Implementation Statement, covering the Scheme Year from 1 January 2022 to 31 December 2022

The Trustee of the Halcrow Pension Scheme (No.2) (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles ("SIP") during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-9 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 9 below.

In preparing the Statement, the Trustee has had regard to the guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions ("DWP's guidance") in June 2022.

This Statement is based on and uses the same headings as the Scheme's latest SIP, which was in place during the Scheme Year, dated November 2021. This Statement should be read in conjunction with the November 2021 SIP which, at the time of writing, can be found here: http://halcrow.com/wp-content/uploads/2021/12/2021.11-HPS2-Statement-of-Investment-Principles-November-2021.pdf.

1. Introduction

No review of the SIP was undertaken during the Scheme Year. The SIP was formally reviewed in March 2023 following the Scheme Year end, and the Trustees' stewardship priorities were documented (see section 8).

The Trustee has, in its opinion, followed all of the policies in the Scheme's SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

Further information about the Scheme's DC assets is set out in the annual Chair's statement, available here.

2. Investment objectives

Progress against the long-term funding journey plan is reviewed as part of the semi-annual performance monitoring reports provided by LCP, the Scheme's investment adviser. The Trustee is also able to view the progress on an ongoing basis using LCP Visualise online (a tool provided by the investment adviser which show key metrics and information on the Scheme including expected return and risks of the investment strategy).

As at 31 December 2022 the Scheme was not fully funded on a low dependency basis (please see Section 4.1 below) but is on track to achieve full funding on a low dependency basis by the end of 2026. In addition, the Trustee remains comfortable that the level of risk and expected returns remains appropriate.

The Scheme has a DC arrangement in respect of former Crouch Hogg Waterman ("CHW") Scheme members. This section provides a benefit based on the better of the member's Guaranteed Minimum Pension (GMP) and the accumulated value of the member's DC account – most members are expected to receive the GMP benefit. Members' DC accounts are invested in a with-profits type fund.

3. Investment strategy

The Trustee did not make any changes to the high-level DB investment strategy over the Scheme Year having last reviewed it in June 2021. However, the Trustee did review and decide to change the composition of the BlackRock LDI and bond portfolio during the Scheme Year, with changes implemented in the next Scheme Year.

The Trustee monitored on a quarterly basis the asset allocation versus the current strategic asset allocation. Over the year this led to two rebalances from the higher-risk Growth Portfolio to the lower-risk Matching Portfolio.

There were also several transfers from diversified growth to private credit, as the latter mandate called committed capital. This was effectively implementation of a strategic change the Trustee decided to make in the previous Scheme Year.

Disinvestments to meet the Scheme's cash flow requirements were taken from the BlackRock bond portfolio over the Scheme Year.

The Trustee reviewed the investment arrangements for the DC assets (former CHW members) and AVCs in June 2022. These reviews involved considering the investment performance of the funds, suitability of the range of funds and charges borne by members. No changes were made to the DC and AVC arrangements.

4. Considerations in setting the investment arrangements

The Trustee last formally reviewed its investment beliefs in November 2021 particularly around Environmental, Social and Governance ("ESG") issues. The Trustee concluded that their beliefs remained appropriate and did not make any changes.

The Trustee invests for the long term, to provide for the Scheme's members and beneficiaries. To achieve good outcomes for members and beneficiaries over this investment horizon, the Trustee therefore seeks to appoint managers whose stewardship[1] activities are aligned to the creation of long-term value and the management of long-run systemic risks.

The Scheme's investment adviser, LCP, monitors the investment managers on an ongoing basis, through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of regarding the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification in the fund.

The Trustee monitors the performance of the Scheme's investment managers on a quarterly basis, using a shorter monitoring report prepared by the investment adviser. The report shows the performance of each fund over the quarter, one year, three years, five years and ten years. Performance is considered in the context of the manager's benchmark and objectives. The Trustee also monitors its managers' responsible investment capabilities using scores provided by its investment adviser, on a semi-annual basis as part of the full monitoring reports.

4.1 Policy towards risk

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustee maintains a risk register and this is reviewed at quarterly meetings.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Scheme's investment adviser or information provided to the Trustee by the Scheme's investment managers. These include the risk of inadequate returns, credit risk, equity risk, currency risk, collateral adequacy risk and ESG (including climate) risks. The Trustee's implementation of its policy for these risks during the year is summarised below.

With regard to the risk of inadequate returns, as part of the investment strategy review in June 2021, the required return for the Scheme to be fully funded on a low dependency funding basis by 2026 was assessed as gilts + 0.6% pa. The best estimate expected return on the Scheme's strategic asset allocation was gilts + 1.3% pa. Therefore, the expected return on the Scheme's assets was expected to be sufficient to produce the return needed over the long-term.

