

Honeywell UK Pension Scheme

Implementation Statement

For year ending
31 March 2024

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Section 1: Introduction

This document is the Annual Implementation Statement (the “Statement”) prepared by the Trustee of the Honeywell UK Pension Scheme (the “Scheme”) covering the “Scheme Year” from 1 April 2023 to 31 March 2024 in relation to the Statement of Investment Principles (“SIP”).

The purpose of this statement is to:

- detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the Scheme year as a result of a review;
- set out the extent to which, in the opinion of the Trustee, the Scheme’s Statement of Investment Principles (“SIP”) required under section 35 of the Pensions Act 1995 has been followed during the year;
- describe the voting behaviour on behalf of the Trustee over the year.

A copy of the Scheme’s Statement of Investment Principles can be found on the following website:

<https://epa.towerswatson.com/doc/HUK/pdf/Honeywell-UK-Pension-Scheme-Statement-Investment-Principles--.pdf>

Section 2: SIP reviews/changes over the year

The December 2022 SIP is the version referenced in the following sections of this document, where we set out how the principles have been implemented. The Trustee considered the SIP during the Scheme year and agreed not to make any changes given the content remained appropriate. The Trustee is planning to review the SIP in May 2024 following the completion of the investment strategy review.

Section 3: How the Trustee adhered to its engagement and voting policies

The Trustee's policies on voting and engagement as stated in the SIP are:

- The Trustee retains overall responsibility for setting the Scheme's policy in relation to Socially responsible investments (SRI) and corporate governance. The Trustee delegates the implementation of the monitoring of these policies to the CIF Trustee Directors in the case of the Honeywell Core, MK Executive and McKechnie Sections and to the HIC and investment manager(s) in the case of the First Technology and FKI Sections. (Section 4.2)
- The Trustee recognises an investment's financial success is influenced by a wide range of factors including environmental social and governance (ESG) issues (including climate change) and stewardship. The Trustee's view is that all financially material risks, including relevant social, environmental and ethical factors, should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments. This also includes other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings. Trustee has instructed the CIF Trustee Directors and HIC to consider this in the selection and monitoring of the investment managers for the relevant sections of the Scheme. (Section 4.3)
- All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Schemes' journey plans and funding time horizons. The Trustee's time horizon reflects the time horizon of the Sponsor's business and the Scheme's maturing liability profile. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework when agreeing investment strategies. (Section 4.4)
- The Trustee delegates responsibility for engagement in respect of investments held by the Scheme to the investment managers. This includes consideration of all financially materially factors, including ESG-related issues where relevant. The Trustee recognises that it retains overall responsibility for the exercising of these rights and therefore explores these issues with its managers to understand how they exercise these duties in practice, with an expectation that engagement will take place, either directly or as part of a collective multi-investor initiative as appropriate, with the aim of protecting or enhancing the value of the Fund's investments. The Trustee's main current stewardship priority is the risks and opportunities associated with climate change. (Section 4.5)
- The Trustee recognises that members and beneficiaries may have views on ethical investment or views on matters such as the social and environmental impact of the Scheme's investments (referred to as 'non-financial matters'). In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial factors should take precedence in seeking to maximise the security of member benefits (Section 4.6)
- The Trustee policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers but retains overall responsibility for how these are exercised. The Trustee therefore takes an active role in monitoring how these are exercised. The Trustee recognises the UK Stewardship Code as best practice and encourages their investment managers to comply with the UK Stewardship Code. (Section 4.7)

