

Engagement Policy Implementation Statement (“EPIS”)

Provident Financial Staff Pension Scheme (the “Scheme”)

Scheme Year End – 31 May 2023

The purpose of the EPIS is for us, the Trustees of the Provident Financial Staff Pension Scheme, to explain what we have done during the year ending 31 May 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”). It includes:

1. How our policies in the SIP about asset stewardship (including both voting and engagement activity) in relation to the Scheme’s investments have been followed during the year; and
2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

Our conclusion

Based on the activity we have undertaken during the year, we believe that the policies set out in the SIP have been implemented effectively.

In our view, most of the Scheme’s material investment managers were able to disclose good evidence of voting and/or engagement activity, and the activities completed by our managers, including our fund of funds manager, align with our stewardship expectations. We believe our voting rights have been implemented effectively on our behalf. However, there are areas where we would like to see additional details in future years, as set out in our engagement action plan.

We will continue to meet with our investment managers at regular trustee meetings to hear about their approach to ESG and engage on stewardship issues.

How voting and engagement policies have been followed

The Scheme is invested entirely in pooled funds, and so the responsibility for voting and engagement is delegated to the Scheme's investment managers, which is in line with our policy. We reviewed the stewardship activity of the material investment managers carried out over the Scheme year and in our view, most of the investment managers were able to disclose good evidence of voting and/or engagement activity. More information on the stewardship activity carried out by the Scheme's investment managers can be found in the following sections of this report.

Over the reporting year, we monitored the performance of the Scheme's investments on a quarterly basis and received updates on important issues from our investment adviser, Aon Investments Limited ("Aon"). In particular, we received quarterly Environmental Social Governance ("ESG") ratings from Aon for the funds the Scheme is invested in where available.

We meet with the Scheme's investment managers on a regular basis and receive updates on performance, strategic positioning and stewardship. During the year, we received updates from Legal and General Investment Management ("LGIM"), Aon, PIMCO and Insight at trustee meetings, including updates on how these managers integrate ESG into their investment strategies.

The Scheme's stewardship policy can be found in the SIP:
<https://www.pfpensions.co.uk/cash-balance/documents-and-forms>

Our Engagement Action Plan

Based on the work we have done for the EPIS, we have decided to take the following steps over the next 12 months:

1. While LGIM provided a comprehensive list of fund-level engagements, which we find encouraging, these examples did not give as much detail as required by the Investment Consultants Sustainability Working Group ("ICSWG") best practice industry standard. Our investment adviser, Aon, will liaise with LGIM to better understand their engagement practices and discuss the areas which are behind those of its peers.
2. We will continue to invite our investment managers to Trustee meetings on a rolling basis, to engage with them on Stewardship issues and hear what they are doing in practice.

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

Source: UN PRI

Our Fund of Funds manager's engagement activity

We invest some of the Scheme's assets in Aon's Global Impact Equity Strategy. This is a fund of funds arrangement, where Aon selects the underlying investment managers on our behalf. We delegate monitoring of ESG integration and stewardship of the underlying managers to Aon.

Over the year, Aon held several engagement meetings with many of the underlying managers in its strategies. Aon discussed ESG integration, stewardship, climate, biodiversity and modern slavery with the investment managers. Aon provided feedback to the managers after these meetings with the aim of improving the standard of ESG integration across its portfolios.

Over the year, Aon engaged with the industry through white papers, working groups, webinars and network events, as well as responding to multiple consultations.

In 2021, Aon committed to achieve net zero emissions by 2050, with a 50% reduction by 2030 for its fully delegated clients' portfolios and defined contribution default strategies (relative to baseline year of 2019).

Aon also successfully renewed its signatory status to the 2020 UK Stewardship Code.

Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. We believe that good stewardship is in the members' best interests to promote best practice and encourage investee companies to access opportunities, manage risk appropriately, and protect shareholders' interests. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme's investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Scheme's equity-owning investment managers to responsibly exercise their voting rights.

Voting statistics

The table below shows the voting statistics for each of the Scheme's material funds with voting rights for the year to 30 June 2023. Managers collate voting information on a quarterly basis. The voting information provided is for the year to 30 June 2023 which broadly matches the Scheme year of 31 May 2023.

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
LGIM – SciBeta Multi-Factor Dev Equity Index	12,513	99.9%	21.0%	0.2%
Nordea Asset Management – Global Climate and Environmental Fund*	850	100.0%	5.4%	0.2%
Mirova - Global Sustainable Equity Fund*	715	100.0%	44.0%	0.0%

Source: Managers *Held within the Aon Global Impact Equity Fund.

Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser's recommendations.

The table below describes how the Scheme's material managers use proxy voting advisers.

Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues.

Source: UN PRI

Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

Description of use of proxy voting adviser(s)
(in the managers' own words)

LGIM	LGIM's Investment Stewardship team uses Institutional Shareholder Services, Inc. ("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. 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.
Nordea Asset Management	In general, every vote we cast is considered individually on the background of our bespoke voting policy, which we have developed in-house based on our own principles. Our proxy voting is supported by two external vendors (ISS and Nordic Investor Services "NIS") to facilitate proxy voting, execution and to provide analytic input. In 2021 these two vendors have merged.
Mirova	Mirova utilizes ISS as a voting platform for related services such as ballot collecting, vote processing and record keeping. Mirova subscribes to the ISS research, however its recommendations are not prescriptive or determinative to our voting decision.

Source: Managers

Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Scheme's material investment managers to provide a selection of what they consider to be the most significant votes in relation to the Scheme's funds. A sample of these significant votes can be found in the appendix to this statement.

Our managers' engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme's material managers. The managers have provided information for the most recent calendar year available. Some of the information provided is at a firm-level i.e., it is not necessarily specific to the funds invested in by the Scheme.

