

# *Implementation Statement, covering the Scheme Year from 1 April 2022 to 31 March 2023*

The Trustee of the Santander UK Group Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Sections 1 and 2 below, with more detail on engagement oversight in Section 3.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 4 below.

The Trustee has also included its approach to managing conflicts of interest in Section 5.

In preparing the Statement, the Trustee has had regard to the [guidance](#) on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

The SIP can be viewed at [https://mysantanderpension.co.uk/document-library/?type=720&file\\_name=](https://mysantanderpension.co.uk/document-library/?type=720&file_name=).

## **1. Introduction**

Most of the Scheme’s assets are invested in the Santander (UK) Common Investment Fund (“CIF”) and the trustee of the CIF has primary responsibility for giving effect to the Trustee’s policy on voting and engagement. In April 2022, the Scheme’s governance arrangements were updated to give the Scheme Trustee more direct decision making powers relating to the CIF.

In April 2022 the SIP was updated to reflect these governance changes and include sections from the Statement of Investment Policy for the CIF. No changes were made to the voting and engagement policies in the SIP during the Scheme Year.

Over the course of 2022, the Scheme increased its allocation to lower risk and more liquid assets as its funding position improved and cashflow requirements increased. This included disinvesting from the Scheme’s listed equity holdings in September 2022. Consequently, the voting information below relates to the first part of the Scheme Year only and the Trustee’s focus in implementing DWP’s guidance has been on the engagement undertaken in relation to its main non-equity holdings.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year.

## **2. Voting and engagement approach**

The Trustee delegates to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with managers and escalating as necessary as detailed below.

The Trustee seeks to appoint managers that have strong stewardship policies and processes, so far as relevant to their mandate. No new managers were appointed during the Scheme Year. However, the Trustee took a number of steps to review the Scheme’s existing managers and funds over the period. In particular, as part of its advice on the ongoing review of the investment managers, the Scheme’s investment advisers incorporate an assessment of the nature and effectiveness of managers’ approaches to voting and engagement. This is considered at regular meetings of the Integrated Risk Management Committee (IRMC). In addition, the Sustainability Committee (SC) introduced new processes to increase the Trustee’s oversight of managers’ engagement practices, as outlined in Section 3 below.

Following the introduction of DWP’s guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. At its October 2022 meeting, the Trustee agreed three stewardship priorities for the Scheme which are: climate risk, board diversity, and modern slavery & human trafficking.

These priorities were selected because the Trustee believes they are key market-wide risks and areas where they believe that good stewardship and engagement can improve long-term financial outcomes for the Scheme’s

members. More information on the Trustee's position on these topics is set out in the Scheme's Responsible Investment Policy which is available at [https://mysantanderpension.co.uk/document-library/?type=720&file\\_name=](https://mysantanderpension.co.uk/document-library/?type=720&file_name=).

### 3. Engagement oversight

Following the Scheme's divestment from listed equities, the Trustee identified the following mandates as key for its engagement activities:

- PIMCO Europe Ltd ("PIMCO") investment grade credit and cashflow-driven investment mandates;
- Legal & General Investment Management ("LGIM") active credit mandate, and
- La Salle Investment Management ("La Salle") property mandates.

These mandates were chosen based on their size, their expected investment period and the opportunities for influence through engagement.

The SC agreed processes for enhanced oversight of the engagements undertaken on the Trustee's behalf for these mandates. Each quarter, with the help of its Sustainability Adviser, the SC will review engagement information provided by the managers. This helps the SC to better understand the managers' different approaches to engagement and form a view on their appropriateness for the Scheme and identify any areas for further investigation. The proposed reporting cycle is as follows:

- September SC meeting: case studies of board diversity engagement;
- November SC meeting: case studies of modern slavery and human trafficking engagement; and
- March SC meeting: case studies of climate risk engagement; and
- May/June SC meeting: mandate-level summary of engagement during the previous year and review of engagement policies, focusing on the Trustee's stewardship priorities.

In addition, the SC reviews climate-related data for its assets, and additional sustainability-related data for the PIMCO and LGIM mandates, which may indicate areas for engagement with the managers.

The Trustee is conscious that responsible investment, including engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the SC aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

To the extent that the SC's monitoring identifies any concerns, the SC will engage with the manager to seek improvements that address the concerns, with support from the Central Pensions Unit (CPU) and the Trustee's advisers. The Trustee has agreed an escalation process if satisfactory progress is not made within an appropriate timescale, which ultimately includes the option of terminating the mandate.