The Scheme's interest and inflation hedging levels are monitored on an ongoing basis in the quarterly monitoring report. Over the Scheme Year the Scheme's hedging levels were broadly in line with the target levels. With regard to collateral adequacy risk, the Trustee holds 90% of its investments in the asset classes that it deems to be readily realisable and believes that the Scheme holds enough liquid assets to meet any potential capital call on its LDI assets. During the volatile market conditions in September 2022, the Scheme LDI portfolio remained adequately collateralised and the hedging was maintain throughout the period.

Together, the investment and non-investment risks give rise generally to funding risk. During the Scheme Year, the Trustee formally reviewed the Scheme's funding position as at 31 December 2021 as part of its annual actuarial report. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at both IRM (Integrated Risk Management) and Trustee meetings, and the Trustee has the ability to monitor this daily on LCP Visualise. In addition, the Trustee monitors the overall 1 year 95% Value at Risk of the funding position on a quarterly basis.

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[1] The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The following risks are covered later in this Statement: illiquidity/marketability risk in Section 5 and ESG risks in Section 6.

The quarterly reports reviewed during the year showed that all managers have produced performance broadly in line with expectations over the long-term.

5. Implementation of the investment arrangements

The Trustee appointed one new investment manager, Barings, over the Scheme Year. Before appointing the manager, the Trustee received information on the investment process and philosophy, the investment team and past performance. The Trustee also considered the manager's approach to responsible investment and stewardship. The Trustee obtained formal written advice from its investment adviser before investing in the fund and made sure the investment portfolio of the fund chosen was adequately and appropriately diversified. The Trustee relies on its investment adviser's research to understand managers' investment approaches, and ensure they are consistent with the Trustee's policies prior to any new appointment.

The Trustee evaluates manager performance over both shorter and longer periods, encourages managers to improve practices and considers alternative arrangements where managers are not meeting performance objectives. Section 8 provides more detail on the activities carried out over the year.

The Trustee carries out periodically a "value for members" assessment for the Scheme's DC and AVC arrangements, which assesses a range of factors, including the fees payable to managers. The last review was during the Scheme Year in June 2022. The Trustee concluded that the DC and AVC arrangements offer reasonable value particularly as for the DC benefits, almost all members are expected to receive a benefit based on their GMP, rather than the value of their DC account.

6. Realisation of investments

For the DB arrangements, the Trustee reviews the Scheme's net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

The Trustee makes regular disinvestments from the BlackRock LDI and bond portfolio which is transferred to the Trustee's bank account and used towards paying benefit payments and other Scheme expenses.

For the DC and AVC arrangements, it is the Trustee's preference to offer funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations, non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations).

In February 2022, the Trustee reviewed LCP's responsible investment (RI) scores for the Scheme's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2022.

The Trustee was satisfied with the results of the review and no further action was taken.

8. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. These policies are:

https://www.lgim.com/uk/en/capabilities/investment-stewardship/#policies-and-guides

https://www.bailliegifford.com/en/uk/about-us/philanthropy/our-approach-to-sponsorship/

However, the Trustee takes ownership of the Scheme's stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

Following the introduction of DWP's guidance, the Trustee received training on the DWP's guidance on stewardship and setting priorities in November 2022. It agreed to set stewardship priorities to focus engagement with the Scheme's investment managers on specific ESG factors. The Trustee discussed and agreed their stewardship priorities for the Scheme at the meeting in March 2023. The Trustees' agreed stewardship priorities are climate change and human rights, and the Scheme's investment managers have been informed of these priorities. The Trustee periodically invites the Scheme's investment managers to present at Trustee meetings. Over the Scheme Year, the Trustee met with BlackRock to discuss the Scheme's LDI and bond investments.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

9. Description of voting behaviour during the Scheme Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. However, the Trustee monitors managers' voting and engagement behaviour on an annual basis and challenges managers where their activity has not been in line with the Trustee's expectations. In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Scheme's funds that hold equities as follows:

- Baillie Gifford's Global Alpha Paris-Aligned Fund, UK Equity Alpha Fund and Diversified Growth Fund
- LGIM's Low Carbon Transition fund range: UK Equity Index Fund, North America Equity Index Fund, Europe ex UK Equity Index Fund, Japan Equity Index Fund, Asia Pacific ex Jap Equity Index Fund, Emerging Markets Equity Index Fund.

The Scheme has a DC arrangement managed by Aviva (formerly Friend's Life) in respect of former CHW members. We have omitted the DC arrangement from the voting behaviour section of the Statement on grounds of materiality – these assets are invested in a fund that is predominately invested in bonds and Aviva has not provided voting information.

