MoDo Merchants Pension Scheme – year to 30 June 2023

Implementation Statement

The Trustee of the MoDo Merchants Pension Scheme (the "Trustee" and the "Scheme" respectively) has prepared this implementation statement in compliance with the governance standards introduced under The Occupational Pension Plans (Investment and Disclosure) (Amendment) Regulations 2019.

Its purpose is to demonstrate how the Trustee has followed the policy on voting, stewardship and engagement as set out in the Scheme's Statement of Investment Principles (the "SIP"), dated September 2022. This statement covers the year to 30 June 2023.

The Scheme's assets are held in pooled investment funds (partly via the Mobius Life investment platform) and the day-to-day management of these investments (including the responsibility for voting and engaging with companies) is delegated to the managers of the pooled investment funds (the 'fund managers').

The fund managers are Legal & General Investment Management ("LGIM"), BNY Mellon Investment Management Limited ("BNYM") and Columbia Threadneedle Investments ("CT").

As the Trustee of the Scheme's assets, we are responsible for the selection and retention of the funds. Reviewing the voting and engagement activities, for which we include details below, is an important exercise to help us ensure the funds remain appropriate and are managed in a way that is consistent with the fund managers' stated policies in this regard.

We are satisfied with the voting and engagement activities of the fund managers, and in particular, that they are using their position as stakeholder to engage constructively with investee companies on our behalf. The Trustee had no concerns regarding the fund managers' voting and/or engagement activities during the year to 30 June 2023.

Voting and engagement

The Trustee's policy, as set out in the SIP, is to consider only factors that are expected to have a financial impact on the Scheme's investments. Details on significant voting and engagement activities provided by the fund managers are set out below.

In order to produce this statement the Trustee has asked the fund managers a series of questions on their policies, actions and have requested examples relating to their voting and engagement activities. In conjunction with their advisers, the Trustee has identified significant voting and engagement activities (i.e. those most relevant to the Trustee's policy) and has summarised the fund managers' responses for the purpose of this statement.

LGIM have provided voting information relating to the Diversified Fund and BNYM have provided information relating to the Real Return Fund, as these funds hold equities for which the fund managers have voting rights.

The CT Dynamic LDI, Gilt and Sterling Liquidity Funds do not hold direct equities and given that these investments do not confer voting rights, there was no voting carried out in relation to these funds. The primary underlying counterparty for the LDI fund assets is the UK government; however the derivatives used mean the funds will also have exposure to clearing houses and investment banks. CT does undertake engagement activities with counterparty banks on relevant issues, where applicable, and examples are included below.

LGIM - voting and engagement activities

The following commentary is based on the information that LGIM have provided in response to our questions and illustrates how they co-ordinate their voting and engagement activities with companies.

"LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions

To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account. In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA)."

LGIM Diversified Fund

LGIM were eligible to vote on 92,836 resolutions. Votes: For 77%, Against 23%, Abstained <1%.

There were 846 engagements over the year. The majority of engagements were made regarding climate change.

The Trustee has reviewed LGIM's voting activity and in conjunction with their adviser, Cartwright, on the Trustees' behalf, has identified the following as the most significant votes from the perspective that they potentially have the biggest financial impact on the Scheme, as set out in the SIP and the Trustee's stewardship priorities.

1. SHELL PLC

Date: 23/05/2023

Resolution: Approve the Shell Energy Transition Progress

Vote: Against (Against management recommendation)

"LGIM is publicly supportive of so called "Say on Climate" votes. We expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.

A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5°C trajectory."

2. TOYOTA MOTOR CORP.

Date: 14/06/2023

Resolution: Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement

Vote: For (Against management recommendation)

"LGIM believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors including, for example, climate accountability and public health. In addition, we expect companies to be transparent in their disclosures of their lobbying activities and internal review processes involved.

LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris aligned regulatory environment.

We acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years. However, we believe that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified.

Furthermore, we expect Toyota Motor Corp to improve its governance structure to oversee this climate lobbying review. We believe the company must also explain more clearly how its multipathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying practices are in keeping with this."

3. PUBLIC STORAGE

Date: 02/05/2023

Resolution: Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal

Vote: For (Against management recommendation)

"A vote in favour is applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.

BNYM - voting and engagement activities

The following commentary is based on the information that BNYM have provided in response to our questions on voting and engagement and illustrated how they co-ordinate their voting and engagement activities with companies. Newton are a subsidiary of BNYM and are the entity that manage the Real Return Fund.

"We believe the value of our clients' portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Our understanding of a company's fundamental business enables us to assess the appropriate balance between the strict application of corporate governance policies and taking into account a company's unique situation.

We do not maintain a strict proxy voting policy. Instead, we prefer to take into account a company's individual circumstances, our investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. For the avoidance of doubt, all voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence. It is also only in these circumstances when we may register an abstention given our stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures we do not provide confusing messages to companies.

Voting decisions take into account local market best practice, rules and regulations while also supporting our investment rationale. For example, when voting on the election of directors in Japan, we are unlikely to vote against a board chair should the board not be majority independent given that only recently the corporate governance code has recommended boards appoint independent directors. However, in the UK, where majority independent boards are well established and expected by investors, we are likely to vote against the chair and non-independent directors. This being said, we frequently vote against executive pay at US companies despite it being accepted US market practice of granting significant awards of free shares as we believe executive pay should be aligned with performance.

