MCPS PRS Alliance Scheme and MCPS PRS Alliance Pensions (MCPS) Implementation Statement – December 2020

Introduction

This implementation statement is a new addition to the Trustee Report and Accounts, required by new pensions regulations introduced under The Occupational Pension Schemes (Investment Disclosure) (Amendment) Regulations 2019. The Trustees of the MCPS-PRS Alliance Pension Scheme and MCPS-PRS Alliance Pension Scheme (MCPS) (the 'Schemes') have prepared this statement to provide stakeholders with a transparent and accurate review of how we have acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles during the accounting year ended 31 December 2020.

Given the way that the MCPS-PRS Alliance Pension Scheme (the 'Alliance Scheme') and MCPS-PRS Alliance Pension Scheme (MCPS) (the 'MCPS Scheme') are operated, the Trustees of both schemes have decided to produce a single document containing their respective Implementation Statements.

This statement is intended to improve accountability, highlighting the proactive steps taken by us and our service providers to ensure members' assets are invested responsibly and for the long-term.

This statement includes details of:

- How we have complied with our stewardship and voting policies as set out in our Statement of Investment Principles ("SIP");
- Any changes we made to our stewardship and voting policies during the year; and
- Specifically, how our investment managers voted and engaged on our behalf

This statement has been prepared by the Trustees to cover the period 31 December 2019 to 31 December 2020.

The statement is publicly available at:
https://ww.psgovernance.com/communications/MCPS_PRS.html

Executive Summary

The day to day management of the Schemes' assets is delegated to Cardano Risk Management Limited (the 'Solvency Manager', also known as a Fiduciary Manager). In advance of the appointment, the Trustees took steps to ensure that the management of assets and the Solvency Manager's policies were aligned with the Trustees' own policies. The Trustees continue to monitor Cardano, as part of their regular interactions with them.

Cardano have appointed a number of underlying investment managers. They are responsible for selecting and monitoring these managers. Cardano report to us on the voting and engagement activity of the investment managers and challenge their decisions.

We focus our efforts on those managers where voting and engagement is material and the policies of these managers are summarised in this statement, along with some examples of the type of activity which takes place. Some of our managers don't own physical assets, such as equities or corporate bonds, and therefore stewardship is less likely to be relevant or significant. We are comfortable that our Solvency Manager has an appropriate approach for all investment managers, and we receive reporting from them once a quarter.

To the best of our knowledge we have complied with our Stewardship Policy during the year.

MCPS PRS Alliance Scheme and MCPS PRS Alliance Pensions (MCPS) Implementation Statement – December 2020

Section 1 – Our Stewardship Policy

What is Stewardship?

"Stewardship" is the responsible allocation, management and oversight of capital to create long-term value for our members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising our right to vote on any shares we own and engaging with the management of any companies or properties in which we have a stake.

The Trustees do not hold any investments directly. All of the shares, bonds and other assets that we own are held through pooled funds that are managed by investment managers that our Solvency Manager appoints. The reason we do this is:

- It provides a broader range of investment opportunities than would be possible if we were to own the assets directly, particularly given our size;
- This can improve the overall diversification of our investments and help reduce risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing overall governance burden both on the Trustees and the Sponsor.

In practice, therefore, we delegate voting and engagement to the investment managers. However, we remain responsible for setting our voting and engagement policies and ensuring that the investment managers our Solvency Manager appoints act consistently with them.

What is our Stewardship Policy?

Our Stewardship Policy during the financial year was as follows:

> *"The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Solvency Manager encourages the Schemes' investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council."*

We have reviewed our Stewardship policy over the last 12 months and have made some changes to reflect current regulations and updated codes of practice.

In terms of implementing our policy, we considered investment managers' compliance with current industry recognised codes of governance.

How have we implemented our Stewardship Policy?

Where investment managers are used, our Solvency Manager is responsible for engaging with the investment managers regarding their voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact. In addition, in the case of the Alliance Scheme, the Solvency Manager also invests directly in UK government bonds and various derivatives, which provide limited opportunity for voting and engagement.

MCPS PRS Alliance Scheme and MCPS PRS Alliance Pensions (MCPS) Implementation Statement – December 2020

Our Solvency Manager has been aligned with our Stewardship Policy throughout the year and has been a signatory to the UN Principles of Responsible Investment since 2011. They are also a signatory to the UK Stewardship Code and have a Tier 1 rating from the Financial Reporting Council.