M&G, Barings and BlackRock confirmed that they did not exercise any voting rights in the management of the Scheme's property, private credit and fixed income mandates respectively.

9.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

Baillie Gifford

All voting decisions are made by Baillie Gifford's Governance & Sustainability team in conjunction with investment managers. Baillie Gifford does not regularly engage with investors prior to submitting votes. If a vote is particularly contentious, Baillie Gifford may reach out to investors prior to voting to advise them of this.

Thoughtful voting of its clients' holdings is an integral part of Baillie Gifford's commitment to stewardship. Baillie Gifford believes that voting should be investment led, because how it votes is an important part of the long-term investment process, which is why its strong preference is to be given this responsibility by investors. Ballie Gifford also believes that the ability to vote clients' holdings strengthens its position when engaging with investee companies. Baillie Gifford's Governance and Sustainability team oversees its voting analysis and execution in conjunction with portfolio managers. Unlike many of its peers, Baillie Gifford does not outsource any part of the responsibility for voting to third-party suppliers. It utilises research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and it endeavours to vote every one of its investors' holdings in all markets. Baillie Gifford also has specialist proxy advisors in the Chinese and Indian markets to provide it with more nuanced market specific information.

LGIM

All decisions are made by LGIM's Investment Stewardship team and in accordance with its 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 helps to ensure LGIM's 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 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 its clients. LGIM's voting policies are reviewed annually and take into account feedback from its clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continues to develop its voting and engagement policies and defines strategic priorities in the years ahead. LGIM also takes into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

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 it does not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment its 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 it receives from ISS for UK companies when making specific voting decisions.

9.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the Scheme Year is provided in the table below.

Manager name	Baillie Gifford			LGIM – Low Carbon Transition (Overseas developed are GBP hedged)					
Fund name	Global Alpha Paris-Aligned Fund	UK Equity Alpha Fund	Diversified Growth Fund	UK Equity Index Fund	North America Equity Index Fund	Europe ex UK Equity Index Fund	Japan Equity Index Fund	Asia Pacific ex Jap Equity Index Fund	Emerging Markets Equity Index Fund
Total size of fund at end of reporting period	£273m	£670m	£2,962m	£239m	£31m	£32m	£17m	£13m	£256m
Value of Scheme assets at end of reporting period (£ / % of total assets)	£13.9m	£4.4m	£9.1m	£9.0m	£6.1m	£6.2m	£3.9m	£2.1m	£2.2m
Number of holdings at end of reporting period	87	45	52	87	559	389	319	147	1,297
Number of meetings eligible to vote	88	56	106	115	607	499	342	182	2,994
Number of resolutions eligible to vote	1,070	892	1,140	2,186	7,704	8,240	4,378	1,373	25,702
% of resolutions voted	100%	100%	96%	100%	99%	100%	100%	100%	100%
Of the resolutions on which voted, % voted with management	97%	99%	96%	95%	65%	82%	89%	71%	79%
Of the resolutions on which voted, % voted against management	2%	1%	3%	5%	35%	17%	11%	29%	19%
Of the resolutions on which voted, % abstained from voting	0%	0%	1%	0%	0%	0%	0%	0%	2%
Of the meetings in which the manager voted, % with at least one vote against management	19%	9%	22%	45%	98%	80%	72%	69%	58%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A (Baillie Gifford does not rely on proxy adviser recommendations)			4%	26%	10%	9%	18%	8%

Note: Voting numbers may not add to 100%.

9.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the Scheme Year, from the Scheme's asset managers who hold listed equities, is set out below.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to mean those that align with the Trustee's stewardship priorities. The Trustee has reported on one of these significant votes per manager only as the most significant votes. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee.

Ballie Gifford – Global Alpha Paris Aligned Fund

- **Tesla, 4 August 2022.**
- **Relevant stewardship priority: Climate Change**
- **Vote cast:** Against resolution
- **Outcome of the vote**: Not passed
- **Management recommendation:** Against resolution
- **Summary of resolution:** Shareholder resolution requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement.
- **Rationale for the voting decision:** Given Tesla's core mission is to accelerate the world's transition to sustainable energy and its entire business strategy is in alignment with the Paris Agreement, we believe additional disclosures would be a burdensome with no real benefit to shareholders.
- **Approximate size of the Scheme's/ mandate's holding at the date of the vote:** 1% of fund
- **The reason the Trustee considered this vote to be "most significant":** relates to a Trustee's stewardship priority (as agreed in March 2023)
- **Outcome and next steps**: The vote in line with Baillie Gifford's and Tesla's management vote and so the report will not be produced.