The Trustee formally communicated its stewardship priorities and the process above to the three key managers in October 2023.

#### 3.1. Summary of engagement activity over the Scheme Year

At its March 2023 meeting, the SC reviewed three different case studies from each of the three key managers relating to climate risk. A selection of these has been included in the Scheme's 2023 climate change report which is available at [https://mysantanderpension.co.uk/document-library/?type=720&file\\_name=](https://mysantanderpension.co.uk/document-library/?type=720&file_name=). The case studies provided some insights to the managers' engagement in this area which are informing ongoing discussions with the managers about how they can help the Trustee meet its 2050 Net Zero Carbon Target. In addition, the SC plans to ask questions related to the case studies at the IRMC's meeting with the managers later in 2023.

The key managers have provided the summary engagement statistics for the year to 31 December 2022 shown in the following table. This has been supplemented with data on the number of corporate issuers held by PIMCO and LGIM and the number of properties held by LaSalle.

Manager	PIMCO	LGIM	La Salle
<b>Number of entities held at 31 December 2022</b>	458	228	24
<b>Number of entities engaged (proportion by number)</b>	245 (53%)	67 (29%)	Industry bodies: 5 Tenants: 8 (33%)
<b>Number of engagements (average engagements per entity)</b>	345 (1.4)	151 (2.3)	Industry bodies: 5 Tenants: 8 (1)

None of the managers have been able to provide information relating to the outcomes of their engagements, since engagement reporting is relatively new and managers are developing their capabilities in this area. The Trustee expects this to improve over time.

### 3.2. Policy advocacy during the Scheme Year

The Trustee recognises the importance of government action in achieving the Paris Agreement goals and ensuring a supportive policy context for investor action to manage climate-related risks and realise the opportunities from the low carbon transition. It therefore signed the 2022 Global Investor Statement to Governments on the Climate Crisis, along with approximately 600 other investors representing almost USD \$42 trillion in assets under management. This Statement called on governments around the world to raise their ambition and to adopt and implement the policies needed to enable large scale zero-emissions, climate-resilient investments.

## 4. Description of voting behaviour during the Scheme Year

Some of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. However, prior to its disinvestment from listed equities, the Trustee monitored managers' voting behaviour on an annual basis and challenged managers where their activity has not been in line with the Trustee's expectations.

This section includes voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Scheme's portfolios that held listed equities during the Scheme Year as follows:

- Baillie Gifford Global Equities ("Baillie Gifford");
- Longview Global Equities ("Longview"); and
- Walter Scott Global Equities ("Walter Scott").

Investment managers in asset classes other than listed equities were also reviewed as part of this exercise, however, voting opportunities were generally limited or not applicable to these mandates.

- Tudor (a hedge fund manager) had voting opportunities over the period but was not able to provide Scheme-specific information. However, it confirmed that it voted on all resolutions it was eligible to vote on. This mandate was fully disinvested in September 2022.
- PIMCO had opportunity to vote at two meetings (four resolutions in total) during the Scheme Year. It voted on one of the four resolutions, and the vote was with management.
- MGG (a non-conventional credit manager) had opportunities to vote at meetings for two publicly traded companies and voted for all resolutions at both.
- Coller (a private equity manager) has some public equity holdings, but does not attend or vote at shareholder meetings.

Mandates with <1% of the Scheme's total assets invested were not reviewed on materiality grounds. This includes Additional Voluntary Contributions ("AVCs") made by some members to supplement the benefits they receive at retirement.

### 4.1. Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

## Baillie Gifford

Voting of Baillie Gifford's clients' holdings is an integral part of its commitment to stewardship. Baillie Gifford believes that voting should be investment-led, because how it votes is an important part of the long-term investment process, which is why Baillie Gifford's strong preference is to be given this responsibility by its clients. Baillie Gifford also believes that the ability to vote clients' shares strengthens its position when engaging with investee companies. Baillie Gifford's Governance and Sustainability team oversees its voting analysis and execution in conjunction with its investment managers. Baillie Gifford does not outsource responsibility for voting to third-party suppliers, utilising research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and endeavours to vote every one of its clients' holdings in all markets.

## Longview

Longview engages Glass Lewis & Co. ("Glass Lewis") to carry out proxy voting for all institutional clients who request that Longview Partners take responsibility for the implementation of their voting rights. All voting decisions are made on a case-by-case basis by Glass Lewis's specialist research analysts, in line with their detailed regional policies, which are approved by Longview on an annual basis. However, Longview would advocate the exercising of votes, contrary to Glass Lewis policy, where necessary. The decision to vote contrary to Glass Lewis's recommendation is made collectively by the research team and CIO and will often follow engagement between Longview's Research team and the company.