Several core beliefs help drive our Solvency Manager's approach to engagement. They believe in:

- Focused governance – spending most time on the most material issues
- Transparency – improved reporting allows better quality dialogue, risk awareness and higher engagement impact
- Engagement – through education and close, regular dialogue
- Integration – leads to consistency, clarity of messaging and improved dialogue leading to greater engagement impact

We categorise our managers according to how material voting, and engagement is in their mandate. Some of our managers don't own very many assets such as equities or corporate bonds, and therefore voting or engagement is less likely to be relevant or significant.

We focus our efforts on managers where voting and engagement is material. The stewardship policies of these managers are summarised briefly below in their own words:

Manager	Asset Class	Stewardship Policy (in Manager's own words)
Amia	Macro Orientated	Amia aims to follow the spirit of the PRI's Principle 2 in its stewardship practices, where stewardship (or active ownership) is defined as "the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend". There are several stewardship mechanisms, the two of which most directly relate to Amia being proxy voting and engagement, although the extent to which we enjoy access to these mechanisms differs.
AKO	Equity	We normally vote alongside management. However, on rare occasions, we may decide to vote against management on certain issues if we believe it is in the best interests of our fund investors to do so. Such reasons include, but are not limited to: proposals to materially reduce shareholder rights and or limit the equitable treatment of shareholders; management incentives that are not aligned with shareholders' best interests; reduced board effectiveness or reporting transparency; or long term value-destructive proposals. In these limited cases, we aim to raise concerns with the companies ahead of voting and explain the rationale behind our decision. Research analysts are in charge of taking the voting decisions but the ESG team makes sure that we vote our shares according to homogeneous criteria and provide guidance when needed. All voting decisions are documented, rated in our internal scoring system and shared to the investment team, becoming an input in our investment decision process.

Anatole	Equity	Any proxy voting or shareholder actions are brought to the attention of front office personnel responsible for the coverage of the position, as well as senior management. Senior management will confer with the Anatole analyst coverage on suitable actions to take regarding any corporate actions. This may include abstention from voting. Anatole senior management will make its decision clear to the operations team and the CCO and operations team will enter the decision into the proxy voting record.
BlueDrive	Equity	We have partnered with Institutional Shareholder Services ("ISS") and we subscribe to their proxy research services. Invitations from ISS to vote are actively monitored by our Legal and Compliance Team, who then reach out to our Investment Team to review the ISS voting recommendation, for the final say.
Caxton	Macro Orientated	Caxton views proxy voting as an extension of the investment process. To that end, where the voting of proxies is irrelevant to the investment decision to purchase, hold, or sell a security (or other applicable instrument), Caxton will not vote proxies on behalf of clients (e.g. in connection with quantitative driven strategies). In addition, Caxton generally does not vote proxies with respect to non-US issuers, but may decide to do so depending upon the nature of the proxy. With respect to strategies in which Caxton is required to vote pursuant to its proxy voting policies, Caxton may delegate to an independent proxy voting service the authority to exercise the voting rights associated with client holdings. Any such delegation will be made in accordance with the direction that the votes be exercised in accordance with Caxton's proxy voting policies.
Dorsal	Equity	All proxies are reviewed by the sector heads. The default decision is to vote with management; however, sector heads are reminded each time to let the Director of Compliance know when the decision is to vote against management.
Egerton	Equity	Egerton typically votes in favour of routine housekeeping proposals, including election of directors (where no sustainability factors appear relevant). Egerton typically votes against proposals that make it more difficult to replace board members, and may vote against companies that do not publicly disclose their carbon and other GHG emissions and do not have a credible plan for their reduction. Egerton maintains records of votes cast, of reasons for voting against the investee company management's recommendations or for abstaining. Egerton may attend general meetings of companies in which the Funds have a major holding, or write formally to the directors of such companies, where this is considered appropriate and practicable.
Farallon	Multi-strategy	Farallon has a proxy voting policy that states that all actions taken with respect to proxies are to be in the best interests of the Farallon Funds and in accordance with Farallon's proxy voting policy. The policy includes guidelines on corporate governance issues; voting, board composition and control issues; compensation issues; and other matters.
Sands	Equity	SCM's policy is to vote client proxies in the best interest of its clients. Proxies are an asset of a client, which must be treated by SCM with the same care, diligence and loyalty as any asset belonging to a client. In voting proxies SCM should consider the short- and long-term implications of each proposal. In voting proxies, SCM typically is neither an activist in corporate governance nor an automatic supporter of management. However, because SCM believes that the management teams of most companies it invests in

