DUKPS Section of the Deloitte Pensions Master Plan

Implementation Statement for year ended 31 March 2024

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Introduction

This statement has been prepared by the Trustee of the DUKPS Section of the Deloitte Pensions Master Plan (the 'Trustee' and the 'Section' respectively), to demonstrate how the Trustee has acted on certain policies within its Statement of Investment Principles ('SIP').

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the Section's SIP over the Section year. This Implementation Statement covers the Section year from 1 April 2023 to 31 March 2024.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit ('DB') investments held by the Section. This excludes the Additional Voluntary Contribution investments held by the Section.

SIP policies

This Implementation Statement should be read in conjunction with the Section's SIP covering the period under review, which gives details of the Section's investment policies along with details of the Section's governance structure and objectives.

Over the year to 31 March 2024 the Section's SIP included policies on:

- How 'financially material considerations' including Environmental, Social and Governance ("ESG") factors are taken into account when taking investment decisions for the Section.
- The extent to which non-financial matters are taken into account in the investment decision making process.
- Stewardship and voting – including details on monitoring and engaging with the companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, risks, corporate governance and ESG). Engagement with investee companies by the investment managers is also expected on the matters of capital structure and the management of actual or potential conflicts of interest.
- Monitoring the Section's investment managers, particularly concerning financial arrangements, performance, ESG factors and engagement.
- The duration of the Section's arrangement with the investment managers.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to 31 March 2024 and the extent to which the Trustee believes the policies within the SIP have been followed.

Over the period, the Section invested in pooled funds managed by Legal & General Investment Management ('LGIM'), abrdn, Standard Life Capital Partners ('SL Capital') and Partners Group (together, the 'Investment Managers').

In the SIP in place during the Section year, the Trustee stated the following policies on the exercise of voting rights and engagement activities related to their investments:

- The Trustee's policy is to invest in pooled investment vehicles. It is the Investment Managers that are responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.
- The Trustee acknowledges that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Section's investments and the likelihood that the Section's objectives will be achieved.
- The Trustee, in consultation with their Investment Adviser, has reviewed the ESG and stewardship policies of the Investment Managers and are comfortable that these policies are consistent with their views.

Description of voting behaviour

The Section invests in pooled funds, which means that the responsibility for exercising the voting rights on the shares held by the Section sits with the Investment Managers.

At the start of the reporting period, the Section held the following pooled fund investments:

- a bespoke leveraged liability driven investment (LDI) mandate, a bespoke buy & maintain credit portfolio (together the bespoke cashflow driven investment (CDI) mandate) and a cash fund managed by LGIM.
- a ground rents fund managed by abrdn.
- an infrastructure equity fund managed by SL Capital.
- a multi-asset credit fund and a senior loans fund managed by Partners Group (fully divested in June 2023 and August 2023 respectively).

The following table shows LGIM's voting summary covering the Section's bespoke CDI mandate over the 12-month period from 1 April 2023 to 31 March 2024. These votes relate to a specific bond holding where there was an extraordinary resolution passed at a bondholder meeting to alter the guarantee terms due to a change in structure of the company that the bonds were originally guaranteed by.

LGIM Bespoke CDI Mandate	
Number of meetings LGIM was eligible to vote at over the year to 31 March 2024	2
Number of resolutions LGIM was eligible to vote on over the year to 31 March 2024	2
Of the eligible resolutions, percentage that LGIM voted on:	100%
Of the resolutions voted, percentage that LGIM voted **with** management.	100%
Of the resolutions voted, percentage that LGIM voted **against** management.	0%
Of the resolutions voted, percentage where LGIM **abstained**.	0%
Percentage of eligible meetings where LGIM voted at least once against management.	0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0%

Proxy voting

The Trustee did not employ a proxy-voting service during the period from 1 April 2023 to 31 March 2024, nor has the Trustee set specific stewardship priorities.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Services' ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS'). To ensure LGIM's proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions.

How voting and engagement policies have been followed

The Trustee reviews and monitors the voting and engagement activity taken on its behalf on an annual basis. The information published by LGIM on its engagement policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the Section year to 31 March 2024.

As set out in the SIP, the Trustee expects LGIM to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.

