

Mencap Pension Trustee Limited Implementation Statement



31 March 2022

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1. Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure Amendment) Regulations 2019.

These regulations introduced new requirements for pension schemes, setting out the policies they need to include in the Statement of Investment Principles (SIP), which is the document that governs the way the Plan's assets are invested. The expanded legislation required the SIP to include the Trustee's policies on how it takes account of Environmental, Social and Corporate Governance (ESG) considerations when setting investment strategy, and how it exercises voting rights, and undertakes engagement activities with, those they invest in.

ESG criteria are a set of non-financial indicators relating to a company's operations that are used by investors to evaluate corporate behaviour and to determine how it may influence the future financial performance of companies. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

In addition, the regulations introduced a requirement for Trustees to produce a statement setting out (amongst other things) how the Trustee has followed the SIP over the year, and in particular how it was implemented its policies on the exercise of voting rights attaching to its investments and engagement activities. This document, referred to as the Implementation Statement, provides information on how, and the extent to which, Mencap Pension Trustee Limited (the "Trustee"), acting as trustee of the Mencap Pension Plan (the "Plan"), have followed good stewardship practices during the 12 months to 31 March 2022.

The Plan has both a Defined Benefit (DB) and Defined Contribution (DC) section within it and the asset values as at 31 March 2022 were £148.5 and £42.9 respectively.

2. Defined Benefit (DB) Section

Introduction

This statement provides information on how, and the extent to which, Mencap Pension Trustee Limited (the “Trustee”), acting as trustee of the Mencap Pension Plan (the “Plan”), have followed good stewardship practices during the 12 months to 31 March 2022. This is in accordance with requirements established by the Shareholder Rights Directive (SRD II), as it applies to occupational pension schemes. SRD II aims to promote effective stewardship and long-term investment decision-making.

The Trustee recognises its responsibilities as an owner of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to their fiduciary manager and asset managers the exercise of rights attaching to investments (including voting rights), and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and environmental, social and governance (ESG) considerations.

ESG criteria are a set of non-financial indicators relating to a company’s operations that are used by investors to evaluate corporate behaviour and to determine how it may impact the future financial performance of companies. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls, and shareholder rights.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. The Trustee expects the fiduciary manager, Kempen Capital Management (Kempen) to exercise ownership rights where applicable and undertake monitoring and engagement in line with its own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code 2018 and the UK Stewardship Code 2020.

The fiduciary manager expects the underlying asset managers it selects, who are regulated in the UK, to comply with the UK Stewardship Code 2020, including public disclosure of compliance via an external website. For an asset manager to be appointed by Kempen, on behalf of the Trustee, they must also take into consideration Kempen’s Responsible Investment and Exclusions policy which can be found here -

<https://www.kempen.com/en/asset-management/esg>

The Trustee is conscious that some asset managers may not be able to provide voting records for all investment held within certain pooled structures.

Governance

The Trustee meets formally every quarter (and more often if required) to consider the progression of the funding position and investment performance. This will include a review of the performance of the assets relative to objectives and underlying risks, the economic outlook, and the manner in which the assets are invested. To aid this review, the Trustee will primarily rely on reports and advice received from Kempen.

Review of SIP

The Trustee reviews the SIP after consultation with their professional advisers at least every three years, and in response to any significant change in professional advisors or investment policy. The SIP was last updated on 1 September 2022.

Adherence to the SIP

The Trustee will monitor compliance with the SIP annually. In particular, they will obtain confirmation from Kempen that they have complied with the SIP insofar as is reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of the Occupational Pension Plan (Investment) Regulations 2005.

The Trustee is of the opinion that their investment objectives set out in their SIP have been followed during the year ending 31 March 2021. In particular:

- The Trustee has received reports from Kempen that set out;
 - How Kempen has engaged with asset managers on behalf of the Trustee
 - Kempen's engagement priorities on responsible investing
- The number of companies and managers engaged
The Trustee has considered Kempen's voting practices and stewardship policies, noting that they are a signatory to the UN Principles for Responsible Investment.
- The Trustee has a process in place to review Kempen's performance against objectives.