		generally seek to serve shareholder interests, SCM believes that voting proxy proposals in the client's best economic interests usually means voting with the recommendations of these management teams.
Sunriver	Equity	Sunriver (the "Firm") has engaged an independent third-party proxy voting service (the "Proxy Service") to monitor proxy votes pertaining to portfolio securities, provide research and recommendations on such votes, cast such votes in accordance with the Firm's instructions, and maintain records with respect to such votes. Sunriver determines whether and how to vote corporate actions and proxies on a case-by-case basis and will apply the following guidelines, as applicable: • The Firm will attempt to consider all aspects of the vote that could affect the value of the issuer or that of the Fund • The Firm will vote in a manner that it believes is consistent with the stated objectives of the Fund • The Firm will generally vote in accordance with the Proxy Service's recommendations unless the investment team determines that it is in the best interests of the Fund to depart from such recommendations • The Firm may decide not to vote to the extent the outcome of the vote or action does not have a material impact on the issuer or value of its securities or if the Firm determines that not voting is in the best interests of the Fund. Conflicts of interest may arise between the interests of the Funds and the interests of the Firm when it comes to voting proxies. A conflict of interest will be considered material to the extent that it is determined that the conflict has the potential to influence the Firm's decision making in voting the proxy. If the Firm determines that there is, or the Firm perceives that there is, such a material conflict of interest, the Firm will vote in accordance with the recommendations of the Proxy Service.
Wellington	Emerging Market Debt	Constructive engagement with issuers is the most effective way to improve ESG characteristics over time. For emerging markets sovereigns, environmental, social, and governance (ESG) factors have long been embedded in Wellington's country research process used to assess the relative credit strength of all the countries under their research coverage. Our stewardship activities are driven by the E, S, and G factors that are integrated into our investment philosophy and process. Social stability and the quality of governance – political stability, quality of policies, and strength of institutions – are all critically important factors in assessing both the probability of default and the relative value of government debt. Governance is a key component in our country scoring quantitative model that is used across countries. We use both external data from sources such as the World Bank and Transparency International as well as the internal assessments of our experienced sovereign analysts to evaluate these risks.

In addition, we held funds with the following managers where voting is a less relevant part of their strategy, either because they have no direct exposure to equities, the proportion of equities held was very low (less than 5%), the holding period was very short or turnover of positions within the manager is high. We therefore focus less on these managers' voting and engagement. Managers which fall into this category are as follows:

- Bridgewater
- BlackRock
- Diameter

- Everett
- Gresham
- Insight
- Invesco
- JP Morgan
- Kadensa Capital
- LMR
- Lynx
- Lyxor SocGen
- Snow Lake
- Squarepoint
- Tudor
- Two Sigma
- Winton

The Alliance Scheme also invests in a series of Private Market investments. Many of these strategies own controlling stakes in the underlying businesses/properties, meaning that stewardship and engagement is evidenced in a much broader way than in the public sphere. A critical means of value creation for many private strategies is (for example) ensuring that each business has the best governance possible – dictating and controlling the policies and make up of senior leadership (versus merely hoping to impact actions through voting). Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report. The Private Market funds/managers we invest in are:

- CI Capital
- Exponent
- HGGC
- Kitty Hawk
- Mudrick
- Oaktree
- QPP
- Related
- Rialto
- RK
- Vitruvian

Compliance with our Stewardship Policy

To the best of our knowledge we have complied with our Stewardship Policy.

Section 2 – How our shares were voted

How our managers voted

Manager	Average % assets Alliance	Average % assets MCPS	Number of potential votes	Proportion of votes cast	For	Against	Abstain
AKO	0.7%	0.0%	651	52%	331	1	7
BlueDrive	2.1%	0.0%	149	100%	132	17	0
Caxton	2.9%	11.0%	10,419	96%	9102	900	0
Dorsal	2.8%	0.0%	170	100%	170	0	0
Egerton	2.2%	13.3%	475	62%	277	1	17
Farallon	0.8%	5.8%	1102	98%	1004	54	22
Sands	0.0%	0.9%	360	92%	303	21	6
Sunriver	2.1%	0.0%	19	84%	15	0	1

Note: There were some instances where relevant managers did not provide voting data. Anatole is one such example.

Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using a proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessary mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the FRC's Stewardship Code.

However, the potential concern is that the manager who has chosen to invest in the company is arguably in the best position to vote and engage with the company, and by failing to do so directly, may be signaling indifference to the management.