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
Nordea Asset Management – Global Climate and Environmental Fund	36	994	Environment - Pollution, Waste, Climate change
			Social - Human and labour rights (e.g., supply chain rights, community relations), Conduct, culture and ethics (e.g., tax, anti-bribery, lobbying)
			Governance - Board effectiveness – Diversity
			Strategy, Financial and Reporting - Reporting (e.g., audit, accounting, sustainability reporting), Strategy/purpose
Mirova - Global Sustainable Equity Fund	33	115	Environment - Climate change, Pollution, Waste
			Social - Human and labour rights (e.g., supply chain rights, community relations), Human capital management (e.g., inclusion & diversity, employee terms, safety)
			Governance - Board effectiveness – Diversity, Remuneration
			Strategy, Financial and Reporting - Reporting (e.g., audit, accounting, sustainability reporting)
Insight - Short Dated Buy And Maintain Fund	130	948	Environment - Climate change, Natural resource use/impact (e.g., water, biodiversity)
			Social - Human capital management (e.g., inclusion & diversity, employee terms, safety), Human and labour rights (e.g., supply chain rights, community relations)
			Governance - Board effectiveness - Independence or Oversight, Leadership - Chair/CEO
			Strategy, Financial and Reporting - Capital allocation, Strategy/purpose
LGIM - Global Developed Four Factor Scientific Beta Index	363	1,224	Environment - Climate change
			Social - Human and labour rights (e.g., supply chain rights, community relations), Human capital management (e.g., inclusion & diversity, employee terms, safety), Inequality, Public health
			Governance - Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g., audit, accounting, sustainability reporting)
			Strategy, Financial and Reporting - Strategy/purpose, and others.

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
LGIM - Buy & Maintain Credit	157	1,224	<p>Environment - Climate change, Natural resource use/impact (e.g., water, biodiversity)</p> <p>Social - Human and labour rights (e.g., supply chain rights, community relations), Human capital management (e.g., inclusion & diversity, employee terms, safety), Inequality, Public health</p> <p>Governance - Board effectiveness - Diversity, Board effectiveness - Other, Remuneration</p> <p>Strategy, Financial and Reporting - Strategy/purpose, and others.</p>
Robeco - Global Credits Short Maturity	23	252	<p>Environment - Climate change, Natural resource use/impact (e.g., water, biodiversity)</p> <p>Social - Human capital management (e.g., inclusion & diversity, employee terms, safety), Human and labour rights (e.g., supply chain rights, community relations)</p> <p>Governance – Remuneration</p>
PIMCO - Low Duration Income Fund	80	1,370	<p>Environment - Climate change, Natural resource use/impact (e.g., water, biodiversity)</p> <p>Social - Conduct, culture and ethics (e.g., tax, anti-bribery, lobbying), Human and labour rights (e.g., supply chain rights, community relations)</p> <p>Governance - Board effectiveness – Diversity, Leadership - Chair/CEO</p> <p>Strategy, Financial and Reporting - Capital allocation, Financial performance</p>

Source: Managers. The following managers did not provide fund level themes; themes provided are at a firm-level:

- Insight
- PIMCO

Data limitations

At the time of writing, the following managers did not provide all the information we requested:

- LGIM did provide fund-level engagement information but not in the industry standard ICSWG template.

This report does not include commentary on the Scheme's liability driven investments, gilts or cash because of the limited materiality of stewardship to these asset classes. Further this report does not include the additional voluntary contributions ("AVCs") due to the relatively small proportion of the Scheme's assets that are held as AVCs.

Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Scheme’s managers. We consider a significant vote to be one which the manager considers significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below.

LGIM - SciBeta Multi-Factor Dev Equity Index	Company name	The Kroger Co.
	Date of vote	23 June 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.6%
	Summary of the resolution	Elect Director W. Rodney McMullen
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an annual general meeting (“AGM”) as our engagement is not limited to shareholder meeting topics.
	Rationale for the voting decision	Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight.
	Outcome of the vote	Pass
	Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
	On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we have voted against all combined board chair/CEO roles.
Nordea - Global Climate and Environment Fund	Company name	Glodon Co Ltd
	Date of vote	25 April 2023
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.9%
	Summary of the resolution	Elect Chai Mingang as Director
	How you voted	Against Management
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes. We have engaged companies with 0% females on the Board and informed them that we intend to vote against if we do not receive relevant explanation.
	Rationale for the voting decision	There are 0% females on the board and there is no Chair of the Nomination Committee, so we voted against the member of the Nomination Committee to express our concern.

	Outcome of the vote	For
	Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to vote against Chairman of the nomination committee in companies with zero females on the Board.
	On which criteria have you assessed this vote to be "most significant"?	Significant votes are those that are severely against our principles, and where we feel we need to enact change in the company.
Mirova - Global Sustainable Equity Fund	Company name	Legal & General Group Plc
	Date of vote	18 May 2023
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.6%
	Summary of the resolution	Say on Climate
	How you voted	Supported Management
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
	Rationale for the voting decision	On balance, the company's climate transition plan is sufficiently robust to warrant a vote FOR at this stage. The investment policy is aligned with +1.5°C trajectory. Targets are set for the short, medium, and long-term and covers all scopes.
	Outcome of the vote	Pass
	Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	Mirova's main criticism is that we would have preferred the inclusion of sovereigns. Indeed, while L&G allegedly excludes sovereigns due to lack of clear industry GHG methodologies to account for this asset class, Mirova disagrees with this rationale: methodologies do exist, rather the issue stems from most governments not taking their climate commitments seriously.
	On which criteria have you assessed this vote to be "most significant"?	Relevant to engagement strategy

Source: Managers