In light of the above, the Trustee has considered their investment objectives concerning voting and stewardship and concluded that:

- Kempen's voting and stewardship policies and implementation remain aligned with the Trustee's views on these matters.
- The current investment objectives are appropriate, and no further action is required.

3. Kempen's engagement behaviour

The Trustee, via Kempen, encourages the asset managers used by the Plan to actively engage with the companies in which they invest. This engagement is on a number of different topics including but not limited to remuneration policy, corporate governance, transparency, and other ESG topics such as working conditions and climate change. These engagement activities are carried out by each underlying asset manager in accordance with their own responsible investing (RI) policy, while the Trustee also expect Kempen to engage with those asset managers on behalf of the Trustee.

Kempen's engagement with asset managers on behalf of the Trustee is a continuous process. 100% of the Plan's investment assets managed by Kempen are held in pooled funds or cash. Whilst Kempen has limited influence over the asset managers' investment practices where assets are held in pooled funds, they do however encourage their chosen managers to improve their practices and consider ESG factors and their associated risks.

Kempen uses the following methodology to engage with asset managers.

- ESG criteria is assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
- All managers are screened against ESG criteria before inclusion in the Kempen's approved manager list. For example: does the manager have a responsible investment policy; is the manager open for a dialogue on ESG criteria, and does the manager have exposure to companies that are on Kempen's exclusion & avoidance list?
- All managers are reviewed against ESG criteria on an ongoing basis. For example, are responsible investing considerations continue to be integrated into their investment process; is the manager making progress; is the manager well informed and up-to-speed of ESG criteria and initiatives; and periodic screening of all the underlying equity and debt securities held by managers within their investment products, to check for exclusion candidates.
- Kempen encourages its chosen managers to improve their practices where appropriate

The Trustee, via Kempen, is also involved in various collective engagement initiatives working collaboratively with peer investors and other stakeholder organisations to amplify their combined impact

Key highlights for 2021

Three themes were introduced in 2021 through which Kempen believe they can make an impact:

- Climate and biodiversity: helping our environment to recover faster by contributing to energy transition and biodiversity;

- Smart and circular economy: helping stakeholders and companies contribute to a smart, circular and inclusive economy;
- Living better for longer: helping our clients and society to live longer and in better health.

During 2021, they increased their focus on climate change and started to incorporate biodiversity into their decision making process.

Climate Change

Kempen significantly strengthened its Climate Change Policy in 2021, with commitment, ambition and objectives aligned with the Paris Agreement goals.

- **Commitment 2050:** As a long-term investor, Kempen are committed to aligning with the Paris Agreement goals and contributing to the transition to a low carbon economy by 2050. Kempen commits to have net-zero emission investments by 2050.
- **Ambition 2030:** By 2030 Kempen aims to be aligned with a path to achieving the Paris Agreement for all listed and non-listed investments.
- **Objective 2025:** By 2025, Kempen aims to be aligned with a path to achieving the Paris Agreement goals for all listed investments.

The objectives for 2025 applies to all external managers on Kempen's approved list as well as funds managed by Kempen.

Biodiversity

According to the UN, biodiversity loss is accelerating and threatens to make around one million animal and plant species extinct. Yet biodiversity is a crucial defence in tackling the wider environmental crisis, due to the high potential of carbon dioxide removal by our natural capital. The UK Dasgupta Report in February 2021 pointed out that *"balance sheets should not just include what a government or business can gain by exploiting nature. They should also include what they will lose."* Correspondingly, as responsible and sustainable investors, Kempen have taken steps this year to integrate the biodiversity challenges into their decision-making.

In 2021 Kempen published a Biodiversity Policy, where they have highlighted 'natural capital' and recognised that they must reduce the possible negative impacts of their investments on nature. They are also working with partners, including joining the [Partnership for Biodiversity Accounting Financials \(PBAF\)](#) and signing the [Finance for Biodiversity Pledge](#), committing to set concrete targets by 2024.