The table below outlines the use of proxy voting services by managers in our portfolio for whom we deem voting material:

Manager	Use of proxy voting service	Comment
AKO	No	
Anatole	No	Anatole do not intend to appoint a proxy voting advisor.
BlueDrive	Yes - ISS	We have partnered with Institutional Shareholder Services ("ISS") and we subscribe to their proxy research services. We use their standard voting policy.
Caxton	Yes - ISS	Caxton has provided ISS with general proxy voting guidelines to be applied absent contrary instructions from authorized representatives of Caxton. ISS assists in the proxy voting and corporate governance oversight process by developing and updating its own proxy voting guidelines.
Dorsal	No	Dorsal do not employ the services of a proxy service, however, they monitor the recommendations of the major proxy consultants.
Egerton	No	Egerton do not use a proxy advisor but do utilise the services of Proxy Edge to cast votes.
Farallon	No	
Sands	Yes – ISS & Glass Lewis	Sands vote all proxies themselves, but consider the recommendations of proxy advisors such as ISS and Glass Lewis in their voting decisions.
Sunriver	Yes - ISS	Sunriver has engaged an independent third-party proxy voting service, Institutional Shareholder Services. We license their standard policy ("ISS Proxy Analysis & Benchmark Policy").

Examples of significant votes cast

Manager	Significant votes cast	Rationale/ Comment
AKO	Ansys - We abstained on a Management Compensation Scheme.	We abstained on approving remuneration because there were no ROIC metrics included in the remuneration proposal.
BlueDrive	Comcast Corporation - Voted for a resolution that called for a reporting on the lobbying payments and policies.	A vote for this resolution was warranted, as additional reporting on the company's lobbying-related practices and policies, such as its trade association memberships and payments, would

		benefit shareholders in assessing its management of related risks.
Egerton	Union Pacific - Voted with a shareholder proposal for a climate assessment report, against the recommendation of management	We took this action in the hope it would lead to improved ESG related metrics of the company.
Farallon	PG&E Corporation (PCG) - Vote to approve debtors' bankruptcy reorganization plan.	Farallon voted to approve the debtor companies' revised bankruptcy plan because compared to earlier proposals, the revised plan reflected materially improved recoveries for bondholders, trade claim holders and wildfire victims. The ad hoc bondholders group, in which Farallon participated, proposed an alternative plan that catalysed the debtors to significantly raise compensation allocated to creditors.
Sands	Localiza Rent A Car SA – Vote for Installation of Fiscal Council	We agreed with ISS that the installation of a Fiscal Council should help improve corporate governance at the firm.
Sunriver	Masonite International Corporation – Vote against the election of Howard C. Heckes as Director	In this circumstance, the analyst recommended that the CEO in this proposal should not be a member of the board due to potential conflict of interest.

Section 3 – How our managers have engaged in respect of the investments held

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship.

In the table below, we summarise examples of engagement activity from some of the managers for whom we have deemed engagement material.

Public market investments

Manager	Engagement activity (in Manager's words)
AKO	We engaged with the IR team and the Chairman of one of our investee companies about their new incentive scheme. We recommended our key principles for the compensation scheme, according to our policy, most of which were taken on board including the introduction of ESG KPIs as performance criteria for 20% of the long term incentive plan. We focused on delivering an incentive scheme that protects minority shareholders and remunerates management for non-financial performance related to stakeholders other than shareholders.
BlueDrive	Our vote in support of an investee company (DollarTree) shareholder proposal helped the proposal to pass against management. The vote recorded the 3rd highest support level ever for a non-board climate related proposal. (Source - issgovernance.com). This activity was related to Environmental considerations and primarily aimed to deliver progress for sustainable outcomes. We hope that the resultant 'Report on Greenhouse Gas Emissions Goals' will lead to the company setting long term emission reduction goals with quantitative targets.

Gresham	GoldenTree incorporated both environmental and social factors into its investment thesis for PG&E (a critical utility for California). GoldenTree played an important role as one of the largest backstop equity providers as well as helping structure multiple legal and financial attributes. With a more sustainable balance sheet, new equity capital, and support from various stakeholders, PG&E is now in a better position to deliver positive operating performance as well as take proactive steps from an environmental and social perspective. As an example, wildfire mitigation is a key component of the company's operational and safety improvement plan. PG&E is hardening its system by adding strong poles and covered conductors, undergrounding or eliminating lines. In addition, the company has enhanced inspection cycles and added weather stations, high definition cameras, and aircraft for faster and around-the-clock patrols. The company has also established fire detection and fire spread modelling capabilities based on industry-leading satellite systems that offers advanced warning of potential new fire incidents.

