Allegion UK Pension Plan

Implementation Statement

for scheme year ending 5 April 2023

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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 2023.

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 the 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. The Fiduciary Manager considers the policies and principles set out in the Trustees' SIP in addition to the specific Fiduciary Management investment guidelines set by the Trustees.

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

2. Voting and engagement

Updates to Trustees' stewardship policies:

The SIP was updated in September 2022 to document that the Fiduciary Manager had identified climate and human and labour rights as two of the biggest ESG risks facing the Plan, and that the Trustees were supportive of these priorities. It also recognized that the Trustees expect investment managers to address broad ESG considerations, and that while the Trustees delegate a number of stewardship activities to the Fiduciary Manager and investment managers that responsibility for these activities remains with the Trustees. The SIP was further updated in November 2022 but there was no change to the stewardship policies.

The November 2022 SIP is the version referenced in the following sections of this document, where we set out how the principles have been implemented.

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 underlying investment managers and specialist system-level engagement overlay provider.

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 managers in the Plan's portfolio on an annual basis. These reports form part of the Trustees' ongoing portfolio monitoring.

The Fiduciary Manager's approach:

The Trustees' view is that ESG factors in general, and stewardship in particular, can have a significant impact on investment risk and returns, particularly over the long-term. As a result, the Trustees believe that the incorporation of ESG factors is in the best long-term financial interests of its members. The Trustees have appointed a Fiduciary Manager who shares this view and has fully embedded the consideration of ESG factors in its processes. The Trustees incorporate an assessment of the Fiduciary Manager's performance in this area as part of its overall assessment of the Fiduciary Manager's performance.

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 in general and stewardship in particular 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 underlying 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 & General Investment Management ("LGIM") equity funds:
  - LGIM AC World Adaptive Capped ESG Equity 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 ambitious level of sustainability integration via application of a UN Sustainable Development Goals (SDG) impact and risk assessment framework in determining stock weights. This strategy is aligned with a global low carbon economy with stocks that are not aligned to SDG 7 'Affordable and clean energy' and SDG 13 'Climate action' excluded. The strategy also excludes stocks that are not aligned to the broader SDGs. Overall, this is expected to result in a portfolio with lower carbon and environmental impact footprints than the market, improved (although not explicitly targeted) ESG metrics and a portfolio that is aligned to the UN SDG objectives.

Company level voting and engagement:

Given the pooled nature of the Plan's investments, the Trustees have not set any specific guidelines to their underlying investment managers around voting and engagement. Such activity is undertaken in line with the voting and engagement policies of the underlying pooled investment managers.

However, the Trustees understand the importance of carrying out periodic reviews of the voting information and engagement policies of their investment managers to ensure they align with their own policies and principles.

The Fiduciary Manager has assessed the investment managers' voting policies as part of its overall assessment of the investment managers' capabilities (see below), and considered the policies to be appropriate, and consistent with the Trustees' policies and objectives and ultimately therefore in the best financial interests of the members.

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 Equity Fund.
- LGIM Robeco Global Sustainable Multi-Factor Equity Fund.
- LGIM Heitman Global Prime Property Securities Fund.
- LGIM Infrastructure Equity MFG Fund.
- FSSA Investment Managers China A Shares Equity Fund.

Detailed information on the voting activities of the above managers is provided in the Appendix, including key aggregate statistics and examples of significant votes. The Trustee has endeavoured to select "significant" votes which align with the Trustee's identified priorities for voting and engagement – climate and human and labour rights – where the data has allowed.

LGIM

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. Some of LGIM's strengths in this area are displayed publicly through its climate impact pledge program and through leading collaborative engagement efforts. However, the Fiduciary manager continues to engage with LGIM on the level of stewardship team resourcing relative to the breadth and depth of coverage, as well as pushing for better / more effective fixed income engagement.

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 LGIM do not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The LGIM Investment Stewardship team also uses the 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.

To ensure LGIM's proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what the DCIO considers are minimum best practice standards which it believes all companies globally should observe, irrespective of local regulation or practice.

LGIM retain the ability in all markets to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure votes are fully and effectively executed in accordance with LGIM's voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

FSSA

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.

FSSA uses Glass Lewis as its proxy advisor. The Head of each asset class or their authorised signatory is responsible for ensuring that all company resolutions are reviewed such that an appropriate and consistent recommendation is made in line with the corporate governance guidelines and principles as outlined in the

Proxy Voting policy. Once the proxy voting intentions have been confirmed, they must communicate the decision to the Company Engagement team in an agreed format by the pre-advised cut-off date. FSSA will only vote in the best interests of its investors.

