary of the framework, methodology, timescales and core assumptions used, omitting commercially confidential or competitively sensitive information, and at reasonable cost.

Aviva comments that one could argue that establishing and providing enhanced disclosure of targets concerning the phasing out of the provision of financial services to fossil fuel projects and companies will further Barclays' stated ambition of becoming a net zero bank by 2050 and help ensure better alignment with the goals and timelines of the Paris Agreement. However, Aviva thinks that the company has shown a reasonable level of responsiveness to shareholder concerns around climate. Among its objectives is an ambition to become a net-zero bank across Scope 1, 2 and 3 by 2050, and to be net-zero by 2030 in Scope 1 and 2. The company also made a commitment to align its entire financing portfolio to the goals of the Paris Agreement. For Barclays this means that its own operations, and its provision of financing to clients, in every sector, will support the goal of limiting global warming. It followed up in November 2020 on its commitment to come back to shareholders with further development of the strategy, including targets. Despite some current apparent gaps in the Company's approach to climate change (e.g. the absence of medium and long-term emissions reduction targets across the entire financing portfolio), Barclays' continued commitment to evolving its climate strategy is recognised as a sufficient and appropriate response to the matters raised in the resolution at this time. Aviva is prepared to give the company a little more time to come back to shareholders with an update on its progress.

As outlined in Aviva's rationale it is prepared to give the company a little more time to come back to shareholders with an update on its progress. However, unless much greater progress has been made ahead of the 2022 AGM, Aviva will most probably take a tough line and hold management and the board to account. Aviva continues to engage with the company on this material and high profile issue.</td></tr>
<tr><td>Royal Dutch Shell Plc</td><td>Resolution 20. Approve the Shell Energy Transition Strategy</td><td>Aviva voted against the resolution.</td><td>The resolution was approved (with 88.7% of the votes cast).</td></tr>
<tr><td colspan="4">RDS has made substantive progress over the last year in announcing a net zero commitment for operational emissions by 2050, alongside greater reductions in the carbon intensity of its products (e.g. scope 3 emissions),</td></tr>
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bolstered by interim targets. It has also taken an important step forward in strengthening scenario analysis, a long-standing engagement request, and is setting the pace on climate-linked executive remuneration in the space. However, its transition strategy remains unconvincing benchmarked to certain peers. The biggest sticking point is its plan to decarbonise "in step with society" hides behind intensity targets and an unacceptably broad range of potential emissions outcomes to 2030.

Aviva doubts RDS will be able to deliver enough absolute reductions to comply with the Paris climate agreement. Furthermore, it doesn't plan to shift investments substantially away from fossil fuels to renewables, and plans to increase natural gas production. The plan to become a net zero emissions company involves decarbonising existing fossil fuel businesses but continuing to invest in them, while "over time" ploughing more funds into gas, chemicals, cleaner technology and selling power. In sharp contrast to European peers focusing on increasing renewable power generation, RDS is instead prioritising doubling the electricity it sells by 2030 through more customer-focused businesses. At the same time, its strategy is heavily dependent on the scaling of technology such as CCUS (Carbon Capture) and NBS (Natural Based Solutions), and lofty goals raise questions about execution. In the case of NBS, for example, it's new low carbon scenario, Sky 1.5, is reliant on a new forest the size of Brazil being planted to reach the higher end of the Paris goals.

For the above reasons Aviva was hesitant to support RDS' strategy and a vote against was considered warranted. Having said that, this is the first vote of many so Aviva hopes to be able to support the company going forward. Although the company is clearly making progress in the energy transition, Aviva has made it clear to the company that this isn't sufficient. Aviva has had numerous engagements with the company throughout the year.

Tesco plc	**Resolution 2. Approve Remuneration Report**	**Aviva voted against the resolution.**	**The resolution was approved (received 91.8% support).**

The 2022 LTIP awards will be made at 300% and 275% of salary for the CEO and CFO, respectively. These are the first LTIP awards to be granted to the CEO and CFO following their respective appointments. At 300% of salary, the award to the CEO is higher than the final LTIP award granted to the previous CEO in FY2020, which represented 275% of salary, although this is still below the maximum LTIP permitted under the remuneration policy (350% of salary). In addition, for the achievement of threshold performance conditions (only) which delivers 25% of the award potential, this level of vesting represents approximately 75% of salary. Aviva considers this to be excessive. Further, these awards are coming off generous salaries (CEO: £1,350,000, which is more than his predecessor's salary). Aviva thinks it is too early for any increases in pay / LTIP's to be happening, Management have only just set out strategy so have not delivered at this juncture, and Aviva does not understand why the CEO's salary would be more than Dave Lewis (former CEO) as this is his first role as a public company CEO. Further the company has been making disposals.

The company is aware of Aviva's concerns so Aviva hopes that these will be addressed ahead of next year's AGM (or at least by then Aviva expects to have a better idea of how management are executing the strategy). If not it is likely Aviva will escalate its concerns.

Signed on behalf of the Trustees of the Alanod Pension Fund:

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Name: STUART TRANTER

Date: 01/08/2022.