Details of specific engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	✓	LGIM's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	LGIM believes that board independence, diversity and remuneration can have a financially material impact on the assets it invests within, with the Board ultimately responsible for the strategy for any company that LGIM invests in or holds as a counterparty. LGIM has clear voting policies covering each of these topics and has acted on them throughout the Section year on behalf of the Trustee. For example, in 2023, LGIM enhanced its global policy expectations that at least one-third of the directors on non-controlled company boards are women. In addition, LGIM expanded its expectations to cover smaller companies, voting against boards where female directors do not make up at least a quarter of the total. Furthermore, over 2023 LGIM published a separate thematic policy document covering its diversity approach including expectations of investee companies, voting escalation steps and timeframes.
Risks	✓	LGIM is committed to identifying systemic risks within its clients' portfolios and has clear voting policies on ensuring that companies manage risk effectively and have robust internal controls. As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors. In addition, following review of their key themes for engagement, LGIM identified digitisation as a financially material risk for clients' portfolios and has published its expectations for how companies manage digitisation-related risks. Over 2023, LGIM has focused on the governance aspect of AI and now expect all underlying investee companies to have a board member or committee which is accountable for AI risk oversight and strategy.
Social and environmental impact	✓	LGIM has acted against almost 300 companies in 2023 under its Climate Impact Pledge in order to hold directors to account for their management of climate risk. This included two companies being divested, and one company being reinstated. LGIM's Climate Impact Pledge now covers more than 5,000 companies across 20 climate-critical sectors. During 2023, to promote diversity at the board level, LGIM voted against the board chair of UK and US companies where there was insufficient gender representation on the executive committee, or the board did not include at least one person from an ethnic minority background. Over 2023, in line with this policy LGIM voted against NVIDIA Corporation, Tesla Inc, Thermo Fisher Scientific Inc and others on these grounds.
Corporate governance	✓	The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that appropriate governance structures need to be in place. These include the voting stances to oppose combined chair/CEO roles and all-male boards globally. Since 2021, LGIM has adopted a policy to vote against all elections which combine the roles of CEO and Chair. For example, LGIM voted against electing directors of Microsoft Corporation, Johnson & Johnson, and Pfizer Inc. alongside several others, in line with this policy during 2023.

Conflicts of interest	✓	Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). LGIM remains committed to mitigating the risks associated with this by ensuring their structure can mobilise effectively to tackle cases of conflict when they arise. LGIM voted against incentive awards which did not have performance conditions or where clear guidelines were not in place, as these awards would not align remuneration with company performance. For example, LGIM voted against Banco Santander SA's remuneration policy because awards are permitted to vest for below median relative performance.
Capital structure	✓	LGIM has policies in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance. For example, LGIM has a policy that newly issued shares should not expose minority shareholders to excessive dilution. These policies aim to protect minority shareholder rights including "one share, one vote" policies to avoid weakening of corporate governance as investors' ability to influence and hold directors accountable would be reduced. For example, LGIM has advocated for equal voting rights under a 'one share, one vote' standard and voted for a resolution to approve a recapitalisation plan for all Alphabet Inc. stock to have one vote per share.

Significant votes

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Given LGIM was only eligible to vote at two meetings relating to an extraordinary resolution for specific bond holdings within the Section's bespoke CDI mandate over the Section year to 31 March 2024, there were no significant votes reported to the Trustee.

Engagement with investee companies

Exercising voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the majority of the Section's fixed income investments within the bespoke CDI mandate managed by LGIM, the Partners Group Multi-Asset Credit and Senior Loans Funds, nor the Section's abrdn Commercial Ground Rent Fund and SL Capital Infrastructure Fund as these investments do not carry voting rights. However, the Trustee expects the Investment Managers for these investments to engage on their behalf to influence in respect of matters such as performance, strategy and corporate governance, capital structure, conflicts of interest, risks and social and environmental impact. The Trustee has not set specific stewardship or engagement priorities.

LGIM CDI Mandate and Cash Fund

As at 31 March 2024, the Section had c. £477.1m (c. 58.3% of Section assets) invested in a bespoke buy & maintain credit mandate with LGIM. The Trustee requested that the portfolio is screened using LGIM's Future World Protection List which excludes companies that fail to meet globally accepted business practices on human rights and sustainability, or LGIM's minimum requirements on the transition to a carbon neutral world.

The Section also had c. £198.5m (c. 24.3% of Section assets) invested in a bespoke liability hedging portfolio and c. £26.8m (c. 3.3% of Section assets) invested in a cash fund with LGIM as at 31 March 2024. Given the nature of these assets and purpose within the LDI portfolio, ESG practices (particularly environmental and social) are not as relevant for the cash, government bond and derivatives held with the purpose to hedge the interest rate and inflation exposure of the liabilities. Governance considerations are the main relevant focus, and LGIM has adequate governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets. LGIM also actively engages with regulators, the government and other public bodies on factors that could impact liability hedging portfolios. Derivative strategies are held within the LDI portfolio, so another relevant factor is the assessment of ESG risk as part of the wider counterparty credit risk assessment for derivatives. LGIM regularly reviews counterparty creditworthiness and considers ESG factors as part of their risk assessment (LGIM Counterparty Oversight Group meetings at least twice a month).

LGIM actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practices. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

Over the 12 months to 31 March 2024, LGIM undertook 2,144 engagements with 2,006 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 1,820 on environmental topics.
- 274 on social topics.
- 528 on governance issues.
- 119 on other topics including finance and strategy.

