



Park Air Pension Scheme ('Scheme')

5 April 2023

Implementation Statement

July 2023

Schroders' Solutions Disclaimer:

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Plans (Investment) Regulations 2005. It is important that the Trustees of the Plan understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts the Trustees at risk of breaching your legal duties.

This is a Trustees document, and the Trustees must review the Implementation Statement draft provided by its investment adviser and confirm that they have considered the content prepared and reviewed any associated documentation, such as voting policies.

1. Introduction

The trustees are required to make publicly available online a statement (“the Implementation Statement”) covering the Park Air Pension Plan (the ‘Plan’) in relation to the Plan’s Statement of Investment Principles (the “SIP”).

The SIP was updated over the last 3 years due to regulatory changes to ESG factors, corporate governance, voting, and the trustees are looking to update the SIP next year to include liquidity risk.

This SIP came into force from September 2020.

A copy of the current SIP signed and dated September 2020 can be found here: <https://protect-eu.mimecast.com/s/7o0gCGvk5UJqpLZqSKXUhB?domain=parkairsystems.com>

This Implementation Statement covers the Scheme year from 6 April 2022 to 5 April 2023 (the “Scheme Year”). Due to the availability of data, voting statistics and engagement examples relate to the year to 31 March 2023. The statement sets out:

- How the Trustee’s policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance (“the Guidance”) from the Department for Work and Pensions (“DWP”) has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustees of the Plan to properly exercise their stewardship policy including both voting and engagement which is documented in the Plan’s SIP. This Implementation Statement has been prepared to provide the details on how the Trustees of the Plan, with the help of the Plan’s Fiduciary Manager, has complied with the new statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website: <https://protect-eu.mimecast.com/s/7o0gCGvk5UJqpLZqSKXUhB?domain=parkairsystems.com>

2. How the Trustees' policies on exercising voting rights and engagements have been followed over the Plan Year

The Trustees uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then.

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

The Fiduciary Manager can appoint other investment managers to manage part of the Plan's assets (these are referred to as "**Underlying Investment Managers**"). The Plan invests in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustees has delegated responsibility to the Fiduciary Manager and Underlying Managers for voting and engaging on its behalf, the Trustees regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustees' beliefs and objectives.

A copy of the Plan's SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustees' investment policies when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled funds (where the Plan's investments are pooled with those of other investors), the Fiduciary Manager does not have direct control over voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustees. Therefore, the Trustees requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, into the selection or monitoring of Underlying Investment Managers. The Trustees believes it is appropriate to delegate the decision of appointing and monitoring Underlying Investment Managers to the Fiduciary Manager, who will be able to influence the Underlying Investment Manager's voting and engagement policies. Consequently, the Trustees can largely exercise their stewardship policy as set out in the Plan's SIP.

During the Plan Year, the Trustees has received training on the latest DWP Guidance. To support the Trustees in meeting the new requirements, the Trustees also received training on Schroders' Engagement Blueprint, which sets out the six engagement themes the Plan's Fiduciary Manager believes to be most financially material. These are the themes the Fiduciary Manager will align the majority of its own engagement of underlying managers with. To agree on which of these themes the Trustees prioritises in its own stewardship activities, the Trustees completed a survey selecting three engagement themes it will use for engagement and monitoring of the Fiduciary Manager's activities., the Trustees of the Plan has determined their stewardship priorities to be aligned with the Fiduciary Manager's priorities over 2023, being Climate Change, Natural Capital & Biodiversity, and Human Rights.

The Trustees believes these themes are issues material to the long-term value of the investments. These issues also reflect expectations and trends across a range of stakeholders, and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately should enhance the value added to the Plan's investment and hence benefit the Plan's members and beneficiaries. Therefore the Trustees believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Plan.

On behalf of the Trustees, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Plan's investments. Additionally, with the help of the Fiduciary Manager, the Trustees monitors the performance of the Underlying Investment Managers against the agreed performance objectives at Trustees meetings held during the Plan Year. Over the Plan Year, the Fiduciary Manager also provided the Trustees with quarterly monitoring of the ESG characteristics of the portfolio, including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics. The trustees are satisfied with the Fiduciary Manager's activity in this area.

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In addition, the Trustees also received other training on topics such as Climate Risk and ESG updates within the Fiduciary Management solutions. As part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustees' stewardship policy over the Plan Year, the Trustees reviewed the Fiduciary Manager's Annual ESG report in early 2023 and ensured it was satisfied with the actions taken on its behalf concerning ESG integration within the investments and stewardship activities.

Given the activities carried out during the Plan Year and by preparing this Implementation Statement, the Trustees believes that it has acted in accordance with the DWP Guidance over the Plan Year.

3. Voting and Engagement Summary

On behalf of the Trustees, the Fiduciary Manager exercises voting rights in relation to the pooled funds managed by the Underlying Investment Managers, in line with its voting policy.

Most voting rights and engagement regarding the Plan's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustees, and we cover these here.