- The Scheme uses different Honeywell Common Investment Fund (“CIF”) sub-funds to implement its investment policies and also holds some investments in the name of the Scheme. The CIF Trustee Directors and HIC invest with many different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). In aggregate, the Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle and CIF sub-funds are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the CIF Trustee Directors and HIC will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee’s policies, where relevant to the mandate. (Section 5.3)
- To maintain alignment the managers are provided with a copy of this Statement and the CIF Trustee Director’s and HIC will monitor the extent to which they give effect to the policies set out in it. (Section 5.4)
- Should the CIF Trustee Director’s and HIC’s monitoring process reveal that a manager’s portfolio is not aligned with the Trustee’s policies, they will engage on the Trustee’s behalf and engage with the manager further to encourage alignment. (Section 5.5)
- For most of the Scheme’s investments, the Trustee expects the CIF Directors and HIC to invest with managers with a medium to long time horizon, and to use their engagement activity where applicable to drive improved performance over these periods. (Section 5.6)
- When assessing a manager’s performance, the focus is on longer-term outcomes, and the CIF Trustee Directors and HIC would not expect to terminate a manager’s appointment based purely on short term performance. However, a manager’s appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team (Section 5.7)
- Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services agreed prior to investment. Performance fees are also paid where appropriate. The scope of services will include consideration of long-term factors and engagement where applicable. (Section 5.8)
- The CIF Trustee Directors and HIC monitor the level of transaction costs (including commissions) incurred by each of the Investment Managers through regular engagement with the manager on this subject and through receipt of annual MiFID II cost reporting. There is no broad targeted portfolio turnover (how frequently assets within a fund are bought and sold by Investment Managers) which the Scheme adheres to. The Trustee, with the help of the CIF Trustee Directors and HIC, will monitor that the level of portfolio turnover remains appropriate in the context of the Investment Managers’ strategy and the Scheme’s investment strategy. (Section 5.9)

Over the year, the HIC and CIF Trustee Directors, on behalf of the Trustee, have undertaken the following actions in line with these policies as set out below:

- The HIC and CIF Trustee Directors received 3 different training sessions and action updates in relation to Sustainable Investment, with a focus on climate change. This included ongoing education and evolution of the Trustee’s TCFD action plan and engaging with advisers and other stakeholders as part of the production of the Trustee’s inaugural climate change TCFD Statement. Other monitoring and training covered climate metrics, the different scope of emissions, data quality and climate transition value at risk. As part of monitoring the underlying climate metrics exposure analysis no material concerns were identified. That said, the Trustee continues to recognise that climate change is a material risk and it is appropriate for the Trustee to continue to prioritise actions in this area.

- The HIC and CIF Trustee Directors' investment advisor assesses each of the Scheme's investment managers. These assessments are reviewed (and updated where necessary) on an annual basis and include considerations relating to sustainable investment across the following 3 broad areas:
 1. **ESG integration:** How managers integrate risks and opportunities relating to Environmental, Social and Governance factors within their investment research and decision-making.
 2. **Voting:** Managers' proxy vote decision-making and execution process (where applicable), including disclosure of policy and results.
 3. **Engagement:** Managers' process for proactive corporate engagement (where applicable), including disclosure of engagement activity.
- The HIC and CIF Trustee Directors received a presentation from each of the Scheme's managers at which their approach to ESG and engagement was discussed and challenged where deemed appropriate. This included:
 - **Credit** – a presentation from the Scheme's Credit manager on the climate, social and governance metrics associated with the portfolio. This also included an engagement dashboard covering the themes the manager had been engaging on as well as the status and outcome of those engagements. Over the year to end 2023 the Scheme's credit manager engaged with 31 issuers on ESG topics with around a third relating to climate change which is consistent with the Trustee's main stewardship priority.
 - **Equity** – Detailed case studies from one of the Scheme's equity managers. This included one specific engagement with an Asian bank relating to palm oil lend criteria which resulted in a measurable improvement in the Company's approach. The manager also included an update on their summary engagement information which included engagements with 77 companies over the year to end 2023.
- The HIC and CIF Trustee Directors also reviewed investment manager performance on a quarterly basis, with an emphasis on long-term rather than short-term outcomes. No direct action was taken over the period as a result of manager performance or other concerns about sustainable investment integration or stewardship.
- The HIC and CIF Trustee Directors undertook a review during the year of manager portfolio turnover. This looked at how much each of the Scheme's managers had been buying and selling the underlying assets within the portfolios they manage. The Trustee was comfortable with the analysis presented and took no action as a result. The Trustee also received an annual MiFID II cost report which provided information on the various costs incurred by the Scheme's investment managers.
- As part of the production of the Annual Implementation Statement, the IC reviewed the key voting activity of the Scheme's equity managers over the period and was comfortable with the outcome. The IC also reflected positively that one of the Scheme's managers had also appointed a third-party engagement provider, EOS, to enhance ongoing engagement with the companies in which the fund invests. The IC continued to be comfortable with the engagement efforts of the Scheme's investment managers on their behalf. Some highlights from EOS' activities over 2023:
 - Engagements with 1,041 companies on a total of 4,272 issues and objectives. More than 22% of engagements were related to climate change and c.8% were related to natural resource stewardship, including biodiversity (a stewardship priority for the Fund).
 - 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.