LGIM has also provided fund specific engagement statistics, with the following table summarising the engagements undertaken on a fund-by-fund basis over the year to 31 March 2024 for the Section's investments.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
CDI mandate (B&M and LDI)	250	62	72	55	102	21
Cash Fund	22	6	10	3	8	1

At a fund level, LGIM has provided various examples of engagements with companies it invests in within the Section's bespoke CDI mandate. For example, LGIM has engaged with United Utilities to discuss the wider environmental and financial issues facing the water sector, such as pollution and the monitoring of outflows. LGIM believes that regular engagement with the investee company will help to identify solutions and improvements at both a company and sector level.

Elsewhere, LGIM engaged with Walmart on the topic of income inequality and the importance of paying employees a living wage. In 2023, LGIM supported a shareholder resolution requesting that the company consider the pay disparity between the CEO and other employees. LGIM has noted that although wage increases have been granted, they will continually engage with Walmart to advocate paying a living wage to all employees.

Partners Group Multi-Asset Credit and Global Senior Loans

The Section held investments in the Partners Group Multi Asset Credit 2017 Fund and the Partners Group Global Senior Loans Master Fund over the Section year until these holdings were divested in June 2023 and August 2023 respectively. The Trustee has seen evidence that Partners Group engages on an ongoing basis with investee companies in both Funds over the part of the Section year for which the funds were invested.

As the Section's investment in the closed ended Multi Asset Credit 2017 Fund was already fully invested, the ESG impact was focused on ongoing engagement with investee companies given that no new investments were made. Partners Group has provided some examples where it has engaged on the Trustee's behalf on business strategy, environmental issues and corporate governance in line with the Trustee's policies.

An example within the Multi Asset Credit 2017 Fund over the year is when Partners Group engaged with Envision Healthcare Holdings Inc. to discuss its restructuring progress after the company filed for bankruptcy in May 2023. The company was lacking liquidity and as a result, missed payments on its debt obligations. Through its engagement in the restructuring process, Partners Group assisted the company in emerging from bankruptcy as two new entities to ensure debt obligations were met.

The Section's investment in the Global Senior Loans Master Fund was an open-ended liquid fund so in addition to ongoing monitoring and engagement, Partners Group also continued to integrate ESG considerations into the due diligence process for selecting new investments on an ongoing basis over the period in which the Section was invested. Partners Group has been unable to provide examples of engagement activity at the Fund level over the period in which the Section was invested.

SL Capital Infrastructure Equity

As at 31 March 2024, the Section had c. £70.6m (c. 8.6% of total Section assets) invested in the SL Capital Infrastructure I Fund.

SL Capital engages with the leadership of each of the Fund's portfolio companies to improve governance structures and ensure that ESG risks and opportunities are managed appropriately. The Trustee also understands that SL Capital challenges and encourages leadership teams to set appropriate targets, put in place robust and transparent management processes and meet best practices in all their operations.

Over the 2023 calendar year, SL Capital reported that it had generated 356 GWh of zero carbon electricity from the Fund's Norwegian asset, saving 91 thousand tonnes of CO_2 emissions compared to the equivalent consumption from the European grid. In addition, the manager has been engaging with the Fund's underlying rail assets to replace fleets with electric trains. The manager has reported that across two railway assets within the Fund, a combined total of 14 million kilometres have been travelled by electric trains in 2023, delivering a saving of 60% in emissions compared to the diesel trains that they replaced.

abrdn Ground Rents

As at 31 March 2024, the Section had c. £45.3m (c. 5.5% of total Section assets) invested in the abrdn Commercial Ground Rents Fund.

Due to the nature of the Ground Rents Fund investing in ground leases, abrdn is limited in its ability to indirectly influence the actual behaviour by the property tenants. abrdn is engaging with the tenants where possible on a variety of ESG topics and to gather carbon emissions data.

For example, during the year abrdn engaged with Kingsmill Hotel (Inverness) Limited, one of the Fund's largest underlying assets, and agreed to install 154 photovoltaic panels and an electric vehicle charging hub, creating one of the largest car charging infrastructures at a Scottish hotel. The photovoltaic modules that were installed are also expected to save an estimated 11.39 tonnes of CO_2 emissions annually.

Extent to which Trustee's policies have been followed during the year

Having reviewed the actions taken by LGIM, Partners Group, abrdn and SL Capital on behalf of the Trustee, the Trustee believes that its policies on engagement have been implemented appropriately over the reporting period and in line with its views. The Trustee will continue to monitor the actions taken on its behalf and press for improved engagement information from the Investment Managers on a fund specific level.

If the Investment Managers deviate substantially from the Trustee's stated policies, the Trustee will initially discuss this with the relevant manager. If in the opinion of the Trustee the difference between the policies and the investment manager's actions is material, the Trustee will consider terminating the mandate if necessary.