Kempen's engagement activity

Kempen engage with external managers including fixed income and equity managers, hedge funds, and private equity managers on their ESG commitments and performance. In 2021, Kempen proactively engaged with 72 managers which can be

broken down to 47 listed external managers, 10 non-listed managers, and 15 managers for alternative strategies.

External managers – general (the Plan’s specific managers are noted below)

In recent years, Kempen has been developing a new framework for assessing stewardship and ESG, which culminated in the introduction of their Sustainability Spectrum in 2020. It is used to determine a sustainability score for investee companies and a range of different financial products (e.g., externally managed funds). This helps to define whether the product or service is one that aims only to ‘avoid harm’ (a score of 3 – which is now a requirement for all external products) or whether it is more ambitious in its sustainability goals.

The five levels of the Sustainability spectrum are:



External managers – specific to the Plan

The Plan’s holdings are invested in pooled funds with Insight Investment, JPM Asset Management and M&G Investments. The underlying holdings of these asset managers were not in listed equities – instead the Plan has invested in bonds, infrastructure and property. We outline in the next section of this report the activities in respect of these managers, insofar as it is relevant to SRD II.

4. Manager voting and engagement behaviour – DB Section

The Shareholder Rights Directive (SRD II) and The UK Stewardship Code 2020 both emphasise the importance of institutional investors and asset managers' engaging with the companies in which they invest and stress the importance of exercising shareholder voting rights effectively.

The Trustee encourage all their asset managers to be engaged investors, and furthermore encourage the managers to report on these activities and to disclose information about Responsible Investing on their website and in their client reports.

The intention of this section of the Statement is to provide specific details of the voting and engagement behaviour including examples of some significant votes of the Plan's underlying asset managers, by fund.

The Plan is not a shareholder in listed equity instruments, either directly or indirectly via pooled investments. There is therefore no voting behaviour to report. However, the Scheme has an allocation to fixed income funds via Insight Investment (Insight), infrastructure via JPM Asset Management and property via M&G Investments; during the year these managers were involved in various engagement activities on behalf of their fund investors.

Insight Investments LDI

Insight is a corporate bond asset manager used by the Scheme, via investments in their Buy And Maintain Credit Funds (Kempen ESG score of 3; Responsible). Kempen has reported to the Trustee that Insight participates in a range of associations and collaborative initiatives, including as a founding signatory to the UN-supported Principles for Responsible Investment (PRI), as well as the UK Stewardship code.

During 2021, Insight's solution working group focused on publishing prime ESG risk ratings of clients derivative counterparties in their investment report, sharing engagement statistics and case studies for pension schemes' implementation statements as well as continuing to develop and document processes for responsible investment integration within liability risk management strategies. They have also engaged with the UK DMO and Treasury, and other government issuers where possible, on green bond issuance.

In April 2021 Insight became a signatory of the Net Zero Asset Manages initiative, where they committed to reach net zero emissions by 2050 at the latest. Insight are committed to developing bespoke strategies to engage with the highest emitters within their portfolios on issues such as coal exposure and carbon intensity performance.

Insight continued to avoid tobacco companies within their strategic credit portfolios, while they also continued a range of long-term engagements with different companies on behalf of their fixed income investors. Overall, there were 1,066 instances of



engagement over 2021, of which 82% included some form of ESG dialogue. This included companies from 69 countries, including 37 from emerging markets. 31% of the meetings were with Insight exclusively and 61% of the meetings included the company's board or senior management.

M&G UK Property fund

This specialist residential property strategy targets the acquisition of standing investments and the funding of new developments. As an established investor investing in the residential sector, M&G partners with market-leading developers and housebuilders to create high-quality assets. M&G are UN PRI signatories, and have a variety of ESG policies, including on climate change.

