Implementation Statement ("IS")

TMD Friction UK Pension Scheme (the "Scheme")

Scheme Year End – 31 March 2023

The purpose of the Implementation Statement is for the Trustee of the TMD Friction UK Pension Scheme, to explain what has been done during the year ending 31 March 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles ("SIP"). It includes:

1. A summary of any review and changes made to the SIP over the year
2. How policies in the SIP have been followed during the year; and
3. How the Trustee has exercised voting rights or how these rights have been exercised on the Trustee's behalf, including the use of any proxy voting advisory services.

Our conclusion

Based on the activity the Trustee has undertaken during the year, the Trustee believe that the policies set out in the SIP have been implemented effectively.

In the Trustee's view, most of the Scheme's material investment managers were able to disclose good evidence of voting and engagement activity, that the activities completed by our managers align with the Trustee's stewardship expectations, and that the Trustee's voting policy has been implemented effectively in practice.

Some of the underlying managers were not able to provide all the information requested. The Trustee's fiduciary manager, Aon, will continue to engage with these managers to better understand their engagement practices and discuss the areas that are behind their peers.

This report does not include commentary on the Scheme's investment in gilts or cash because of the limited materiality of stewardship associated with these asset classes.

Changes to the SIP during the year

The Trustee has a policy to review the SIP formally at least every three years, or after any significant change in investment policy.

In June 2022, the Department for Work and Pensions issued updated guidance regarding how it expects trustees to approach Stewardship. The Trustee reviewed the SIP during the year and updated the Scheme's approach to voting and engagement in July 2023 to reflect this guidance. As these changes were made following the year end of the Scheme, there were no material changes made to the SIP during the year and the changes made to the SIP post year end will be reported on at the next Scheme year end.

The Scheme's latest SIP can be found here: https://tmdfriction.com/wp-content/uploads/2021/09/2021-Statement-of-Investment-Principles-signed.pdf

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Source: UN PRI

How the policies in the SIP have been followed

The Trustee outlines in the SIP several key objectives and policies. These are noted in blue in this report, together with an explanation of how these objectives and policies have been met and adhered to over the course of the year. The Trustee has delegated certain decision-making powers to Aon Investments Limited ("AIL") who is referred to in this document as the "Fiduciary Manager". References to “underlying asset managers” refers to those asset managers which AIL in turn appoints to manage investments on behalf of the Trustee or any other direct investments that the Trustee may make from time to time.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with an interactive version of investment monitoring reports on an online portal, being made available to the Trustee to view or download by the Fiduciary Manager and its investment consultant, Aon via an online monitoring portal. The Trustee is able to log onto the online monitoring portal, where information is published which covers performance, strategic asset allocation and risk management of the Scheme's investments, covering a number of different objectives and policies set out in the SIP.

Quarterly Investment Monitoring Reports from the Manager and Aon are published and available via the online reporting portal, this includes;

- Absolute performance and performance relative to the liability return over the quarter, one year, three year and five year periods.
- Asset allocation relative to the previous quarter
- Overview of the interest rate and inflation hedging levels
- Economic market review and outlook

Annually, the Fiduciary Manager provides a fee breakdown showing the annual aggregate management charge of the underlying asset managers.

Strategy

The Trustee's objectives are:

- *An overall objective to invest the Scheme's assets in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Scheme into the future.*

- *A shorter-term objective of investing the Scheme's assets to achieve returns in excess of the growth in the liabilities, whilst maintaining a prudent approach to meeting the Scheme's liabilities.*

Following improvements to the Scheme's funding position, the Trustee made the decision to de-risk the Scheme's investment strategy and to adopt a lower investment objective to outperform the Liability Benchmark by 1.0% p.a. over rolling three year period in December 2020. This investment objective has remained in place throughout the Scheme year.

The Fiduciary Manager hedges 100% of the interest rate and inflation risk, as a proportion of assets, using a liability driven investment strategy, to mitigate performance volatility relative to the Scheme's liabilities.

