Northern Gas Networks Pension Scheme

Implementation Statement for year ending 31 March 2021

1) Overview

This document is the Annual Implementation Statement (the "statement") prepared by the Trustee of the Northern Gas Networks Pension Scheme (the "Scheme") covering the Scheme year from 1 April 2020 to 31 March 2021.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on manager engagement and voting as set out in the Statement of Investment Principles (the "SIP") have been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of a proxy voting services during the year.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets including but not limited to: investment managers, portfolio construction and risks.

The Statement applies to the Scheme's DB Section and AVC Investments.

The latest version of the SIP can be found online here: https://www.northerngasnetworks.co.uk/document-library/

2) Adherence to the Trustee's engagement and voting policies

The Trustee's policies on voting and engagement as stated in the SIP are provided in the below extract:

Investment manager engagement and monitoring: To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

The Trustee reviews the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Exercise of Voting Rights: The Trustee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Overall the Trustee believes the policies outlined in the SIP have been adhered to during the Scheme year.

The Trustee aims to meet with the Scheme's Investment Managers annually, and conducts a review of each investment on an annual basis to ensure that their investment approach is robust, long-term focussed, aligned with the Scheme's objectives and sustainability considerations are at least adequate.

An annual Sustainable Investment report is produced by the Investment Consultant, which further enables the Trustee to monitor and assess the Investment Managers' consideration of ESG factors and stewardship. At the November 2020 ISC meeting, the Investment Consultant presented the "Sustainable Investment Review". The report provided an overview of the sustainable investment practices of the Scheme's ongoing investment managers, LGIM and KFIM. Both asset managers were assessed against three key areas: ESG risk and opportunities integration, voting and corporate engagement using a traffic light system indicating strength, neutral performance or weakness in each area. It was concluded that the Scheme's managers demonstrated sound practice, with no immediate concerns for the Trustee.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment and look to establish an appropriate course of action dependent upon the remedial action taken.

3) Voting information

This section focusses on the equity investments of the Scheme, which have voting rights attached to the investments. The Scheme holds equities in the below equity fund managed by Legal and General:

LGIM All World Equity (GBP Hedged): The investment objective of the fund is to track the performance of the FTSE All-World Index (less withholding tax where applicable) to within +/- 0.5% per annum for two years out of three.

As set out in the SIP, the Trustee's policy is to delegate the exercising of rights (including voting and stewardship) and the integration of ESG considerations in day-to-day decisions to the Scheme's investment managers. This section sets out the voting activities of the Scheme's equity investment manager over the year, including details of the investment manager's use of proxy voting.

The Scheme's investment manager has its own voting policies which determine its approach to voting, and the principles they follow when voting on investors' behalf. The Scheme's investment manager also uses voting proxy advisors which aid in their decision-making when voting. Details are summarised in the table below:

Manager	Use or proxy advisor services:
LGIM	LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decision. LGIM use ISS recommendations to augment their own research. LGIM's internal investment stewardship team also use research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions. LGIM have a custom voting policy in place which includes specific voting instructions which apply to all markets globally. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit.

The below table sets out the voting activity of the Scheme's equity investment manager, on behalf of the Trustee, over the year:

Fund	**Voting activity as at 31 March 2021**
LGIM All World Equity Index Fund (GBP Currency Hedged)	Number of meetings at which the manager was eligible to vote: **6,779** Number of resolutions on which manager was eligible to vote: **70,672** Percentage of eligible votes cast: **99.85%** Percentage of votes with management: **83.25%** Percentage of votes against management: **15.96%** Percentage of votes abstained from: **0.79%** Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: **0.2%**

The following table outlines a number of significant votes cast by the Scheme's investment managers on the Trustee's behalf over the Scheme year. This information has been sourced directly from the Scheme's managers.

