

Implementation Statement

The Costain Pension Scheme (“the Scheme”)

Purpose of the Implementation Statement

The Implementation Statement has been prepared by Costain Pension Scheme Trustee Limited (“the Trustee”) as Trustee of The Costain Pension Scheme, and sets out:

- How the Trustee’s policies on exercising rights (including voting rights) and engagement activities, as set out in the Scheme’s Statement of Investment Principles, have been followed over the year to 31 March 2023; and
- The voting activity undertaken by the Scheme’s investment managers on behalf of the Trustee, including information regarding the most significant votes, over the year to 31 March 2023.

How voting and engagement policies have been followed

The Scheme invests entirely in pooled funds, and as such, delegates responsibility for carrying out voting and engagement activities in these funds to the fund managers.

The Trustee believes that its policies on voting and engagement have been met in the following ways:

- The Trustee, with input from their investment consultant, annually receives and reviews (through their Implementation Statement), the voting information and engagement policies of their investment managers to ensure alignment with their own policies. The findings of the Trustee’s review are reported in this Implementation Statement which will also be included in the Scheme’s Annual Report and Accounts for the year to 31 March 2023.
- From time to time, the Trustee obtains training on ESG considerations in order to understand fully how ESG factors, including climate change, could impact the Scheme and its investments.
- Through their annual Sustainability monitoring report, the Trustee reviews the stewardship and engagement activities of the managers to understand whether there are any concerns or actions required.
- As part of ongoing monitoring of the Scheme’s investment managers, the Trustee uses Sustainability / ESG ratings information available within the pensions industry or provided by its investment consultant, to assess how the Scheme’s investment managers take account of ESG issues.

Having reviewed the above in accordance with their policies, the Trustee is comfortable the actions of the fund managers are in alignment with the Scheme’s stewardship policies as set out in the Scheme’s Statement of Investment Principles.

Stewardship policy

The Statement of Investment Principles (“SIP”) describes the Trustee’s stewardship policy on the exercise of rights (including voting rights) and engagement activities. It has been made available online here:

<https://www.costain.com/media/599153/2022-10-costain-sip-v10-for-costain-website.pdf>

No changes were made to the stewardship policy over the year. The Trustee has delegated the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities to the Scheme's investment managers.

At this time, the Trustee has not set stewardship priorities or themes for the Scheme but will be considering the extent that they wish to do this in due course, in line with other Scheme risks.

Voting Data

This section provides a summary of the voting activity undertaken by the investment managers within the Scheme's Growth Portfolio on behalf of the Trustee over the year to 31 March 2023. The Scheme's Liability Driven Investment ("LDI") holdings with Legal & General Investment Management ("LGIM") and the multi-asset credit ("MAC") holdings with Partners Group, Janus Henderson, TwentyFour and LGIM hold no, or negligible amounts of, assets with voting rights given the nature of the mandates.

The Baillie Gifford Multi Asset Growth Fund invests across a diverse range of asset classes; therefore, it has been included in the table below as the Fund's equity holdings may carry voting rights.

The Scheme fully disinvested from the Columbia Threadneedle Dynamic Real Return Fund over the year. Given the Scheme was only invested in the Fund for a small part of the year, we have not included the voting information below.

Manager	Baillie Gifford	LGIM
Fund name	Multi Asset Growth Fund	All World Equity Index*
Structure	Pooled	Pooled
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.	
Number of company meetings the manager was eligible to vote at over the year	84	6,728
Number of resolutions the manager was eligible to vote on over the year	885	68,320
Percentage of resolutions the manager voted on	97.1%	99.9%
Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on	95.2%	79.1%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	3.6%	19.7%
Percentage of resolutions the manager abstained from, as a percentage of the total number of resolutions voted on¹	1.2%	1.2%
Percentage of resolutions voted contrary to the recommendation of the proxy advisor	Not applicable – Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies.	10.4%

Totals may not sum due to rounding.

Source: Baillie Gifford, LGIM.

*Voting data applies to both GBP Hedged and the Unhedged share classes.

¹ Where the manager made an active decision to abstain in order to vote against management.

Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustee over the year to be set out. The guidance does not currently define what constitutes a “significant” vote. However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme’s stewardship priorities / themes. At this time, the Trustee has not set stewardship priorities or themes for the Scheme, but will be considering the extent that they wish to do this in due course, in line with other Scheme risks. The Trustee has not communicated voting preferences to their investment managers over the period, as the Trustee is yet to develop a specific voting policy. In future, the Trustee will consider the most significant votes in conjunction with any agreed stewardship priorities or themes. So, for this Implementation Statement, the Trustee has asked the investment managers to determine what they believe to be a “significant vote”.

Baillie Gifford have provided a selection of 10 votes which they believe to be significant, and LGIM provided 669. In the interest of concise reporting, the tables below show four of these votes for each fund. Where the investment manager has provided the fund exposure to the holding, the four votes with the largest related exposure were selected.

Baillie Gifford Multi Asset Growth Fund

	Vote 1	Vote 2	Vote 3	Vote 4
Company name	Duke Realty Corporation	LEG Immobilien SE	Greggs Plc	Fraport AG Frankfurt Airport Services Worldwide
Date of vote	28 September 2022	19 May 2022	17 May 2022	24 May 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.71%	0.42%	0.25%	0.23%
Summary of the resolution	One resolution regarding the remuneration report	One resolution regarding the remuneration report	One resolution regarding the remuneration report	One resolution regarding remuneration
How the manager voted	Against	Against	Against	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes	No	No	No

	Vote 1	Vote 2	Vote 3	Vote 4
Rationale for the voting decision	Baillie Gifford opposed the proposal to approve executive compensation to be paid in connection with the company merger with Prologis due to concerns regarding single trigger provisions and the introduction of excise tax gross-ups in connection with severance payments.	Baillie Gifford opposed the executive compensation policy as they did not believe the performance conditions were sufficiently stretching.	Baillie Gifford voted against the remuneration report due to concerns over executive pay increases and misalignment of pension rates.	Baillie Gifford voted against the remuneration report because the company exercised discretion to amend the performance conditions attached to the 2018 Long-Term Incentive Plan, which Baillie Gifford do not believe to be in the best interest of shareholders.
Outcome of the vote	Fail	Pass	Pass	Pass
Implications of the outcome	While Baillie Gifford were supportive of the proposed merger with Prologis, they were uncomfortable with the compensation arrangements planned for Duke Realty NEOs in connection with the merger. They unsuccessfully attempted to engage the company on its approach to compensation at this year's AGM and will continue their efforts to do so going forward.	Following the vote decision, Baillie Gifford have reached out to the company to let them know about their dissent on remuneration and set out their expectations on pay.	Following the vote decision, Baillie Gifford contacted the company to provide reasons for their opposition on the remuneration report and ask for clarification on pay setting for the CEO. The company acknowledged their feedback on pensions and pay increases for one executives and explained how the new CEO's salary was set.	While they believe the metric itself to be sensible, Baillie Gifford do not believe that incentive pay should start paying out at below median performance as this gives potential for reward for underperformance. Baillie Gifford encouraged the board to revise this condition to ensure that no vesting occurs below median performance.
Criteria on which the vote is considered "significant" (provided by the manager)	This resolution is significant because it received greater than 20% opposition.	This resolution is significant because Baillie Gifford opposed the remuneration policy.	This resolution is significant because Baillie Gifford opposed the remuneration policy.	This resolution is significant because Baillie Gifford opposed the remuneration policy.

LGIM All World Equity Index and LGIM All World Equity Index (GBP Hedged and Unhedged)

	Vote 1	Vote 2	Vote 3	Vote 4
Company name	Amazon.com, Inc.	Alphabet Inc.	Meta Platforms, Inc.	NVIDIA Corporation
Date of vote	25 May 2022	1 June 2022	25 May 2022	2 June 2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.71%	1.11%	0.73%	0.72%
Summary of the resolution	Elect Director Daniel P. Huttenlocher	Report on Physical Risks of Climate Change	Require Independent Board Chair	Elect Director Harvey C. Jones
How the manager voted	Against	For	For	Against
If the vote was against management, did the manager communicate their 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. They note it is their policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.			
Rationale for the voting decision	LGIM voted against the resolution as the director is a long-standing member of the Leadership Development & Compensation Committee, which is accountable for human capital management failings.	LGIM voted in favour of the resolution as LGIM expects companies to be taking sufficient action on the key issue of climate change.	A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.	LGIM voted against the resolution as they expect a company's board to be made up of least 25% women, with the expectation of this reaching a minimum of 30% by 2023. LGIM also expects the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
Outcome of the vote	Pass – 93.3% of shareholders supported the resolution.	Fail – 17.7% of shareholders supported the solution.	Fail – 16.7% of shareholders supported the resolution.	Pass - 83.8% of shareholders supported the resolution.