Environmental, social and governance (ESG) considerations

As part of their delegated responsibilities, the Trustee expects that the Fiduciary Manager or other appointed investment manager will take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues but should consider the sustainability of business models that are influenced by them.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- *The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.*

- *As part of ongoing monitoring of the Fiduciary Manager or other appointed investment managers, the Trustee will monitor the level of ESG integration on an annual basis by using ESG rating information provided by the Fiduciary Manager, where relevant and available.*

- *The Trustee will request that the Scheme's directly appointed investment managers, including the Fiduciary Manager, provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on an annual basis. Should the Trustee of Fiduciary Manager look to appoint a new investment manager, this information will be requested as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.*

Please see the below section "Engagement – AIL" for more details on the Fiduciary Manager's engagement with the underlying asset managers.

The Trustee received a Responsible Investment training session provided by AIL in March 2022, which set out the Fiduciary Manager's commitment to Net Zero as well as evidencing AIL's engagement and commitment to Responsible Investment.

The Trustee receives regular updates on ESG metrics on its underlying asset managers, and uses these to monitor the managers, with the support of the Fiduciary Manager.

The Trustee annually reviews the stewardship activity of the Fiduciary Manager to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustee will receive annual reports on stewardship activity carried out by the Fiduciary Manager. These reports include detailed voting and engagement information from underlying investment managers.

As part of the Fiduciary Manager's management of the Scheme's assets, the Trustee expects the manager to:

- *Ensure that (where appropriate) underlying investment managers exercise the Trustee's voting rights in relation to the Scheme's assets; and*
- *Report to the Trustee on stewardship activity by underlying investment managers as required.*

The Trustee will engage with the Fiduciary Manager as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee may engage with their Fiduciary Manager, who in turn is able to engage with underlying investment managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which it would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

The Trustee has delegated all voting and engagement activities to the Scheme's underlying managers, via its fiduciary manager AIL. The Trustee accepts responsibility for how the underlying managers steward assets on its behalf, including the casting of votes in line with each underlying manager's individual voting policies. The Trustee relies on AIL to review manager voting and engagement policies and activities on an annual basis.

The Trustee monitors the stewardship activity of the Fiduciary Manager on a regular basis, with more detail on the stewardship and voting activity of the Fiduciary Manager provided in the "Our fiduciary manager's engagement activity" section.

Risks

The Trustee reduces its exposure to the Scheme's risks by careful structuring of its funding and investment management arrangements and through its contracts with the Scheme's Fiduciary Manager and investment managers.

The Trustee also closely monitors the Scheme's risks and receives formal regular reports on funding, cash flows, investment managers (including performance) and diversification. Please refer to the "Ongoing Monitoring" section for further details on how risks within the Scheme are monitored and reported.

Mismatching risk is reviewed as part of the triennial actuarial valuation process and has been mitigated with the use of an LDI strategy.

Operational risk is reduced as far as possible by due diligence on the appointment and review of investment managers and advisers, and by contracts of engagement, as detailed below in the "Our fiduciary manager's engagement activity" section.

Cost and transparency considerations

The Trustee is aware of the importance of monitoring their Fiduciary Manager and other appointed investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments.

The Trustee will receive annual cost transparency reports from their Fiduciary Manager. These reports present information in line with prevailing regulatory requirements for fiduciary managers.

The Trustee receives a cost disclosure report on their investments on an annual basis. The latest report covered the calendar year 2021 and the report for 2022 is currently being finalised for review by the Trustee. The report provides information on costs and charges, including a breakdown of the annual management charge required by law. The Trustee will continue to receive and review this report on an annual basis.

The Trustee assesses the (net of all costs) performance of the appointed Fiduciary Manager at least every three years against the Scheme's specific liability benchmark and investment objective. The remuneration paid to the Fiduciary Manager and fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee. This cost information is set out alongside the performance of the Fiduciary Manager to provide context. The Trustee monitors these costs and performance trends over time.