- Voting recommendations on 128,101 resolutions, with 22,716 against management.
 - Active participation in a range of global stewardship initiatives.
- During the Scheme year, the Trustee provided a copy of the Scheme's SIP to each of the Scheme's investment managers and sought confirmation that their management of the Scheme's assets is consistent with the policies it includes. This included specific confirmation on certain engagement policies, requested sight of a copy of their sustainable investment policy and sought confirmation of whether they were a signatory to the UK Stewardship Code. For those managers where voting and stewardship is relevant, the Trustees also included the PLSA Stewardship Guide and Voting Guidelines and asked the managers where their approach differs to those outlined by the PLSA.
- The Committee did not seek or receive member views during the year. Trustee activity continues to be communicated directly to members as part of the annual newsletter.

Section 4: Voting information

The Trustee delegates responsibility for voting and engagement in respect of the Scheme's underlying investments to the investment managers. Details of the activity undertaken by the managers is set out below. The Trustee expects the investment managers employed by the Scheme to exercise the voting rights attached to the Scheme's investments and, where appropriate, to engage with the companies in which they invest. The monitoring activities the Trustee undertakes to ensure these duties are carried out effectively were described in the previous section of this statement.

Proxy voting and manager voting policies

Some of the Scheme's managers make use of a proxy voting advisor, which aids in decision-making when voting. Details are summarised below:

- **LGIM** – 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 they do not outsource any part of the strategic decisions. Their use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. LGIM's voting policy can be found here: <https://vds.issgovernance.com/vds/#/MjU2NQ==/>
- **TWIM** – Towers Watson Investment Management (TWIM) has engaged with EOS at Federated Hermes to provide voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. Voting rights for the TW GEFF's holdings are delegated to TWIM's underlying managers, who are expected to exercise voting rights at all times. Where a manager chooses to vote differently to the EOS recommendation, the underlying manager's rationale must be noted and, if required, can be discussed further with EOS.

The Trustee remains comfortable with the managers' voting policies noting that they are considered, implemented consistently and seek to be progressive in enhancing the long-term value of the underlying companies invested in. The Trustee is also reassured by the resources committed to stewardship and voting activities by the managers and this remains a key topic of discussion as part of annual manager meetings as mentioned previously.

Voting

The below table sets out the voting activity of the Scheme's equity managers, on behalf of the Trustee, over the year. All holdings are accessed through pooled equity funds.

Manager/Fund	No. of resolutions eligible to vote on	Proportion eligible votes voted	Of resolutions voted:			
			For management	Against management	Abstained	Against proxy advice
LGIM Asia Pacific (ex Japan) Developed Equity Index Fund	3,279	100.0%	74.9%	25.1%	0.0%	16.1%
LGIM Japan Equity Index Fund	6,103	100.0%	88.0%	12.0%	0.0%	9.8%
LGIM Middle East/Africa Developed Equity Index Fund	526	100.0%	79.1%	20.9%	0.0%	13.1%
LGIM Europe (ex UK) Equity Index Fund	9,556	99.7%	80.6%	19.0%	0.4%	10.7%

LGIM Global Real Estate Equity Index Fund	4,353	99.7%	78.6%	21.4%	0.0%	16.6%
TWIM Global Equity Focus Fund	3,252	99.2%	88.2%	11.4%	0.4%	9.6%

Voting statistics are out of total eligible votes and are sourced from the investment managers.