## Walter Scott

Walter Scott's Investment Operations team provides structured support such as gathering all relevant documentation and discussing the information with its 'Stock Champions' – ie members of the research team who are responsible for a particular company. Walter Scott receives third party research from Institutional Shareholder Services ("ISS") for information purposes, however the recommendations from any intermediary have no bearing on how Walter Scott votes. The decision on how to vote a particular proxy is generally made by Stock Champions, guided by Walter Scott's Proxy Voting Policy. All proxy votes are signed off by any of the following: the Chair or Vice Chair of the Investment Stewardship Committee, Head of Investment Operations & Sustainability, Executive Director Investment Operations, a Co-Head of Research or in their absence a director of Walter Scott.

### 4.2. Summary of voting behaviour over the Scheme Year

A summary of voting behaviour for the period to 30 September 2022 is provided in the table below. The data for Longview and Walter Scott is for the six months from 1 April 2022, whereas the data for Baillie Gifford is for the twelve months from 1 October 2021 since Baillie Gifford was not able to provide data for a shorter period.

	Baillie Gifford	Longview	Walter Scott
Value of Scheme assets at start of the Scheme Year (£)	£418m	£273m	£561m
Number of equity holdings at start of the Scheme Year	42	32	47
Number of meetings eligible to vote	45	27	35
Number of resolutions eligible to vote	477	418	546
% of resolutions voted	100%	100%	100%
Of the resolutions on which voted, % voted with management	96%	89%	97%
Of the resolutions on which voted, % voted against management	4%	11%	3%
Of the resolutions on which voted, % abstained from voting	0%	0%	0%
Of the meetings in which the manager voted, % with at least one vote against management	18%	63%	20%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	n/a <sup>1</sup>	0.2%	9%

<sup>1</sup>All client voting decisions are made in-house at Baillie Gifford in line with its in-house policy.

### 4.3 Most significant votes over the Scheme Year

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

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant votes ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each listed equity manager provide at least ten most significant votes, and suggested the managers could use the PLSA's criteria<sup>1</sup> for creating this shortlist.

The Trustee has interpreted "significant votes" to mean those that:

- align with the Trustee's stewardship priorities;
- might have a material impact on future company performance;
- have a high media profile or are seen as being controversial; and/or
- are shareholder resolutions which received material support.

The Trustee has identified two of these significant votes per fund as the most significant votes and reported on these below.

All three managers confirmed that none of their most significant votes breached the Trustee's voting policy. Only one of the significant votes supplied by the managers related to the stewardship priorities, so it was not possible for the Trustee to assess the alignment of the managers' voting behaviour with its expectations on these priority topics.

#### Baillie Gifford

- **Amazon.com, INC, May 2022**
  - **Summary of resolution:** Shareholder Resolution – gender/racial pay gap
  - **Vote cast:** For resolution
  - **Management recommendation:** Against resolution
  - **Outcome of the vote:** Not passed
  - **Rationale for the voting decision:** Baillie Gifford supported a shareholder proposal on gender/racial pay. It has supported this proposal at Amazon.com for the last two years. It believes that women and minorities are underrepresented in leadership positions compared with the broader workforce, and reporting the unadjusted median gap would help to assess structural bias regarding job opportunity and pay.
  - **Approximate size of the Scheme's holding at the date of the vote:** 7% of the Scheme's mandate
  - **The reason the Trustee considered this vote to be "most significant":** Relates to a stewardship priority. A shareholder resolution that received >20% support
  - **Was the vote communicated to the company ahead of the vote:** No
  - **Outcome and next steps:** *Following Baillie Gifford's vote decision, it has reached out to the company to let them know about its dissent on remuneration and set out its expectation on pay.*
- **Tesla INC, August 2022**
  - **Summary of resolution:** Shareholder Resolution – disclosure of harassment and discrimination