Whilst Newton conduct most of their engagements directly with companies they do also collaborate with other investors where they believe it will generate a better outcome for investors. For example, they worked alongside eight other investors as part of the Climate Action 100+ group, co-filing a resolution asking BP to explain its thinking on climate change and how its business is aligned with the Paris

Agreement. The resolution was passed, opening the door to talk in more detail about its future in the energy transition."

BNYM Real Return Fund

Newton were eligible to vote on 1,112 resolutions. Votes: For 92%, Against 8%, Abstained 0%.

There were 30 engagements over the year. The majority of engagements were made regarding climate change.

The Trustee has reviewed Newton's voting activity and in conjunction with their adviser, Cartwright, on the Trustees' behalf, has identified the following as the most significant votes from the perspective that they potentially have the biggest financial impact on the Scheme, as set out in the SIP:

1. **LOCKHEED MARTIN CORPORATION**

   Resolution: Advisory Vote to Ratify Named Executive Officers' Compensation

   Vote: For

   "We supported a shareholder proposal asking for a report on efforts to reduce full value chain GHG emissions in alignment with Paris Agreement as in our view, more information on the company's plans to transition towards a low carbon economy would help shareholders better assess this risk."

2. **SHELL PLC**

   Resolution: Request Shell to Align its Existing 2030 Reduction Target

   Vote: Against management recommendation

   "Covering the Greenhouse Gas (GHG) Emissions of the Use of its Energy Products (Scope 3) with the Goal of the Paris Climate Agreement.

   As a significant GHG emitter, it is critical for Shell to have a credible transition plan. Abstaining on this resolution would convey to the company, in addition to our engagement, the need to add credibility to its transition planning.

   We abstained on the proposal requesting an alignment of the 2030 Scope 3 reduction target to the Paris agreement. While the argument is acknowledged, voting in favour of this resolution can be considered as overstepping on management's prerogatives in strategy setting. However, we have abstained in line with our views that the current transition plan merits more robust 2030 goals in order to gain credibility."

3. **NEXTERA ENERGY, INC.**

   Resolution: Disclose Board Skills and Diversity Matrix

   Vote: For

"We supported this shareholder proposal requesting the disclosure of a board skills and diversity matrix as we believed it would help shareholders to assess how the company is managing related risks."

The Trustee has reviewed Newton's engagement activity and in conjunction with their adviser, Cartwright, on the Trustees' behalf, has identified the following as the most significant example of engagement from the perspective that they potentially have the biggest financial impact on the Scheme, as set out in the SIP:

SHELL PLC

"The key objective is to set absolute Scope 3 emission reduction targets.

Shell's overall disclosures and targets raise questions around the credibility of its transition plan. It has not set an absolute reduction target for Scope 3 emission; its energy mix change and reduction in oil & gas production remain slower than peers; it does not provide disclosures on the probable energy mix in the future (unlike peers like TotalEnergies) that would indicate the level of absolute emissions in the medium and long-term.

Key takeaways

- *It does not intend to set an absolute Scope 3 emissions reduction target*

- *The company maintains that an absolute Scope 3 emissions reduction target would send the wrong message and reinforce the notion that Scope 3 emissions do not fall under the supplier's responsibility – instead it is imperative for demand and supply to work together*

We continue to have concerns with Shell's approach. While we acknowledge the company's view on Scope 3 accountability, as well as some other unique considerations it faces, we believe that setting an absolute Scope 3 emission reduction target is key for energy players to give credibility to their transition plan.

We will continue to engage with the company on this."

CT - engagement activities

The following commentary is based on the information that CT have provided in response to our questions and provides an illustration as to how they co-ordinate their engagement activities with companies. These examples provide evidence that they are engaging actively with the companies they invest in on behalf of the Scheme.

"We take responsible investment seriously. The identification of financially material environmental, social and governance (ESG) issues forms part of our investment process, helping us to manage risk and support long-term returns. Beyond the management of opportunity and risk, we also see responsible investing and broader investment stewardship activities as part of our duty as an investor acting in the best interest of our clients, and as a participant in the global financial system.

Our approach is aligned with the core values and beliefs of the wider Financial Group, and draws on national and international codes and standards for responsible investment and ownership, including the United Nations Principles for Responsible Investment, to which we are a founder signatory.

LDI portfolios are very different to traditional equity or bond portfolios and so our engagement programme primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (both in terms of companies to whom we have the greatest exposure and to companies whom we feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones."

CT Dynamic LDI Funds

These funds contain investments that provide exposure to long dated interest rates / inflation. They do not hold any equity investments and are therefore not eligible to vote. However, CT does still engage with counterparty banks on relevant issues.

There were 11 engagements over the year.

The Trustee has reviewed CT's engagement activity and has selected the following examples of actions companies have taken where CT was engaging:

1. ***HSBC HOLDINGS PLC***

"HSBC has updated its energy policy to include the ending of funding for new oil and gas projects. In particular it states:

HSBC will not provide new finance, or new advisory services, to any client for the specific purposes of O&G exploration, appraisal, development, and production pertaining to:

- *ultra-deepwater offshore O&G projects;*
- *shale oil projects; extra heavy oil projects;*
- *projects in environmentally and socially critical areas; or*
- *infrastructure whose primary use is in conjunction with the above activities."*

2. ***BARCLAYS PLC***

"The company announced that it was accelerating its timeline to phase out the financing of thermal coal power in the US from 2035 to 2030, in line with its approach in the UK and EU. The decision was taken as a result of engagement with shareholders and the introduction of the Inflation Reduction Act in the US."