LGIM – Low Carbon Transition UK Equity Index Fund

- **BP plc, 12 May 2022**
- **Relevant stewardship priority: Climate Change**
- **Vote cast:** For resolution
- **Outcome of the vote**: Passed
- **Management recommendation:** For resolution
- **Summary of resolution:** Approve Net Zero - From Ambition to Action Report
- **Rationale for the voting decision:** LGIM voted for the resolution, though not without reservations. While LGIM notes the inherent challenges in the decarbonization efforts of the Oil & Gas sector, it expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. It is LGIM's view that the company has taken significant steps to progress

towards a net zero pathway, as demonstrated by its most recent strategic update where key outstanding elements were strengthened. Nevertheless, LGIM remains committed to continuing our constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambition and approach to exploration.

- **Approximate size of the Scheme's/ mandate's holding at the date of the vote:** 1% of fund
- **The reason the Trustee considered this vote to be "most significant":** relates to a Trustee's stewardship priority (as agreed in March 2023)
- **Outcome and next steps**: LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.

LGIM – Low Carbon Transition North America Equity Index Fund

- **Amazon.com Inc, 25 May 2022**
- **Relevant stewardship priority: Human Rights**
- **Vote cast:** Against resolution
- **Outcome of the vote**: Passed
- **Management recommendation:** For resolution
- **Summary of resolution:** Elect Director Daniel P. Huttenlocher
- **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.
- **Approximate size of the Scheme's/ mandate's holding at the date of the vote:** 3% of fund
- **The reason the Trustee considered this vote to be "most significant":** relates to a Trustee's stewardship priority (as agreed in March 2023)
- **Outcome and next steps**: LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.

9.4 Votes in relation to assets other than listed equity

The following comments were provided by the Scheme's asset managers who do not hold listed equities. Whilst the M&G fund, Barings fund and BlackRock portfolio held by the Scheme have no voting rights, the managers provided details on their engagement activities which we have included below.

M&G

M&G pro-actively engages with the occupiers in its buildings on ESG issues and partakes in property specific ESG monitoring (such as the annual GRESB process) and if it has any specific concerns it wanted to raise regarding ESG, it would engage directly with the tenants. For example, M&G engages with its tenants to request the sharing of energy performance data on an annual basis. Where data is made available (i.e. environmental performance) this is measured on an absolute, like-for-like and intensity basis by M&G's third party consultants Evora.

In addition to the above, M&G regularly meets with the SPIF's tenants and occupiers to understand their particular approaches to ESG issues. For example, SPIF is actively allowing licences for asset improvements such as solar panels on some of its supermarkets and electric car charging points across SPIF's Tesco assets. The Fund also engages with tenants to ensure that new developments it is funding are rated BREEAM 'Excellent' or 'Very Good'. These metrics and initiatives are specific to property assets.

BlackRock

BlackRock's engagement is guided by the BlackRock Investment Stewardship (BIS) team's policies – which are comprised of the Global Principles, regional voting guidelines, and engagement priorities. BIS holds year round dialogue with companies and takes a constructive, long-term approach to our engagement with companies, focusing on the drivers of risk and financial value creation in their business models. Engagement is core to its stewardship efforts as it provides BlackRock with the opportunity to improve its understanding of a company's business model and the risks and opportunities that are material to how they create financial value, including business relevant sustainability-related risks and opportunities. Engagement may also inform its voting decisions for those clients who have given it authority to vote on their behalf.

Engagement consists of constructive, on-going discussions with company boards and management. These conversations extend beyond proxy season and form the bedrock of open communication, better understanding, and clarity that are essential to making informed decisions on its clients' behalf.

BIS counts only direct interaction as an engagement. It also write letters to raise companies' awareness of changes in policy or thematic issues on which it is focused, but this outreach is considered distinct from engagement as it is difficult to monitor the effectiveness of letter writing without direct interaction.

When authorized to do so by its clients, BlackRock votes to formally communicate its support for or concerns about how companies are serving the financial interests of its clients as long-term investors. The vast majority of matters that BlackRock vote on are routine and BlackRock generally support management. When BlackRock determine it is in its clients' financial interests to signal concern to companies through voting, BlackRock do so in two forms:

1. It might not support the election of directors or other management proposals; or

2. It might support a shareholder proposal. Not supporting the election of directors is the voting signal of concern BIS most frequently employs since it is a globally available mechanism.

Barings

Barings acts as stewards of our clients' capital through four main mechanisms:

- Our robust investment process, where ESG information is integrated into our analysis;

- Our engagement with companies, issuers, policymakers and industry bodies in support of sustainable practices, improved transparency and a durable financial system;

- Our influence and control over certain assets in which we invest; and

- Our voting activities, where this is possible.

Barings aims to magnify our stewardship efforts by ensuring that our voting and engagement activities both support sustainable practices.