The following table outlines a number of significant votes cast by the Scheme's investment managers on the Trustee's behalf. The commentary set out below is based on detail in the relevant manager's reports on the votes cast. The managers across the board defined a significant vote as being one that was in relation to a material holding within the fund and was expected to impact the long-term value of the Company. This is consistent with the PSLA guidance which the Trustee encouraged the managers to follow. In aggregating the votes, the Trustee has selected those which are clear, understandable and cover key issues, which for the Trustee primarily relates to climate change.

Significant votes cast	Coverage in portfolio
<p>Company: Public Storage (2.9%)</p> <p>Meeting Date: 2 May 2023</p> <p>Resolutions: Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal</p> <p>Company Management Recommendation: Against</p> <p>How the manager voted: For</p> <p>Rationale: A vote in favour is 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. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.</p> <p>Outcome: Fail</p>	<p>LGIM Asia Pacific (ex Japan) Developed Equity Index Fund</p>
<p>Company: Mitsubishi UFJ Financial Group, Inc (2.0%)</p> <p>Meeting Date: 29 June 2023</p> <p>Resolutions: To amend the articles of incorporation to publish a transition plan to align lending and investment portfolios with the Paris Agreement</p> <p>Company Management Recommendation: Against</p> <p>How the manager voted: For</p> <p>Rationale: LGIM continues to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met. A group of climate-focused NGOs has been active in this area in the Asian market for a number of years, resulting in the first climate-related proposal of its type at Mizuho ahead of its 2020 AGM. LGIM since has supported previous resolutions at each of these Japanese banks at their AGMs since 2020, and LGIM have found that these proposals and the ensuing shareholder dialogue has helped drive improved disclosures and tighter policies at the companies. Therefore, LGIM supports this proposal to invigorate and encourage further strengthening of policies in line with science-based temperature-aligned pathways towards a net-zero-by-2050 world. LGIM believe that the drafting of the resolution text is sufficiently general as not to be overly prescriptive on management given the binding nature of amending the articles of incorporation.</p>	<p>LGIM Japan Equity Index Fund</p>

Outcome: N/A results not disclosed

Company: Telecom Austria AG (1.32%)

Meeting Date: 7 June 2023

Resolution: Elect Edith Hlawati as Supervisory Board Member

Company Management Recommendation: For

How the manager voted: Against

Rationale: A vote against is applied as the director is not considered independent and their presence on the board is a concern as the board itself lacks a sufficient number of independent directors, which is a critical element for a board to protect shareholders' interests. A vote against is applied as LGIM has had concerns with remuneration practices for consecutive years and expects a company to have a diverse board, with at least one-third of board members being women.

Outcome: Passed

LGIM Europe (ex UK) Equity Index Fund

Company: Realty Income Corporation (2.5%)

Meeting Date: 23 May 2023

Resolution: Elect Director Michael D. McKee

Company Management Recommendation: For

How the manager voted: Against

Rationale: A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management. A vote against is applied as LGIM expects the Chair of the Board to have served on the board for no more than 15 years and the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.

Outcome: Passed

LGIM Global Real Estate Equity Index Fund

Company: TotalEnergies SE (0.8%)

Meeting Date: 26 May 2023

Resolution: Align Targets for Indirect Scope 3 Emissions with the Paris Climate Agreement

Company Management Recommendation: Against

How the manager voted: For

Rationale: The manager voted for this proposal, as its adoption would help to strengthen the company's efforts to reduce its carbon footprint and align its Scope 3 emission targets with Paris Agreement goals and would allow investors to better understand how the company is managing both its transition to a low carbon economy and its climate change-related risks.

Outcome: Rejected

TWIM Global Equity Focus Fund

Company: Alphabet (5.7%)

Meeting Date: 2 June 2023

Resolution: Human rights

Company Management Recommendation: Against

How the manager voted: For

Rationale: A vote in favour is applied as the proposal was regarding greater transparency related to business conducted in places with significant human rights concerns. The siting of cloud datacentres and strategy for mitigating related country risk seems like appropriate and material topics for disclosure.

Outcome: Rejected

**TWIM Global
Equity Focus
Fund**

Section 5: Summary and conclusions

We consider that all relevant SIP policies and principles were adhered to over the Scheme Year.