Allegion UK Pension Plan

Annual Implementation Statement – Scheme year ending 5 April 2021

Table of Contents

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Allegion UK Pension Plan (“the Plan”) covering the scheme year (“the year”) to 5 April 2021.

The purpose of this statement is to:

- Set out how, and the extent to which, in the opinion of the Trustees, the Plan’s engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year;
- Describe the voting behaviour by, or on behalf of, the Trustees (including the most significant votes cast by Trustees or on their behalf) during the year and state any use of services of a proxy voter during that year.

The Plan makes use of a wide range of investments; therefore, the principles and policies in the Plan’s Statement of Investment Principles (“SIP”) are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some responsibilities. In particular, the Trustees have appointed a Fiduciary Manager, Towers Watson Limited, to manage the Plan’s assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustees. So far as is practicable, the Fiduciary Manager considers the policies and principles set out in the Trustees’ SIP.

A copy of this implementation statement has been made available on the following website: https://www.allegion.co.uk/en/contactus/pensions.html

2. Voting and engagement

Updates to Trustees’ stewardship policies:

The Trustees updated their stewardship policies over the year, as stated in the Plan’s SIP, for example:

- *“For most of the Plan’s investments, the Trustees expect the Fiduciary Manager to appoint managers with a medium to long time horizon, consistent with the Plan. In particular areas such as equity and credit, the Trustees expect the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustees note that the Fiduciary Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustees expect that the appropriateness of the Plan’s allocation to such mandates is determined in the context of the Plan’s overall objectives.”*
- *“The Trustees expect the Fiduciary Manager to assess the alignment of each investment managers’ approach to sustainable investment (including engagement) with its own before making an investment on the Plan’s behalf. In addition, the Trustees expect the Fiduciary Manager to engage with the Plan’s investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, stakeholders and ESG impact of underlying holdings. In addition, the Trustees expect the Fiduciary Manager to review the investment managers’ approach to sustainable investment (including engagement) on a periodic basis and engage with the investment manager to encourage further alignment as appropriate.”*

The Trustees’ policies and processes as described in the SIP have impacted the Plan’s investments in numerous ways. Examples of this are outlined in the section below.

The Trustees' overall approach:

As set out in the Plan's SIP, the Trustees have delegated responsibility to the Fiduciary Manager to implement the Trustees' agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act.

In particular, the Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager, and in turn to the Plan's investment managers. The day-to-day integration of Environmental, Social and Governance ("ESG") considerations and stewardship activities (including voting and engagement) are delegated to the Plan's investment managers.

The Fiduciary Manager is responsible for managing the sustainability of the portfolio, including how ESG factors are allowed for in the portfolio through both capital allocation and stewardship (including voting and engagement). Through the engagement undertaken by the Fiduciary Manager, the Trustees expect investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates.

The Fiduciary Manager produces detailed reports on the sustainable investment (SI) characteristics of the highest-rated managers (such as those included in the Plan's portfolio) on an annual basis. These reports form part of the Trustees' ongoing portfolio monitoring. The Trustees last reviewed these reports in June 2021. Prior to this, in December 2020 the Trustees received detailed training on the Plan's equity investments and how ESG factors are considered as part of this, and the Trustees continue to engage with the Fiduciary Manager on this topic

The Fiduciary Manager's approach:

Consistent with the Trustees' view that ESG factors in general, and stewardship in particular, can have a significant impact on investment risk and returns, particularly over the long-term, the Fiduciary Manager believes that SI forms the cornerstone of successful long-term investment and has fully embedded this in its processes.

The Fiduciary Manager's process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

The Fiduciary Manager considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The Fiduciary Manager engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the year.

Selection of, and engagement with, investment managers and products:

The Plan utilises funds where the Fiduciary Manager has engaged with the investment managers to improve the ESG characteristics of the holdings by tilting to companies with more positive ESG ratings and away from those that are seen as laggards from an ESG perspective. For example:

- Two Legal and General Investment Management ("LGIM") equity funds:
  - LGIM AC World Adaptive Capped ESG Fund – this fund systemically increases its allocation to companies with good and improving ESG characteristics and decreases its allocation to those with poor characteristics and those getting worse over time. It also excludes investments in certain companies subject to certain limits: controversial weapons producers; those who violate UN Global Compact rules; companies with significant revenues from thermal coal / power generation.
  - LGIM Robeco Global Sustainable Multi-Factor Equity Fund – this fund is constructed with a balanced combination of factors (value, momentum, low volatility and quality) and an overall portfolio ESG target to score at least 20% better than a traditional global market capitalisation-weighted benchmark index on greenhouse gas emissions, energy consumption, water usage and waste

generation. The fund also excludes investments in certain companies subject to certain limits: controversial weapons producers; those who violate UN Global Compact rules; companies with significant revenues from thermal coal / power generation, palm oil and/or tobacco.

- The Towers Watson Investment Management ("TWIM") Core Diversified Credit Fund ("CDCF"):
  - This fund generally prefer engagement over exclusion, allowing skilled underlying managers to consider the risk/return balance of each investment. However, in the case of systematic strategies, exclusions are sometimes applied. For example, the BNYM Fallen Angels High Yield Bond Fund applies an ESG screen specifically to protect the fund from investing in companies whose recovery may be impaired due to ESG concerns (eg companies subject to environmental red flags; tar sands and thermal coal companies; and companies with a very low Environmental score due to climate or carbon risks).

