

Air Liquide UK Pension Scheme

**Annual Implementation
Statement – Scheme year
ending 5 April 2023**

Table of Contents

Section 1: Introduction	3
Section 2: Voting and Engagment.....	3
Section 3: Conclusion	8
Section 4: Appendix 1: Manager voting policies.....	8

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Air Liquide UK Pension Scheme (“the Scheme”) covering the scheme year (“the year”) to 5 April 2023.

The purpose of this statement is to set out:

- Set out how, and the extent to which, in the opinion of the trustees, the Scheme’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 Scheme 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 Fiduciary Manager, Towers Watson Limited, to manage the Scheme’s DB assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager 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: <https://air-liquide-pension-scheme-sip-statement.co.uk/>

Review of and changes to the SIP

The SIP in place as at the end of the year was dated as at November 2022. We consider that all SIP policies and principles relevant to this statement were adhered to.

2. Voting and engagement

As set out above, the Trustee has delegated responsibility to the Fiduciary Manager 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 Fiduciary Manager 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 Fiduciary Manager’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 Fiduciary Manager engages with investment managers to improve their processes.

The Fiduciary Manager produces detailed reports on the SI characteristics of the highest-rated managers (such as those included in the Scheme’s portfolio) on an annual basis. These reports form

part of the Trustee's ongoing portfolio monitoring. The Trustee last received these reports in August 2022.

Towers Watson Core Diversified Fund and Towers Watson Partners Fund :

- These Funds have Article 8 Sustainable Finance Disclosure Regulation designation. This covers a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices, amongst other requirements.
- The Investment Manager intends for the Sub-Funds to achieve at least a 50% reduction in greenhouse gases by 2030 in its portfolio and continue beyond that time to further reduce greenhouse gases from the portfolio with an aim of net zero emissions by 2050. Progress is measured using multiple climate metrics.

Through its investment in the Partners Fund, the Fund also manages risk and considered ESG integration in its investment processes and strategies through:

- UK forestry –The strategy will acquire unused agricultural land in the north of England and Scotland to plant trees and grow forests, capturing carbon in the process. The intention is to hold the forests that have been created for three to five years until the trees have established themselves after which there are various possible exit routes.
- Japanese Solar Panels - Invests (through a third party manager) in Japanese renewable energy with some exposure to other solar energy. Invests in late stage construction and development of solar, biomass and battery storage in Japan.

Through its investment in the Core Diversified Fund, the Fund also manages risk and considered ESG integration in its investment processes and strategies through:

- A Global Prime Real Estate strategy which has introduced climate filters as an explicit screen in the investment process following direct engagement with the manager.

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 Fiduciary Manager, and in turn to the Scheme's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including [consideration of all relevant matters](#), voting and engagement) are delegated to the Scheme's investment managers.

Through the engagement undertaken by the Fiduciary Manager, 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 Fiduciary Manager considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis. The Fiduciary Manager engages with managers to improve their practices and may terminate 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.

As at the year end, the Scheme was invested in two in-house multi-asset growth funds, the Towers Watson Investment Management (TWIM) Core Diversified Fund and the Towers Watson Investment Management (TWIM) Partners Fund, both managed by the Fiduciary Manager, which have an allocation to equity holdings in underlying pooled funds. Therefore, voting information was only requested from the Scheme's equity managers 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 votes, three of those deemed most significant by the Trustee have been shown below. The Trustee has endeavoured to select "significant" votes which align with the Trustee's identified priorities for voting and engagement – human and labour rights, and climate – where the data has allowed.

The Scheme's equity holdings are invested across two pooled funds:

- **TWIM Core Diversified Fund** – a multi-asset growth fund that takes a holistic approach to managing ESG risk and opportunity
- **TWIM Partners Fund** - a multi-asset growth fund that takes a holistic approach to managing ESG risk and opportunity

Example voting table – Manager

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 *[please refer Page 8 of this document - Appendix 1: Manager voting policies]*. The Fiduciary Manager has assessed the investment manager's voting policy as part of its overall assessment of the investment manager's capabilities. The Fiduciary Manager considered the policy to be appropriate, and consistent with the Trustee's policies and objectives and ultimately, therefore in the best financial interests of the members. Additional oversight on the implementation of this policy is provided through the Fiduciary Manager'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 Scheme.