The Trustee agreed to the change in the base fee charged by the Fiduciary Manager, from 0.30% p.a. to 0.25% p.a. in January 2021. The Trustee then agreed to a further base fee reduction charged by the fiduciary manager from 0.25% p.a. to 0.23% p.a., effective 1 October 2021. The remuneration paid to the Fiduciary Manager and fees incurred by third parties appointed by the Fiduciary Manager are provided annually by the Fiduciary Manager to the Trustee and will continue to do so. The Trustee will continue to monitor the cost and performance, at least every three years.

Arrangements with asset managers

The Trustee delegates the ongoing monitoring of the underlying investment managers to the Fiduciary Manager. The Fiduciary Manager monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the underlying investment managers are aligned with the investment objectives of the Scheme. This includes monitoring the extent to which the underlying investment managers:

- *make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity; and*

- *engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.*

The Trustee receives regular reports, at least quarterly, and verbal updates from the Fiduciary Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio.

The Trustee is supported by the ongoing monitoring and engagement activities undertaken by the Fiduciary Manager, with respect to the underlying investment managers in which it invests.

The Trustee receives annual stewardship reports on the monitoring and engagement activities carried out by the Fiduciary Manager, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed. More details regarding the Fiduciary Manager's engagement activities over the reporting year can be found in the section "Our fiduciary manager's engagement activity".

Meeting the objectives and policies as set out in the SIP – DC/AVC section

It is the Trustee's policy to review the DC and AVC investments and to obtain written advice about them at least every three years.

The Trustee asked its DC investment advisers to review the DC and AVC arrangements during the last reporting period. The review was used to provide supporting evidence for the Chair's Statement and covered provider suitability (in terms of financial strength, charges and quality of administration, where relevant) as well as quality and suitability of investment options offered to members. The report was issued to the Trustee on 8 September 2022.

Our fiduciary manager's engagement activity

The Trustee invest some of the Scheme's Defined Benefits assets in Aon Investment limited ("Aon") Managed Growth Strategy and Diversified Liquid Credit Strategy. These are fund of funds arrangements, where Aon selects the underlying investment managers on the Trustee's behalf.

The Trustee delegates monitoring of ESG integration and stewardship of the underlying managers to Aon. The Trustee has reviewed Aon's latest annual Stewardship Report to ensure that robust active ownership behaviours, reflective of the Trustee's active ownership policies, are being actioned. The Trustee believes that Aon is using its resources to effectively influence positive outcomes in the funds in which it invests.

Over the year, Aon held several engagement meetings with many of the underlying managers in its strategies. Aon discussed ESG integration, stewardship, climate, biodiversity and modern slavery with the investment managers. Aon provided feedback to the managers after these meetings with the aim of improving the standard of ESG integration across its portfolios.

Over the year, Aon engaged with the industry through white papers, working groups, webinars, and network events, as well as responding to multiple consultations.

In 2021, Aon committed to achieve net zero emissions by 2050, with a 50% reduction by 2030 for its fully delegated clients' portfolios and defined contribution default strategies (relative to baseline year of 2019).

Aon also successfully renewed its signatory status to the 2020 UK Stewardship Code.

Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. We expect the Scheme's equity-owning investment managers to responsibly exercise their voting rights. The table below shows the voting statistics for the Defined Benefit ("DB"), Defined Contribution ("DC) and Additional Voluntary Contribution ("AVC") sections' material funds with voting rights for the year to 31 March 2023.

		Number of resolutions eligible to vote on	**% of resolutions voted**	**% of votes against management**	**% of votes abstained from**
DB	LGIM – Multi-Factor Equity Fund	11,712	99.8%	20.2%	0.1%
DB	BlackRock – Emerging Markets Equity Fund*	33,350	97.0%	11.0%	3.0%
DC/ AVC	LGIM – Multi Asset (formerly consensus)	100,084	99.8%	21.7%	0.7%
AVC	LGIM – Global Equity Fixed Weights 60:40 Index	41,099	99.8%	18.0%	0.1%

Source: Managers

Use of proxy voting advisers

The table below describes how the Scheme's managers use proxy voting advisers.