M&G is willing to act collectively with other UK and overseas investors where it is in the interest of their clients to do so, and they are therefore supportive of collaborative engagements. As a result, M&G's Stewardship & Sustainability team took part in numerous events related to responsible investment over 2021. They are also aware that it is important to stay engaged with the market, and they are therefore members of several industry working groups and committees.

Case study: Rehearsal Rooms, North Acton, London

Rehearsal Rooms is a forward-funded development which comprises of 173 one, two and three bedroom apartments, built to sustainable construction standards. The asset is located close to North Acton, a zone 2 London underground station and features amenities such as a residents lounge, communal play deck, a roof terrace with allotment gardens and an electric car sharing scheme. Customers are offered a range of social events, from monthly breakfasts, to televised sports events and rooftop yoga classes, helping to promote health and wellbeing and community spirit.

JP Morgan Investment Management (Infrastructure)

JP Morgan's stewardship activities are based on proprietary environmental, social and governance (ESG) research by its investment desks and Sustainable Investing Team. Its investment stewardship specialists play a key role in ensuring consistent, high quality dialogue with the companies in which it invests, and they guide voting decisions in collaboration with portfolio managers and sector or credit analysts.

Through 2021, JP Morgan's infrastructure term acquired a number of businesses in the renewable energy space and across business where JPM already has a strong footprint. Notably, they entered into an agreement to acquire Falck SpA, a leading renewable energy platform of scale in Europe and the U.S. Linked to this they acquired a 49% stake in Bodium, a U.K. 273 MW onshore wind portfolio from CIP. The other 51% stake is held by Falck. The fund also entered into an agreement to acquire GETEC, a leading pan European district energy provider and industrial energy service contracting specialist. Through all these transactions, along with the existing portfolio, renewables are becoming a more prominent part of the portfolio.

5. DC Section

Introduction

The Trustee has overall responsibility for how the Plan's investments are governed and managed in accordance with the Plan's Trust Deed and Rules, as well as Trust Law, Pensions law and Pension Regulations.

The Plan uses standard pooled funds offered by Aegon UK and the underlying managers.

Based on the final order of the Competition and Markets Authority (CMA) the Trustee has set a number of objectives for Hymans Robertson, their DC investment consultant, which are monitored annually. These are:

- Optimise value of retirement benefits for members based on level of contributions and DC regulatory and market constraints
- Provide means for members to protect value of members' benefits in the years approaching their selected retirement age against significant market falls (and against their expected retirement patterns) to protect their income in retirement
- Offer a range of investments so that members can select to best match their own personal objectives
- Ensure cost efficient implementation of the Plan's investment strategy and of any changes to investment strategy
- Delivery of the Plan's investment objectives is supported by an effective governance framework
- Comply with relevant pensions regulation, legislation and supporting guidance
- Ensure the funds are meeting their investment objectives
- Implementation of strategic fund changes is carried out effectively
- Ensure the Platform Provider is appropriate for the Plan

In 2020, the Trustee developed investment beliefs in relation to ESG issues, which they use as a guide when making investment decisions. The next review is at the end of 2022.

Governance

The Trustee monitors the investment performance of each of the funds on a quarterly basis. This will include a review of the performance of the assets relative to objectives and underlying risks, the economic outlook, and the manner in which the assets are invested. To aid this review, the Trustee will primarily rely on reports and advice received from the Aegon, the individual managers and Hymans Robertson.

The Trustee is satisfied that during the last year:

- The Plan's DC governance structure was appropriate;
- The Trustee has maintained their understanding of investment matters through the training outlined above and on the job training; and
- Their investment advisers met the agreed objectives.

Review of SIP

The Trustee reviews the SIP after consultation with their professional advisers at least every three years, and in response to any significant change in professional advisors or investment policy. The SIP was last updated on 1 September 2022.

There were no changes made to the SIP during the year.

Adherence to the SIP

The Trustee will monitor compliance with the SIP annually. In particular, they will obtain confirmation from the underlying managers via Aegon that they have complied with the SIP insofar as is reasonably practicable and that in exercising any discretion they have done so in accordance with Section 4 of the Occupational Pension Plan (Investment) Regulations 2005.