Private market investments

Manager (asset type)	Engagement activity (in managers own words)
CI Capital	Fund III portfolio company, Redwood Logistics (a third-party logistics provider), has implemented a number of initiatives that align to core ESG issue areas, including: • Environmental Management: to reduce its environmental impact, Redwood collaborated with the SmartWay Transport Partnership, achieving a carbon footprint reduction of 2.3 million quarter on quarter, while moving 11 million more pounds of freight. • Social and Labour Conditions: At the onset of the COVID-19 pandemic, Redwood create a COVID-19 response committee to develop plans and training for safety protocols, offered COVID-19 testing to employees, and introduced additional paid time off for infected employees along with benefits flexibility. • Diversity and Equal Employment Opportunity: Redwood requires diversity and inclusion training for all new hires, added a "diversity, fairness, and inclusion statement" to its handbook, and incorporated diversity and inclusion questions into its interview guide. In addition, as a third-party logistics provider ("3PL"), Redwood helps its customers optimize their transportation networks by reducing empty miles (i.e., the distance travelled by a truck after it makes a delivery to a receiver and then drives empty back to the original shipping point or at some length to another pickup location). CI Capital has begun to work with the Redwood management team on an initiative to measure the impact of reducing empty miles on the carbon footprint of transportation capacity procured by Redwood on behalf of customers, including the eventual transition to electric trucks.
Exponent	With 46% of consumers trying dairy alternatives at least once in 2019, portfolio company Meadow invested £4m into developing an 8,000 square foot facility to produce a plant-based range. The new range is produced from sustainably sourced oats, coconut and rice and includes yoghurt, soft cheese, milk, cream and custard. As well as reflecting the growing consumer preference for dairy alternatives, the range supports lower impact lifestyles, as plant-based ingredients typically have a lower carbon footprint and are less resource intensive to produce throughout their lifecycle. As well as reducing the impact of products, Meadow has signed up to the Responsible Plastic Management (RPM) programme to reduce the impact of their packaging. RPM is a voluntary global plastic management assurance programme with a mission to reduce plastic waste and pollution. This initiative was shared with another company in

	the portfolio that is also actively trying to reduce its plastic consumption. Meadow are now looking at how they can reduce plastic waste and their use of non-recyclable plastics with plans to move from plastic to cardboard where possible. Meadow already offer a returnable packaging scheme and, within the new plant-based range, yogurt pots will be made from 100% recycled PET (polyethylene terephthalate) with recyclable lids, seals and labels.
Kitty Hawk	The recent Project Madlyn involved the acquisition and refurbishment of undermanaged, dilapidated residential, retail and industrial units in the up-and-coming neighbourhood of Puerta del Angel in Madrid. The business plan aims to address the chronic under-supply of affordable rental accommodation for young professionals in this neighbourhood. The refurbishment programme presented several opportunities to integrate environmentally friendly systems and practices: • The buildings will mainly be refurbished rather than demolished thereby eliminating the generation of landfill. Most of the buildings will be retro-fitted with various energy efficiency enhancing measures such as double glazing and environmental chambers to control humidity. • Interiors will be furnished with second hand upscaled products rather than low-cost/ low quality "fast" furniture. • Where construction of new buildings is unavoidable, solar panels will be installed on the new buildings to reduce their carbon footprint.
Mudrick	In September 2020, Mudrick announced a new Board of Directors at Thryv Holdings, Inc. to reinvigorate the Board dynamic and bring new expertise. The new Board consists of eight members, three of whom are women and one of whom is an underrepresented minority. This represents a significant improvement in diversity.
QPP	Portfolio company Sentinel Peak utilizes renewable landfill gas to offset gas consumption for steam generation activities at the Arroyo Grande oilfield. Landfill gas qualifies for regulatory economic incentives under California's low-carbon fuel standard ("LCFS") program. The Company is also evaluating the potential to utilize renewable natural gas ("RNG") from dairy farms near its San Joaquin Valley thermal recovery projects as part of its carbon reduction and community support programs. The Company is also installing a photovoltaic solar array to power its oil operations at the Belridge thermal recovery project. Sentinel has also collaborated with 547 Energy to evaluate larger scale solar and energy storage opportunities as part of Sentinel Peak's land redevelopment plans. Oilfield solar also qualifies for credits under California's LCFS program as an "innovative crude production method".
RK	For one of our investments, we were supportive of management's plan to invest in an internship programme targeting the local community. This provided training and allowed participants to earn a professional qualification and enabled local community members to benefit from skilled labour opportunities either at the mine or elsewhere.
Vitruvian	Vitruvian now have three portfolio companies with ISO 14001 (Solvinity, Verastar and Technogroup) and two with ISO 27001 (Solvinity and Benify). These externally audited (environmental focussed) credentials support business development with ESG minded customers, particularly in the public sector.