	Description of use of proxy voting advisers
Legal and General Investment Management ("LGIM")	LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.
BlackRock	While we subscribe to research from the proxy advisory firms ISS and Glass Lewis, it is just one among many inputs into our vote analysis process, and we do not blindly follow their recommendations on how to vote. We primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial.

Source: Managers

Significant Voting Examples

In the table below are some significant voting examples provided by the Scheme's managers. We consider a significant vote to be one which the manager considers significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below.

LGIM – Multi-Factor Equity Fund	**Company name**	Eli Lilly and Company
	Date of vote	2 May 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.9%
	Summary of the resolution	Require Independent Board Chair
	How you voted	LGIM voted in favour of the shareholder resolution (management recommendation: against).
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an Annual General Meeting as our engagement is not limited to shareholder meeting topics.

	Rationale for the voting decision	Shareholder Resolution - Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.
	Outcome of the vote	Failed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take 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.
	On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is an application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).
BlackRock – Emerging Markets Equity Fund	**Company name**	Grupo Mexico S.A.B. de C.V.
	Date of vote	28 April 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	*Not provided*
	Summary of the resolution	Elect or Ratify Chairmen and Members of Board Committees
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	We endeavour to communicate to companies when we intend to vote against management, either before or just after casting votes in advance of the shareholder meeting. We publish our voting guidelines to help clients and companies understand our thinking on key governance matters that are commonly put to a shareholder vote. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account company's unique circumstances where relevant. Our voting decisions reflect our analysis of company disclosures, third party research and, where relevant, insights from recent and past company engagement and our active investment colleagues.
	Rationale for the voting decision	BlackRock determined that it is in the best interests of our clients as long-term shareholders to not support the director bundled ballot election at the 2022 AGM. The company has not updated their sustainability-related reporting, and in particular, their climate-related disclosures since the release of their "2020 Sustainable Development Report." In addition, the company has not addressed shareholder concerns, including BlackRock's, regarding the quality and effectiveness of their Board of Directors.
	Outcome of the vote	Passed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	BlackRock's approach to corporate governance and stewardship is explained in our Global Principles. Our Global Principles describe our philosophy on stewardship, including how we monitor and engage with companies. These high-level principles are the framework for our more detailed, market-specific voting guidelines. We do not see engagement as one conversation. We have ongoing direct dialogue with companies to explain our views and how we evaluate their actions on relevant ESG issues over time. Where we have concerns that are not addressed by these conversations, we may vote against management for their action or inaction. Where concerns are raised either through

		voting or during engagement, we monitor developments and assess whether the company has addressed our concerns.
	On which criteria have you assessed this vote to be "most significant"?	*Not provided*
LGIM – Multi Asset (formerly consensus)	**Company name**	Royal Dutch Shell Plc
	Date of vote	24 May 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.5%
	Summary of the resolution	Approve the Shell Energy Transition Progress Update
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
	Rationale for the voting decision	Climate change: A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, we remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.
	Outcome of the vote	Passed
	Implications of the outcome eg were there any lessons learned and what likely future steps will you take 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.
	On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.
LGIM – Global Equity Fixed Weights 60:40 Index	**Company name**	Barclays Plc
	Date of vote	4 May 2022
	Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.6%
	Summary of the resolution	Approve Barclays' Climate Strategy, Targets and Progress 2022
	How you voted	Against
	Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
	Rationale for the voting decision	Climate change: While we positively note the Company's use of absolute emissions targets for its exposure in the

	Energy sector, as well as the inclusion of capital markets financed emissions within its methodology, we have concerns that the ranges used for interim emissions reduction targets and the exclusion of US clients from the 2030 thermal coal exit falls short of the actions needed for long-term 1.5C temperature alignment. A vote Against is therefore applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C.
Outcome of the vote	Passed
Implications of the outcome eg were there any lessons learned and what likely future steps will you take 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.
On which criteria have you assessed this vote to be "most significant"?	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.

Source: Managers