Most significant votes cast	Coverage
Company: Qantas Airways Limited Meeting Date: 23 October 2020 Resolution: Resolution 3 Approve participation of Alan Joyce in the Long-Term Incentive Plan Resolution 4 Approve Remuneration Report. How the manager voted: LGIM voted against resolution 3 and supported resolution 4. Rationale: The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as we wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. In collaboration with our Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express our concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. We supported the remuneration report (resolution 4) given the executive salary cuts, short-	LGIM All World Equity (GBP Hedged)

term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, our concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against resolution 3 to signal our concerns. Vote outcome: About 90% of shareholders supported resolution 3 and 91% supported resolution 4. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration, in our view.	
Company: Whitehaven Coal Meeting Date: 22 November 2020 Resolution: Resolution 6 Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. How the manager voted: LGIM voted for the resolution. Rationale: The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal – Japan, South Korea and China – have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets. Vote outcome: The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in 'significant environmental harm'. As the company is on LGIM's Future World Protection List of exclusions, many of our ESG-focused funds – and select exchange-traded funds – were not invested in the company.	LGIM All World Equity (GBP Hedged)
Company: International Consolidated Airlines Group Meeting Date: 7 September 2020 Resolution: Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020. How the manager voted: LGIM voted against the resolution. Rationale: The COVID-19 crisis and its consequences on international transport have negatively impacted this airline company's financial performance and business model. At the end of March 2020, LGIM addressed a private letter to the company to state our support during the pandemic. We also encouraged the board to demonstrate restraint and discretion with its executive remuneration. As a result of the crisis, the company took up support under various government schemes. The company also announced a 30% cut to its workforce. On the capital allocation front, the company decided to withdraw its dividend for 2020 and sought shareholder approval for a rights issue of €2.75 billion at its 2020 AGM in order to strengthen its balance sheet. The remuneration report for the financial year to 31 December 2019 was also submitted to a shareholder vote. We were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. We noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders). Over the past few years, we have been closely engaging with the company, including on the topic of the succession of the CEO and the board chair, who were long-tenured. This engagement took place privately in meetings with the board chair and the senior independent director. This eventually led to a success, as the appointment of a new CEO to replace the long-standing CEO was announced in	LGIM All World Equity (GBP Hedged)

January 2020. A new board chair: an independent non-executive director, was also recently appointed by the board. He will be starting his new role in January 2021. Vote outcome: 28.4% of shareholders opposed the remuneration report.	
Company: Lagardère Meeting Date: 5 May 2020 Resolution: Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments). How the manager voted: LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardère SB directors (resolutions B,C,E,F,G). Rationale: Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where we were able to speak to the proposed new SB Chair, and also Lagardère, where we spoke to the incumbent SB Chair. This allowed us to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management. Vote outcome: Even though shareholders did not give majority support to Amber's candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)	LGIM All World Equity (GBP Hedged)
Company: Imperial Brands plc Meeting Date: 3 February 2021 Resolution: Resolutions 2 and 3, respectively, Approve Remuneration Report and Approve Remuneration Policy. How the manager voted: LGIM voted against both resolutions. Rationale: The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. A higher base salary has a consequential ripple effect on short- and long-term incentives, as well as pension contributions. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association. An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Further, we would expect companies to adopt general best practice standards. Prior to the AGM, we engaged with the company outlining what our concerns over the remuneration structure were. We also indicated that we publish specific remuneration guidelines for UK-listed companies and keep remuneration consultants up to date with our thinking. Vote outcome: Resolution 2 (Approve Remuneration Report) received 40.26% votes against, and 59.73% votes of support. Resolution 3 (Approve Remuneration Policy) received 4.71% of votes against, and 95.28% support.	LGIM All World Equity (GBP Hedged)

Note: LGIM provided an extensive list of voting data, with the above significant votes providing an insight into the top 5 votes reported. Additional information of significant votes can be provided upon request.

4) Summary

The Trustee believes that the Scheme's engagement and voting policies, as outlined in the SIP, has been adhered to over the Scheme year.

Following monitoring of the Scheme's investment manager over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that Legal and General is acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis.