

# Northern Gas Networks Pension Scheme

## Implementation Statement for year ending 31 March 2023

### 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 2022 to 31 March 2023.

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. For example, the ISC met with LGIM and KFIM during the Scheme year and it was concluded that the Scheme's managers demonstrated sound practice, with no immediate concerns for the Trustee.

The Trustee reviews these managers on an ongoing basis via the Scheme's quarterly reporting which includes the investment advisor's views and ratings of each manager. Additionally, the Scheme receives updates from its investment advisor's manager research team with notable updates on managers and any changes of investment rating (which includes integration of sustainable investment/ESG characteristics within the rating). The current alignment of the investment managers with the Scheme's policies is satisfactory, however, the Trustee has continued to develop its approach to monitoring the fund managers, for example, in March 2022, the Trustee undertook a sustainable investment beliefs exercise to develop collective beliefs and ESG factors which will be integrated into the Scheme's review of investment managers.

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) Turnover

The Trustee's investment consultant monitors the investment managers' portfolio turnover and confirmed that over the Scheme year portfolio turnover was in line with expectations and therefore there were no particular concerns highlighted around inappropriate costs being incurred.

Information on portfolio turnover as provided by the investment managers is given below:

Note: Turnover is defined as the lesser of the value of purchases or the value of sales divided by average annual market value

Mandate	Manager	Expected long-term level of portfolio turnover pa	Fund Activity*	Commentary
All World Equity (GBP Hedged)**	LGIM	n/a	8.7%	The strategy looks to track a global equity index, hence turnover is pegged to the level of change within the underlying index.
Iris Low Volatility Plus T Feeder	CSAM	0-15%	0%	The turnover is zero as NGN only hold SR shares (illiquid investment/side pocket)
Long Income Property Unit Trust (LIPUT)	KFIM	0 – 15%	8.6%	In line with expectations
GIP UK Osiris Property Fund	CBRE	0 – 15%	Not provided	The fund is in wind up so isn't being managed on a going-concern basis.
LDI	LGIM	n/a	71.7%	The strategy looks to target a specified hedge ratio, hence turnover is linked to market conditions, availability of hedging instruments and any changes in the liability benchmark.

\* % turnover over the trailing 12 month period as at 31 March 2023

\*\*The Scheme disinvested from this fund during October 2022 therefore the turnover experienced will differ from that stated in the above table.

#### 4) Voting information

This section focusses on the equity investments of the Scheme, which have voting rights attached to the investments. The Scheme held equities in the below equity fund managed by Legal and General during the Scheme year, however the Scheme disinvested from this fund during October 2022. The significant votes information listed below is in relation to votes cast prior to the disinvestment date.

**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	<p>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.</p> <p>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.</p> <p>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.</p>

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 2023
LGIM All World Equity Index Fund (GBP Currency Hedged)	<p>Number of meetings at which the manager was eligible to vote: 6,728</p> <p>Number of resolutions on which manager was eligible to vote: 68,320</p> <p>Percentage of eligible votes cast: 99.9%</p> <p>Percentage of votes with management: 79.1%</p> <p>Percentage of votes against management: 19.7%</p> <p>Percentage of votes abstained from: 1.2%</p> <p>Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 10.4%</p>

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
<p>Company: Amazon.com, Inc.</p> <p>Meeting Date: 05 May 2022</p> <p>Resolution: Elect Director Daniel P. Huttenlocher</p> <p>How the manager voted: LGIM voted against this resolution</p> <p>Rationale: Human rights: A vote against is applied as the director is a long-standing member of the Leadership Development &amp; Compensation Committee which is accountable for human capital management failings.</p> <p>Vote outcome: 93.3%</p>	LGIM All World Equity (GBP Hedged)
<p>Company: Alphabet Inc.</p> <p>Meeting Date: 01 June 2022</p> <p>Resolution: Report on Physical Risks of Climate Change</p>	LGIM All World Equity (GBP Hedged)

<p>How the manager voted: LGIM voted for this resolution</p> <p>Rationale: Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p> <p>Vote outcome: 17.7%</p>	
<p>Company: Meta Platforms, Inc.</p> <p>Meeting Date: 25 May 2022</p> <p>Resolution: Require Independent Board Chair</p> <p>How the manager voted: LGIM voted for this resolution (against management recommendation)</p> <p>Rationale: Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.</p> <p>Vote outcome: 16.7%</p>	<p>LGIM All World Equity (GBP Hedged)</p>
<p>Company: NVIDIA Corporation</p> <p>Meeting Date: 02 June 2022</p> <p>Resolution: Elect Director Harvey C. Jones</p> <p>How the manager voted: LGIM voted against this resolution</p> <p>Rationale: Diversity: A vote against is applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. We are targeting the largest companies as we believe that these should demonstrate leadership on this critical issue. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.</p> <p>Vote outcome: 83.8%</p>	<p>LGIM All World Equity (GBP Hedged)</p>
<p>Company: Berkshire Hathaway Inc.</p> <p>Meeting Date: 30 April 2022</p> <p>Resolution: Elect Director Susan L. Decker</p> <p>How the manager voted: Withhold</p> <p>Rationale: Climate Change: A withhold vote is warranted for lead independent director Susan Decker as the company does not adequately disclose climate change-related risks and opportunities. Independence: A withhold vote is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.</p> <p>Vote outcome: 86.6%</p>	<p>LGIM All World Equity (GBP Hedged)</p>

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.

## 5) 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 managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that the investment managers are acting in the Scheme members' best interest and are effective stewards of the Scheme's assets.

Over the course of the year, the Trustee has paused further developing its investment strategy and approach to engagement and voting as it has been considering further buy-in activity that would involve switching the remainder of the Scheme's assets to an insurer.

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