	Vote 1	Vote 2	Vote 3	Vote 4
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on these issues and monitor company and market-level progress.			
Criteria on which the vote is considered “significant” (provided by the manager)	LGIM pre-declared its vote intention for this resolution, demonstrating its significance.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM views diversity as a financially material issue for their clients, with implications for the assets they manage on their clients’ behalf.

Engagement data

The investment managers may engage with investee companies on behalf of the Trustee. The table below provides a summary of the engagement activities undertaken by each manager during the year for the relevant funds.

Engagement activities are limited for the Scheme's bespoke LDI held with LGIM and the HSBC Sterling Liquidity Fund due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

Manager	Baillie Gifford*		LGIM		Janus Henderson	TwentyFour	Partners Group*
Fund name	Multi Asset Growth Fund	All World Equity Index (GBP Hedged and Unhedged)	Absolute Return Bond Fund	LDI Portfolio	Multi Asset Credit Fund	Strategic Income Fund	Multi-Asset Credit VI
Number of engagements undertaken on behalf of the holdings in this fund in the year	29	668	133	n/a	56	170	5
Number of entities engaged on behalf of the holdings in this fund in the year	24	422	69	n/a	32	c.150	5
Number of engagements undertaken at a firm level in the year	1,255		1,088		c.680**	379	Not provided

Source: Baillie Gifford, LGIM, Janus Henderson, TwentyFour. Partners Group.

* Data is for the period 1 January to 31 December 2022.

** Data is for the period 1 January 2022 to 31 October 2022.

Examples of engagement activity undertaken over the year to 31 March 2023

Manager	Fund name(s)	Examples of engagements undertaken with holdings in the fund or at a firm level
Baillie Gifford	Multi Asset Growth Fund	<p>MP Materials Corporation: MP Materials Corporation is a company that engages in the ownership and operation of integrated rare earth mining and processing facilities. Baillie Gifford arranged a meeting with the company to find out more about the company's approach to sustainability as there is very little public environmental and social disclosure, with no disclosed commitments to improve.</p> <p>Given the materiality of certain environmental and social issues to the industry, Baillie Gifford were pleased to learn that the company is currently working on its inaugural sustainability report, supported by an external consultant, and following a sustainability consultation with some of the company's key stakeholders. Although early in its sustainability journey, they were left with the impression that there is a willingness for the company to learn, to improve existing sustainability credentials and use this as a means by which to extend competitive advantage.</p> <p>Following this engagement, Baillie Gifford updated their proprietary ESG materiality assessment of the company and identified a number of ESG milestones to monitor, which included the timely publication of a credible sustainability report. They were encouraged by the company's commitment to disclosure and transparency. The company has since published the sustainability report and Baillie Gifford were in further contact to encourage the company to include greater disclosure on their monitoring of scope 3 emissions, and to make explicit any ambitions for future emission reduction targets.</p>
		<p>CTP: CTP is a Dutch logistics and industrial real estate owner operating primarily in Central and Eastern Europe. Baillie Gifford had a meeting with the company to gain a deeper understanding of their environmental ambitions of the business, and to raise any areas for improvement.</p> <p>The meeting helped Baillie Gifford to clarify the main ESG priorities for the company in the coming year, climate targets and carbon neutrality. It was also a good chance for them to meet the new Head of ESG and to understand the governance set-up. As this function is relatively new to the business, Baillie Gifford look forward to seeing progress in this area and were happy share some learnings with the company. They will continue to monitor improvements in disclosures and track progress for the priority areas identified.</p>
		<p>BP: LGIM supports BP as part of the CA100+ initiative, and in their 2022 AGM they were able to support management's 'Net Zero – from ambition to action' report. Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also committed to a substantial decline in oil and gas production and announced an increase in capital</p>
LGIM	All World Equity Index Fund (GBP Hedged and Unhedged)	
	Bespoke LDI Portfolio	