Over the year to 31 March 2023, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investments on 95 resolutions across 23 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 4.2% of total resolutions, and abstained on 4 resolutions (4.2% of the total resolutions). The engagement topics covered a range of areas, including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Within the Plan's portfolio, the **BNYM Global Equity Fund** makes up the majority of the Plan's investments in equity assets, with equity being the only asset class to hold voting rights. The Trustees reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

In relation to the liability hedging, the Trustees noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by several factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustees has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Plan Year within the growth asset portfolio, cashflow matching credit portfolio and the liability hedging portfolio, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustees noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Plan Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activity over the Plan Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement, the Trustees considered relevant examples in relation to its own stewardship priorities. Examples are provided in the appendix.
- As the Trustees has refined its stewardship priorities this year, it considers the most significant votes to be those that both relate to these priorities and are defined as significant by the Underlying Managers (of the most material holdings) based on their specific knowledge of the circumstances around each vote. The Trustees has communicated this with the Fiduciary Manager, and as per DWP guidance, all votes which meet this criteria have been reported below.

Voting by the Underlying Investment Managers on securities held on behalf of the Trustees

Most Significant Votes

Over the Plan year, only one vote defined as 'Significant' by the Underlying Investment Managers aligned with the Trustees' stewardship priority themes, based on the data provided to Trustees. The Trustees will engage with the

Fiduciary Manager to request that they engage with the Underlying Managers to provide more examples of votes in line with the trustees' stewardship priorities.

At the annual Microsoft Corporation meeting on 13 Dec 2022, Morgan Stanley voted for a shareholder proposal regarding a report on government use of Microsoft technology. This vote was considered "most significant" by the Underlying Manager as it was against management and by the Trustees - given the exposure to reputational and human rights-related risks – as it relates to the Human Rights stewardship priority. The vote failed, and Morgan Stanley intend to continue engaging with Microsoft on the topic.

Summary Voting Statistics

The Fiduciary Manager uses c. 20 underlying Managers; however, the equity holdings are the only asset class with voting rights. Below are the voting statistics for the most material equity funds held on behalf of the Trustees that had voting rights during the period.

	BNYM Global Equity Fund	Vanguard FTSE Developed Markets ETF	Vanguard FTSE Emerging Markets ETF	Morgan Stanley Global Brands	Ninety One Global Strategy Fund	Morant Wright Fuji Yield Japanese Fund	Fundsmith Equity Fund
Total meetings eligible to vote	926	2,354	4,534	32	26	60	26
Total resolutions eligible to vote	11,723	30,205	38,708	490	331	808	429
% of resolutions did you vote on for which you were eligible?	93%	98%	97%	100%	100%	100%	100%
% did vote with management?	93%	96%	90%	89%	94%	89%	91%
% vote against management?	7%	3%	9%	11%	4%	11%	9%
% abstained	0%	0%	2%	0%	2%	0%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%	0%	0%	8%	<i>Data not provided</i>	N/A	N/A

Note:

- BNYM, NinetyOne and Morgan Stanley use Institutional Shareholder Services, "ISS", for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- The voting statistics provided may slightly differ depending on the exact composition the Plan holds.
- BNYM have included votes withheld in votes abstained (in order to be in line with the PLSA template which other managers have used), although there are differences between votes withheld and votes abstained.
- 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 different ways, or a vote of "Abstain" is also considered a vote against management.

The trustees are satisfied that the voting and engagement activities undertaken by both Fiduciary Manager and the Underlying Investment Managers align with the stewardship priorities the Trustees has determined during the Plan

Year. The trustees are looking to update the SIP next year to include the enhanced stewardship policy it developed under DWP Guidance.

Appendix 1 – Engagement Examples

1. Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustees

In addition to the voting and engagement outlined in section 3 above, over the Plan Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.
- engaged with the five managers who were rated 'red-engagement' on Schroders' ESG scoring matrix.

The engagement activities and outcomes are outlined in the table below:

	Engagement	Progress over Plan Year
Manager A – Equity	<ul style="list-style-type: none"> Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing 	<ul style="list-style-type: none"> Overall rating and corporate pillar upgraded to green. Stewardship pillar upgraded to amber Introduction of staff ESG training programmes Evidenced a process to measure the success of their voting activities
Manager B – Alternatives	<ul style="list-style-type: none"> Calls and meetings through 2021/2022 to discuss what initial steps can be taken and where the manager sits relative to peers Provided guidance on institutional investors requirements of managers and the direction of travel Specific discussions on UN PRI and what other standards may be applicable to the manager 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations Engagement with the manager has been positive and they are keen to understand where they rank relative to peers and what can be improved Formed an ESG committee which includes senior management
Manager C – Alternatives	<ul style="list-style-type: none"> Numerous meetings with senior management and ESG focused personnel to understand what changes the manager can implement Direct engagement on a number of current ESG issues including investment in Russian assets and exposures to cannabis Manager also specifically reached out to request discussion on expectations from institutional investors and best practices amongst peers 	<ul style="list-style-type: none"> Overall rating remains red engagement but corporate pillar upgraded to amber Improvements seen in both policies and procedures with a more formalised ESG committee with senior management/partner involvement New portfolio implementation mechanism designed with input from Schroders limiting exposures to specific assets.
Manager D – Alternatives	<ul style="list-style-type: none"> A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure 	<ul style="list-style-type: none"> Improved scoring across all pillars and overall rating upgraded to amber The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023 A formal ESG Investment Policy and a formalised approach to ESG across all portfolios
Manager E – Alternatives	<ul style="list-style-type: none"> A number of meetings with senior leaders in the business to understand what can be done to improve ESG integration at least within corporate functions 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations given where the manager is in their ESG process Manager has launched an ESG statement (non-investment) with focus on DEI including an advisory council with senior business leaders involved to drive change Exploring the idea of having specific ESG resource at investment level

2. Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	T. Rowe Price	Health & Happiness

Natural Capital & Biodiversity	BNY Mellon	Archer-Daniels-Midland
Human Rights	Morgan Stanley	Nike, Inc.

[Climate Change – Health & Happiness](#)

T. Rowe Price, one of the credit managers, had three objectives for their engagement of Health and Happiness (H&H). One was to request more details on their decarbonization journey, specifically a strategy for the firm to reduce the footprint of dairy cows in their supply chain. The Manager also wanted a timeline for full emission reporting, and lastly an update on progress towards achieving B-Corp Certification.

The following topics were discussed:

1. Continuous progress in decarbonization – T. Rowe Price believes that H&H has made some good progress but still does not provide full disclosure on its group-wide scope 1-3 emissions and is still looking to set a net zero target.
2. B-Corp Certification – H&H is confident that they are on track to achieve Group-wide B-Corp Certification by the end of 2025 with clear plan and milestone set.
3. Annual investment to support farmers in France since 2013 – H&H has been doing this to ensure ongoing sustainable supply of dairy products and lower carbon impact.

As a result of the engagement, T. Rowe Price imparted their views on best practices and asked that within the next 2 years the company would disclose its group-wide scope 1-3 emissions data and set net zero targets; and continue to work towards achieving B-Corp Certification.

[Natural Capital & Biodiversity – Archer-Daniels-Midland](#)

In May 2022, BNY Mellon supported a shareholder proposal requesting a report explaining if and how the company is measuring its use of pesticides that cause harm to human health and the environment in its agricultural supply chains. Archer-Daniels-Midland does not currently provide targets on pesticide use when many of their peers do. In instances where supply chain concerns could pose a material risk to a company, Mellon prefer that companies be as transparent as possible in disclosing their processes and data around managing this risk. The proposal did not pass, and the manager will continue to encourage Archer-Daniels-Midland to disclose more information on how the company is managing supply chain risks around this topic.

[Human Rights – Nike, Inc.](#)

This engagement example outlines Morgan Stanley's follow up to a shareholder proposal concerning supply chain issues that was tabled at Nike's 2021 AGM.

Morgan Stanley voted in favour of the shareholder proposal, against management and ISS recommendations. ISS (the Proxy Exchange platform used for the execution of Stanley's votes) suggested voting against the shareholder proposal as they felt the company provided sufficient disclosure related to its human rights policies and sustainable sourcing practices, and that the company was not lagging its peers in terms of human rights disclosure. However the Manager chose to support the proposal as they believed it was important to apply pressure on a subject that posed a large supply chain risk and where information was scarce. Morgan Stanley then engaged further on the subject with the company, pressing them for information on their cotton sourcing policy, and any progress they had made on the traceability of the cotton they used.

Nike stated their commitment to not sourcing from Xinjiang, and outlined the actions they had taken with their suppliers regarding sourcing. They shared that they were actively working on tools to verify suppliers' claims on sourcing, adding two senior positions within the firm. Morgan Stanley consider this evidence that the shareholder resolution on the social risks of cotton sourcing – despite not passing – has led to positive changes. The Manager strongly encouraged the company to look into working with a sustainable cotton NGO that offers traceability and a company providing a new technology helping verify the origin of raw materials. Since this engagement, Morgan Stanley have continued to follow up on the subject of supply chain management with the company.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers of the Plan's largest holdings can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below:

	https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Vanguard	https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf
Morant Wright	https://www.morantwright.co.uk/sites/default/files/policies/voting_policy_2023.pdf
Morgan Stanley	https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1615985960657
Ninety One	https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf
Fundsmith	https://www.fundsmith.co.uk/media/swxplrkt/responsible-investment-policy.pdf
Leadenhall	https://www.leadenhallcp.com/esg
Neuberger Berman	https://www.nb.com/en/global/esg/engagement
CBRE	CBRE Global ESG policy: https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/home/about-us/sustainability/cbreim-global-esg-policy.pdf
Insight	https://www.insightinvestment.com/investing-responsibly/