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

- **Vote cast:** For resolution
- **Management recommendation:** Against resolution
- **Outcome of the vote:** Not passed
- **Rationale for the voting decision:** Baillie Gifford supported the resolution requesting additional disclosure on the company's efforts to address harassment and discrimination in the workplace. It believes quantitative disclosure would help it understand and monitor the company's efforts.
- **Approximate size of the Scheme's holding at the date of the vote** 8% of the Scheme's mandate
- **The reason the Trustee considered this vote to be "most significant":** High media profile. A shareholder resolution that received >20% support
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome and next steps:** *Baillie Gifford continued to support this proposal after supporting at the 2020 and 2021 AGMs. Its discussions with Tesla have clarified that the company does not require mandatory arbitration nor does it require outcomes of arbitration or litigation to remain confidential, however it does encourage employees to arbitrate. While a standalone report may not be necessary, Baillie Gifford continues to think increased transparency would help it better understand the company's use of arbitration and any implications for workplace practices and culture. Following the submission of its votes, Baillie Gifford reiterated its position and encouraged improved transparency on these issues.*

## Longview

- **IQVIA Holdings Inc, April 2022**
  - **Summary of resolution:** Shareholder Resolution – majority vote for election of directors
  - **Vote cast:** For resolution
  - **Management recommendation:** Against resolution
  - **Outcome of the vote:** Passed
  - **Rationale for the voting decision:** Majority voting increases board accountability and performance.
  - **Approximate size of the Scheme's holding at the date of the vote:** 4% of the Scheme's mandate
  - **The reason the Trustee considered this vote to be "most significant":** Shareholder resolution that received material support
  - **Was the vote communicated to the company ahead of the vote:** No
  - **Outcome and next steps:** *For future proposals, Longview may consider engaging with the company prior to the vote to better understand management's stance, providing tight voting instruction deadlines allow.*
- **HCA Healthcare Inc. April 2022**
  - **Summary of resolution:** Shareholder Resolution - political exposures and expenditure report
  - **Vote cast:** For resolution
  - **Management recommendation:** Against resolution
  - **Outcome of the vote:** Not passed
  - **Rationale for the voting decision:** Increased disclosure would allow shareholders to more fully assess risks presented by the company's political spending.



- **Approximate size of the Scheme’s holding at the date of the vote:** 4% of the Scheme’s mandate
- **The reason the Trustee considered this vote to be “most significant”:** Controversial topic
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome and next steps:** *For future proposals, Longview may consider engaging with the company prior to the vote to better understand management's stance, providing tight voting instruction deadlines allow.*

## Walter Scott

- **TJX, June 2022**
  - **Summary of resolution:** Advisory vote to ratify named executive officers' compensation
  - **Vote cast:** For resolution
  - **Management recommendation:** For resolution
  - **Outcome of the vote:** Not passed
  - **Rationale for the voting decision:** We supported the remuneration proposal which subsequently failed at the AGM.
  - **Approximate size of the Scheme’s holding at the date of the vote:** 1% of the Scheme’s mandate
  - **The reason the Trustee considered this vote to be “most significant”:** Management resolution that received material dissention from shareholders and did not pass
  - **Was the vote communicated to the company ahead of the vote:** n/a (didn’t vote against management)
  - **Outcome and next steps:** *Case-by-case identification of significant vote with management due to proposal failing at AGM.*
- **Fortinet, June 2022**
  - **Summary of resolution:** Shareholder resolution - Adopt simple majority vote
  - **Vote cast:** Against resolution
  - **Management recommendation:** None
  - **Outcome of the vote:** Passed
  - **Rationale for the voting decision:** Not aligned with long-term investment approach
  - **Approximate size of the Scheme’s holding at the date of the vote:** 2% of the Scheme’s mandate
  - **The reason the Trustee considered this vote to be “most significant”:** Shareholder resolution that received material support
  - **Was the vote communicated to the company ahead of the vote:** n/a (didn’t vote against management)
  - **Outcome and next steps:** *All significant votes are reviewed and approved by the Investment Stewardship Committee. Any potential learnings from our significant votes are then taken into account for periodic reviews of our Proxy Voting Policy.*

## 5. Management of investment-related conflicts of interest

The Trustee maintains a formal conflicts policy, which sets out how conflicts and potential conflicts are identified, assessed and managed. This includes specific references to investment conflicts, as well as monitoring and

managing the conflicts of third-party advisers. Conflicts are monitored as a standing item on every Board and Committee agenda, and recorded in a register of interest, which is also reviewed as a standing item on every Board and Committee agenda. Annual confirmations are obtained from advisers on conflicts and the induction process for new trustees includes a specific reference to conflicts.

The Trustee has established a set of investment beliefs, which form a part of the decision-making process for all investments. As part of these beliefs, the Trustee acknowledges that the alignment of interest is likely to lead to better outcomes and so potential conflicts of interest should be identified, minimised and monitored.