The Trustee is of the opinion that their investment objectives set out in their SIP have been followed during the year ending 31 March 2022. In particular:

- The Trustee last carried out an in-depth three-yearly review of the default arrangement and other investment options in March 2020 to ensure they remain suitable for most members. The next in-depth review will be completed by end of 2022. The objectives and rationale are set out in the SIP for the default arrangement and for the other investment options. Although the Trustee did not carry out a review of the investment options available to members, the Trustee reviews the performance of all of the funds and reviews any changes in the membership on a quarterly basis. The Trustee is satisfied that the default arrangement and other investment options remain suitable for most members because:
 - There have been no material changes to the demographic of the membership;
 - The default arrangement continues to perform ahead of target; and
 - Members looking to self-select are given a good selection of funds with differing risk and return profiles to choose from.
- The Trustee is satisfied that the main investment risks members' face are described in the SIP. The Trustee is satisfied that the expected rates of investment return for the types of funds described in the SIP are reasonable relative to the risks that members face.

- The Trustee monitors the funds used by the DC section of the Plan by:
 - Receiving six monthly investment monitoring reports from their investment consultant which reviews performance of the default arrangement and self-select options and reviews the value for money based on the fund charges;
 - Reviewing reports received from Aegon and the individual managers on a quarterly basis and
 - Inviting the Plan's managers to Trustee meetings in order to raise any questions about performance and to hear about any changes to the funds.
- It is important that contributions can be invested promptly in the default arrangement or the investment options that have been chosen and that investments can be sold promptly when members want to change where they are invested, transfer their pension pot to another Plan or benefits are due to be paid out when they retire. As set out in the SIP, the Trustee is satisfied that money can be invested and taken out of the Plan's funds without delay.

In addition to the normal investment risks faced investing in the funds used by the Plan, the security of your savings in the Plan depend upon:

- The financial strength of the investment platform provider used by the Plan;
- The financial strength of the fund managers used by the investment platform; and
- The legal structure of the funds the Plan invests in.

The Trustee is not aware of any material changes in the financial strength of the investment platform provider, or the fund managers used by the platform in the last year.

- As described in the SIP, the Trustee considers potential conflicts of interest:
 - When choosing fund managers;
 - When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
 - When the fund manager is making decisions on where each fund is invested.

The Trustee is satisfied that there have been no material conflicts of interest during the year, which might affect members' benefit expectations.

- As described in the SIP, the Trustee seeks transparency of all costs and charges borne by members and when selecting new funds, will consider manager remuneration strategies.

- Over the year to end March 2022, the Trustee has met with one of the Plan's main investment managers, BlackRock who presented on ESG issues and has received ESG training.
- The Trustee recognises that some members will have strong views on where their pension savings should be invested. The Plan offers members a choice of funds which:
 - Have a sustainable tilt (e.g., the Schroders Sustainable Global Multi Factor Equity Fund) ;
 - Have different risk profiles; and
 - Give members an ethical option (e.g., LGIM Ethical Global Equity Fund).

Nevertheless, the Trustee recognises that it is not possible to cater for everyone's views on non-financial/ethical matters. The Trustee is satisfied that the Plan offers suitable ethical investment options for members in accordance with the SIP.

- The platform provider has not been able to provide portfolio turnover costs to be added to this statement. The Trustee is liaising with them to obtain portfolio turnover for future reports.

6. Voting and engagement – DC Section

The Trustee encourages all their asset managers to be engaged investors, and furthermore encourage the managers to report on these activities and to disclose information about Responsible Investing on their website and in their client reports.

The intention of this section of the Statement is to provide specific details of the voting and engagement behaviour including examples of some significant votes of the Plan's underlying asset managers, where it takes place. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest.

Within the portfolio, the two blended Funds used by the Plan, Mencap Diversified Growth Fund and the Global Equity Fund are the only ones with voting rights. All the other Funds are fixed income focused funds, which invest in securities without voting rights attached to them.