Company level engagement and rights attached to investments (including voting):

The Plan is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was requested from the Plan's equity and listed real assets managers (as here there is a right to vote as an ultimate owner of a stock) across the following five pooled funds:

- LGIM AC World Adaptive Capped ESG Fund – a global equity fund.
- LGIM Robeco Global Sustainable Multi-Factor Equity Fund – a global equity fund.
- LGIM Heitman Global Prime Property Securities Fund – a global equity fund focused on businesses related to prime properties.
- LGIM Infrastructure Equity MFG Fund – a global equity fund focused on businesses related to core infrastructure.
- FSSA Investment Managers – an active emerging markets equity fund

The Fiduciary Manager's view is that LGIM continues to demonstrate good / leading practice vs. peers, in particular in their willingness to take visible stances on topics they believe are important. This is supported by an effective approach to conflict management, high transparency and effective communications. The Fiduciary Manager continues to engage with LGIM on the level of stewardship team resourcing, in particular given breadth / depth of coverage and rapid growth in AUM, as well as pushing for better / more effective fixed income engagement.

Corporate engagement and asset stewardship is a key part of the investment process for FSSA and has been a key part of the investment process across all of its investment strategies. The investment team's long-term investment horizon, approach of investing in companies with strong governance structures and history and experience of investing in local markets, supports that they are well-equipped to engage with company management with a view to improving outcomes for minority shareholders. The Fiduciary Manager views FSSA's approach to SI as good.

Further information on the voting and engagement activities of the managers is provided in the table below.

	Votable meetings	Votable Resolutions	% of votable resolutions voted on	% of votes with management	% votes against management	% of votes abstained	% of resolutions voted contrary to proxy adviser
LGIM MSCI ACWI Adaptive Capped ESG Index Fund – GBP Currency Hedged	3,523	40,566	100.0	81.5	17.9	0.6	11.1
LGIM Robeco Global Sustainable Multi-Factor Equities Index Fund	2,577	30,447	100.0	81.9	17.7	0.4	11.3
LGIM MFG Infrastructure Equity – GBP Currency Hedged	91	1,158	100.0	85.1	14.9	0.0	11.1
LGIM Heitman Global Prime Property Securities Fund	111	1,223	100.0	84.1	15.7	0.2	10.6
FSSA Investment Managers	108	956	100.0	99.0	1.0	0.0	13.0

Significant votes

The table below gives a snapshot of significant votes for the year to 31 March 2021:

Company name	**International Consolidated Airlines Group**	**Barclays**	**Great Wall Motor**
Date of vote	07-Sep-20	07-May-20	25-May-20
Summary of the resolution	Resolution 8: Approve Remuneration Report was proposed at the company's annual shareholder meeting held on 7 September 2020.	Resolution 29 Approve Barclays' Commitment in Tackling Climate Change Resolution 30 Approve ShareAction Requisitioned Resolution.	Amendments to Articles of Association.
How LGIM /FSSA voted	LGIM voted against the resolution.	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.	FSSA voted against the resolution.
Rationale for the voting decision	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 their support during the pandemic and 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	The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. LGIM have said they are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.	The shortened notice period, as it was deemed shareholders would not be given enough time to consider items before general meetings under the proposed notice period.

	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. LGIM 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. LGIM 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, LGIM 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 January 2020. A new board chair: an independent non-executive director, was also recently appointed by the board. He started his new role in January 2021.		
Outcome of the vote	28.4% of shareholders opposed the remuneration report.	Resolution 29 – Passed. Supported by 99.9% of shareholders Resolution 30 – Did not pass. Supported by 23.9% of shareholders (source: Company website)	The vote was passed.
Implications of the outcome e.g lessons learned and likely future steps in response to the outcome	LGIM will continue to engage closely with the renewed board.	LGIM say their focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. LGIM plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to	FSSA are stringent in their voting of governance matters especially. Small matters count, and FSSA feel there is always scope for their Chinese portfolio companies to become even better over time hence they will continue to push on this front. FSSA intend on communicating/engaging more with companies in future

		ensure a consistency of messaging and to continue to drive positive change.	meetings on areas for improvement and on items they have voted against at AGMs.
The criteria by which LGIM have assessed this vote to be "most significant"	LGIM considers this vote significant as it illustrates the importance for investors of monitoring investee companies' responses to the COVID crisis.	LGIM noted significant client interest in LGIM's voting intentions and engagement activities in relation to the 2020 Barclays AGM and thank their clients for their patience and understanding while they undertook sensitive discussions and negotiations in private. LGIM consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as their clients hence the request for executives' post-exit shareholding guidelines to be set.	FSSA noted this a significant vote as it was against management's recommendation.

<u>Industry wide / public policy engagement:</u>

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustees).

This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change.

The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council, of which WTW are currently the chair.

Engagement activities by EOS on public policy over the year included:

- 52 consultation responses or proactive equivalents (such as a letter), and 173 discussions held with relevant regulators and stakeholders during 2020;
- Climate Action 100+, an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, where EOS lead or co-lead 30 engagements and support another 14;
- Working closely with the Principles for Responsible Investment ('PRI'), including leading the engagement with Vale on the dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax;
- Close collaboration with significant investor initiatives including Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Being a Tier 1 signatory of the 2012 UK Stewardship Code and submitting its first annual report to the 2020 UK Stewardship Code;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);

- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.

3. Conclusion

The Trustees consider that all SIP policies and principles were adhered to during the year.