Manager	Fund name(s)	Examples of engagements undertaken with holdings in the fund or at a firm level
	Absolute Return Bond Fund	<p>expenditure to low-carbon growth segments. LGIM still has some areas of concern and remains committed to continuing their constructive engagements with BP.</p> <p>Kansai Electric Power: Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of LGIM's minimum expectations on board composition. LGIM met with the company to discuss these areas in detail to better understand its approach to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan. Their meeting with the company was productive and they look forward to working with the management more closely on both governance and climate change, and gaining a deeper understanding of the reasons behind its decisions and actions.</p> <p>Toyota Motor Corporation: LGIM have engaged with Toyota to improve their corporate governance and sustainability practices. Throughout a number of engagements, LGIM expressed their concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.</p> <p>Given the company's size and influence as Japan's largest business federation and in industry associations, LGIM have always questioned the company's lobbying stance and its alignment with a 1.5°C world. LGIM were pleased to see improved transparency from the company as they published their views on climate public policy in December 2021. Nonetheless, they view corporate transparency to be the first step and they hope that this will enable them to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.</p> <p>LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.</p>
Janus Henderson	Multi Asset Credit Fund	<p>Volkswagen: Janus Henderson engaged with the company to gain further background on the issues relating to their labour conditions/human rights in the supply chain. Particularly, MSCI recently flagged the company as "fail" in one of the global compliance principles relating to the human rights. Janus Henderson were satisfied with the company's response and recognised the difficulty of disproving allegations, and they have made no changes to the company's ESG ratings for the time being. They will continue to monitor the situation and engage with MSCI to understand its methodology in greater detail.</p> <p>Altice France: Janus Henderson engaged with the company to highlight their view on the deterioration of the company's governance standards since their delisting in 2020. Janus Henderson voiced their concerns about the lack of independence of the Board which has no independent member and do not include audit committee. They discussed executive compensation and noted that financial targets looked vague, and the absence of sustainability-linked target. This engagement failed to convince them about Altice's commitment to improve governance standards. They intend to follow up on the governance shortcomings identified in terms of Board independence and executive remuneration framework.</p>

Manager	Fund name(s)	Examples of engagements undertaken with holdings in the fund or at a firm level
TwentyFour	Strategic Income Fund	<p>Heimstaden: TwentyFour conducted specific engagement projects relating to the carbon emissions with 5 companies over the year, including Heimstaden. Most of the companies that TwentyFour engaged with have showed good progress since their previous engagement, however Heimstaden (a Swedish residential real estate investor and manager) faced a setback in their progress to improve carbon emissions.</p> <p>This was due to the increase in coal usage across Europe as a result of the war in Ukraine, which led to a shutdown of Russian gas supplies. TwentyFour noted that this was outside their control, and therefore does not warrant a reduction in the firm's environmental score, however they felt the company could have done more to improve their carbon emissions and produce a demonstrable plan for such improvements. Despite this, TwentyFour believe the company are still worth supporting and are still investable.</p>
Partners Group	Multi-Asset Credit VI	<p>US Bank: In 2022, TwentyFour reached out to the US Bank who act as trustees and cash manager for the ABS transaction of the Ludgate Funding, which is a securitisation of UK mortgages originated before the global financial crisis, to understand their action of drawing down the reserve fund to pay the residual holders. The reserve fund is typically used to cover defaults or any shortfall in interest on the notes, but instead they have used this to pay the residual holders and this has consequently triggered a negative impact on the redemption of the mezzanine notes. TwentyFour wanted to ensure that every ABS transaction ensures fair treatment to all bondholders and this has always been a guiding principle in their due diligence of every ABS deal. As the issue was not resolved, TwentyFour downgraded the ESG score of the company and agreed to monitor this closely in the company's next quarterly report. As a result, the issue was resolved in December 2022.</p> <p>Envirotainer: In 2022 Partners Group engaged with the company on the inclusion of ESG terms on the new financing. The exact terms of the ESG margin ratchet are currently being agreed on.</p> <p>Fisher Funds: Partners Group have engaged on several occasions with the sponsor to discuss the refinancing of the capital structure of the company, which ultimately led to the decision to support the financing of the company.</p>