The Trustee is conscious that some asset managers may not be able to provide voting records for all investment held within certain pooled structures.

Funds where voting rights are available are set out below:

Funds	If Blend
Mencap Global Equity	Aegon BlackRock MSCI Currency Hedged World Index (BLK)
	Aegon Schroder Sustainable Multi-Factor Equity (BLK)
Mencap Diversified Growth	Aegon BlackRock Diversified Growth (BLK) Class O,
	Aegon Schrodgers Sustainable Future Multi-Asset (BLK) Class O *(previously called Dynamic Multi Asset (BLK) Class O)
Mencap Ethical Global Equity	Legal & General Ethical Global Equity Index Fund

* On 1 April 2022, post financial year end, the Schrodgers Dynamic Multi-Asset Fund changed its name to the Schrodgers Sustainable Future Multi-Asset Fund

Voting statistics of these funds are set out below:

	Aegon BlackRock MSCI Currency Hedged World Index (BLK)	Aegon Schroder Sustainable Multi-Factor Equity (BLK)	Aegon BlackRock Diversified Growth (BLK) Class O	Aegon Schroders Sustainable Future Multi Asset (BLK) Class O	L&G Ethical Global Equity Index Fund
Number of meetings eligible to vote at	958	338	930	8	1,123
Number of resolutions eligible to vote on	13,045	4,350	11,809	54	15,785
Number of resolutions voted on	99%	94%	100%	98%	99%
Number of resolutions voted with management	91%	87%	93%	100%	83%
Number of resolutions voted against management:	8%	10%	6%	0	16%
Number of resolutions abstained from voting	0%	1%	1%	0	1%

How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision-making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
BlackRock	BlackRock uses ISS for vote instructions, and they also use proxy research firms for custom recommendations.
Schroders	Schroders utilise company engagement, internal research, investor views, governance expertise and external research (from ISS and IVIS) when considering voting decisions. Schroders make use of a third party proxy voting service
Legal & General	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM who do not outsource any part of the strategic decisions. To ensure proxy provider votes in accordance with L&G's position on ESG, it has put in place a custom voting policy with specific voting instructions.

An example of one most significant vote for each fund is set out below (information on other such votes is available):

Fund Name	Company	Date of vote	Summary of Resolution	How you voted	Rational	Outcome
Aegon BlackRock MSCI Currency Hedged World Index (BLK)	Canadian Pacific Railway Limited	21 April 2021	Hold an annual non-binding advisor vote on climate change	For	We are supportive of the company's efforts to date with respect to this material climate issue and believe that voting in favor may accelerate the company's progress.	Pass
Aegon Schroder Sustainable Multi-Factor Equity (BLK)	Costco Wholesale Corporation	20 January 2022	Report on GHG emissions reduction targets	For (management voted against)	The company is asked to adopt science-based greenhouse gas emissions reduction targets for emissions from its full value chain. We are eager to see the company develop its strategies and targets relating to emissions reductions and are concerned about the risks associated with delayed action on climate change. We therefore support the resolution.	Pass
Aegon BlackRock Diversified Growth (BLK) Class O,	BP PLC	21 May 2021	Approve Shareholder Resolution on Climate Change Targets	For	We recognize the company's efforts to date but believe that supporting the proposal may accelerate the company's progress on climate risk management and/or oversight.	Fail
Aegon Schroders Sustainable Future Multi Asset (previously called Dynamic Multi Asset (BLK) Class O)	iShares II Public Limited Company	16 April 2021	Re-elect Deirdre Somers as Director	For	Nominee sits on a number of external boards which may impact their role.	Pass
L&G Ethical Global Equity Index Fund	Intel Corporation	13 May 2021	Report on global median gender/racial pay gap	For (management recommend against)	LGIM views gender diversity as a financially material issue for its clients with implications for the assets they manage on behalf of its clients.	Fail (as only 14.3% voted for this)