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

TWIM Core Diversified Fund

Voting activity	Number of votes eligible to cast:	42,381
	Percentage of eligible votes cast:	93.2%
	Percentage of votes with management:	85.0%
	Percentage of votes against management:	15.0%
	Percentage of votes abstained from:	0.0%
Most significant votes cast	Company	SNAM SpA
	Size of holdings	0.22%
	Resolution	Accept Financial Statements and Statutory Reports

	Vote Cast	Against - We do not publicly communicate our vote in advance.
	Rationale for voting decision	Inadequate management of climate-related risks
	Outcome of vote	Pass
Use of proxy voting	For the CDF, through our equity and listed real asset strategies, we work with EOS to provide corporate engagement and voting recommendation services to enhance the efforts of the underlying managers where possible. The underlying manager must provide an explanation and note their rationale when they choose to vote differently to the recommendation. The underlying managers also use ISS facilitate voting and provide research. Our China equity manager uses Glass Lewis service where they have created a bespoke policy.	

TWIM Partners Fund

Voting activity	Number of votes eligible to cast:	25,560
	Percentage of eligible votes cast:	92.8%
	Percentage of votes with management:	86.0%
	Percentage of votes against management:	13.5%
	Percentage of votes abstained from:	0.5%
Most significant votes cast	Company	Anglo American Plc
	Size of holdings	0.06%
	Resolution	Approve Climate Change Report
	Vote Cast	Supported Management
	Rationale for voting decision	The climate change report sets out clear pathways to carbon neutral operations by 2040 and the company's ambition to reduce Scope 3 emissions by 50%, also by 2040.
	Outcome of vote	Pass

<p>Use of proxy voting</p>	<p>For the Partners Fund, the equity exposure comes from four main areas</p> <ul style="list-style-type: none"> - Our global equity portfolio where EOS provides voting recommendation to enhance engagement and help achieve responsible ownership. EOS's voting recommendations are informed by its extensive research and experience in the area of stewardship as well as its long-term engagement activities with companies. The underlying managers must provide an explanation and note their rationale when they choose to vote differently to the recommendation. The underlying managers in this portfolio use ISS's 'ProxyExchange' electronic voting platform to facilitate voting. - Our China equity manager uses Glass Lewis service where they have created a bespoke policy - Our emerging markets equity managers use ISS, Glass Lewis, SES and Broadridge Proxy Edge platforms for information and to facilitate voting - Our long-short equity managers use ISS to provide corporate research and to facilitate the voting process."
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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 2022:

- Engaging with 1,138 companies on 4,250 issues and objectives
- Making voting recommendations on 134,188 resolutions at 13,814 meetings, including recommended votes against 24,461 resolutions
- 33 consultation responses or proactive equivalent and 75 discussions with relevant regulators and stakeholders
- Active participation in many collaborations including Climate Action 100+, Principles for Responsible Investment (PRI), and UN Guiding Principles Reporting Framework

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, and subsequently retaining that status
- Co-founding the Net Zero Investment Consultants Initiative 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)
- Co-founding the Investment Consultants Sustainability Working Group
- Continuing to lead collaboration through the Thinking Ahead Institute and WTW Research Network

- Being a founding member of The Diversity Project
- Being an official supporter of the Transition Pathway Initiative

3. Conclusion

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

4. Appendix 1: Manager voting policies

TWIM's voting policy is provided below

Towers Watson Partners Fund's underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. For the Towers Watson Global Equity Focus Fund, in which the Towers Watson Partners Fund invests, we also use EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes.

As at the year end the Towers Watson Core Diversified Fund held majority of its equity holdings via the Asset Management Exchange (AMX) platform which uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers are ultimately responsible for the votes