Broader system-level engagement

Industry wide / Public policy engagement

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). 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 its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2022:

- Engaging with 1,138 companies on 4,250 issues and objectives
- Making voting recommendations on 134,188 resolutions at 13,814 meetings, including recommended votes against 24,461 resolutions
- 33 consultation responses or proactive equivalent and 75 discussions with relevant regulators and stakeholders
- Active participation in many collaborations including Climate Action 100+, Principles for Responsible Investment (PRI), and UN Guiding Principles Reporting Framework

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

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave, and subsequently retaining that status
- Co-founding the Net Zero Investment Consultants Initiative in 2021, with a commitment across its global Investment business
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets
- 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)
- Co-founding the Investment Consultants Sustainability Working Group
- Continuing to lead collaboration through the Thinking Ahead Institute and WTW Research Network
- Being a founding member of The Diversity Project
- Being an official supporter of the Transition Pathway Initiative

3. Conclusion

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

Chris Crampton, Chair of Trustees, Allegion UK Pension Plan

Appendix 1 – voting statistics

Information on the voting activities of the Plan's relevant underlying fund managers is provided in the table below.

	Voteable meetings	Voteable resolutions	% of voteable 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	3,286	38,231	99.8	77.9	20.7	1.4	13.0
LGIM Robeco Global Sustainable Multi-Factor Equities Index Fund	2,157	25,927	99.8	79.7	19.5	0.8	12.5
LGIM MFG Infrastructure Equity – GBP Currency Hedged	86	1,073	100.0	76.1	23.9	0.0	19.2
LGIM Heitman Global Prime Property Securities Fund	87	944	100.0	82.0	17.9	0.1	15.8
FSSA Investment Managers	118	1,106	100.0	96.6	3.2	0.0	7.0

Appendix 2 – significant votes

Votes are considered significant when one or more of the following apply:

- They are cast against management recommendation.
- The companies represent a meaningful holding.
- They support proposals that are deemed to be important to the long-term value of the business and in the best interest of shareholders.
- They concern issues that have been identified as key ESG risks for the Plan (i.e. climate change, human and labour rights, and company remuneration policies).

The tables below give some examples of significant votes for the year to 31 March 2022:

Example 1

Manager	**LGIM**
Company name	**UBS Group AG**
Date of vote	06-April-22
Summary of the resolution(s)	Approve Climate Action Plan
How the manager voted	Against
Where voting against management, was the intent communicated to the company ahead of the vote?	Yes. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	A vote AGAINST this proposal was applied following internal discussion. While LGIM positively note the company's progress over the last year, as well as its recent commitment to net zero by 2050 across its portfolio, they have concerns with the strength and coverage of the Climate Action Plan's Scope 3 targets and would ask the company to seek external validation of its targets against credible 1.5°C scenarios. Gaining approval and verification by SBTi (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.
Outcome of the vote	• A majority of shareholders voted for the Climate Action Plan

Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	LGIM will continue to engage with the company and monitor progress.
The criteria by which this vote is assessed to be "most significant"	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

Example 2

Manager	**LGIM**
Company name	**Alphabet Inc.**
Date of vote	01-June-22
Summary of the resolution	Shareholder resolution: Report on Physical Risks of Climate Change
How you voted	LGIM voted FOR the resolution
Where voting against management, was the intent communicated to the company ahead of the vote?	Yes. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	LGIM expects companies to be taking sufficient action on the key issue of climate change.
Outcome of the vote	Did not pass
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	LGIM will continue to engage with Alphabet Inc. and publicly advocate their position on this issue and monitor company and market-level progress.
The criteria by which this vote is assessed to be "most significant"	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

Example 3

Manager	**LGIM**
Company name	**American Tower Corporation**
Date of vote	18-May-22
Summary of the resolution	Elect Director Robert D. Hormats
How the manager voted	LGIM voted against the resolution
Where voting against management, was the intent communicated to the company ahead of the vote?	Yes. LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	Diversity: A vote against is applied as the company has an all-male Executive Committee.

Outcome of the vote	Passed.
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
The criteria by which this vote is assessed to be "most significant"	LGIM views diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.

Example 4

Manager	**FSSA**
Company name	**Midea Group**
Date of vote	20-May-22
Summary of the resolution(s)	Key Management Team Stock Ownership Plan and the Midea Global Partners Plan 8th Phase Stock Ownership Plan (draft) and its Summary
How the manager voted	FSSA voted against the resolution
Where voting against management, was the intent communicated to the company ahead of the vote?	No
Rationale for the voting decision	The ROE of Midea Group in 2021 was 24.09% but the threshold for ROE is set at 20% in 2022 and 2023 and 18% for 2024 and 2025. The manager does not think it is properly designed.
Outcome of the vote	Passed.
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	FSSA tend to be more stringent with their recommendations vs outcome of the votes when it comes to governance matters. Small matters count – FSSA feels like there is always scope for their Chinese portfolio companies to become even better over time. They also hope to communicate with companies in future meetings on areas for improvement. It is also an area for FSSA to be even more proactive in the future, i.e., communicating proactively with portfolio companies on their vote-against decisions afterwards. FSSA want to understand the background in regard to why portfolio companies raise these issues. They will then vote on case-by-case basis and build the foundation for constructive engagements with portfolio companies."
The criteria by which this vote is assessed to be "most significant"	FSSA noted this a significant vote as it was against management.