

Implementation Statement for the Candles Provident Pension Fund

Covering 1 January 2021 to 31 December 2021

1. Background

The Trustee of the Candles Provident Pension Fund (the “Fund”) is required to produce an annual statement to set out how, and the extent to which, the Trustee has followed the Fund’s Statement of Investment Principles (“SIP”) during the previous Scheme year in relation to voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used. This statement also includes the details of any reviews of the SIP during the year, any changes that were made and reasons for the changes.

This is the second implementation statement produced by the Trustee.

This statement should be read in conjunction with the SIP and has been produced in accordance with **The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018** and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

The SIP was last updated as at 30 September 2020 with no further updates to the SIP made during 2021. A copy of the most recent SIP can be found at <https://charlesfarris.co.uk/statement-investment-principles>.

2. Voting and Engagement

As noted in the SIP, the Trustee is keen that its investment manager, Mondrian was a signatory to the previous iteration of the UK Stewardship Code since its inception in 2012 until the revised code came into effect in 2020. They are currently in the process of preparing their submission to the new revised UK Stewardship Code.

The Trustee has elected to delegate full discretion to Mondrian to vote proxies on its behalf, including the day-to-day application of voting rights, of the funds in which they invest. However, the Trustee considers these policies in manager selections, where applicable.

The Fund’s investments are managed accordingly by Mondrian Investment Partners in their ‘Balanced Portfolio’, which can be overweight or underweight relative to the Candles benchmark, across the range of the below asset classes.

Asset Class	Candles Benchmark (%)	Minimum	Maximum
UK Equity	40	20	60
International Equity	10	0	20
UK Fixed	50	30	70
International Fixed	0	0	10
Cash	0	0	15
Total:	100		

Following investment advice received by the Trustee from the Fund’s investment consultant, the Trustee acknowledged the Fund is currently on a de-risking journey. Over time the Fund’s asset

allocation has moved towards a 50/50 split between fixed income and equities respectively. Following the year ending 31 December 2021, the Fund's asset allocation has continued to de-risk and move towards an 80/20 split between fixed income and equities, respectively. The Trustee is in the process of amending the SIP to reflect the changes in the Fund's asset allocation as they progress through the Fund's de-risking journey.

In addition to the assets managed by the Mondrian, the Fund has legacy private equity and loan notes holdings. It is the Trustee's intention to sell these assets and reinvest the proceeds in line with its agreed investment strategy.

a. Description of Mondrian's voting processes

Mondrian describe their processes for voting the equities within the 'Balanced Portfolio' as follows:

"Mondrian authorises and instructs client custodians to forward proxy materials to Mondrian's Proxy Voting Adviser to enable them to vote the proxies. Mondrian provides the Proxy Adviser with a list of client accounts and security holdings to make the adviser aware of which proxies it will vote on. This list of clients and client holdings is regularly updated.

For active equity products, proxy voting items are forwarded to the investment teams when they are received. Mondrian does not have a default voting position. Each motion is reviewed by a portfolio manager from the investment team responsible for research coverage of that stock. This includes matters to be voted on proposed by shareholders and proposals related to ESG, including climate change. The portfolio manager considers each motion, taking into account the relevant facts and circumstances that apply to that company, the Proxy Voting Adviser's recommendation and any conflicts of interest that may exist.

Mondrian utilises a third-party firm (ISS Governance) to provide proxy voting advice and facilitate the proxy voting process. Mondrian conducts a due diligence process review prior to appointing and renewing contracts with a Proxy Adviser. Mondrian will continuously assess the Proxy Adviser in their capacity to provide proxy voting services, addressing any concerns as they arise and where necessary, escalating these concerns to the Proxy Voting Committee."

b. Summary of voting behaviour over the year

	Summary Info
Manager name	Mondrian Investment Partners
Fund name	Balanced Portfolio
Approximate value of trustee's assets	c.£21.7 as at 31 December 2021
Number of equity holdings	72
Number of meetings eligible to vote	84
Number of resolutions eligible to vote	1,233
% of resolutions voted	97.98%
% of resolutions voted with management	96.00%
% of resolutions voted against management	4.00%
% of resolutions abstained	0.00%
% of resolutions withheld	0.00%
% of meetings with at least one vote against managements	32.00%
% of resolutions voted contrary to the proxy adviser recommendation	2.00%

c. Most significant votes over the year

Mondrian describe their process for identifying most significant votes as follows: "Mondrian's Proxy Voting Committee will determine the most important votes that the firm has voted on; this is typically where Mondrian has voted against management, against ISS or considered significant for any other reason."

d. Most significant votes over the year

Below is a sample of the significant votes made by Mondrian over the period to December.

Company name	Johnson & Johnson
Date of vote	22/04/2021
Summary of the resolution	Executive compensation
How you voted	Against
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
Rationale for the voting decision	<p>Johnson & Johnson is the largest, most broad-based healthcare company in the world, with strong global positions in three key segments: consumer health; pharmaceuticals; and medical devices.</p> <p>In April 2021, at the company's annual general meeting, a non-binding resolution to ratify the pay packages of executive officers, including CEO Alex Gorsky, was voted on at the company's annual general meeting. Shareholder votes on pay typically pass with an overwhelming majority. However, this vote was more contentious, given insufficient disclosure in the company's proxy statement regarding multiple years of large litigation-related expenses, including \$4 billion charges in each of 2019 and 2020 for opioid- and talc-related litigation, respectively, and an additional \$1 billion in 2020 related to opioid litigation, as well as the company's exclusion of these costs from its calculation of stock awards to its top executives.</p> <p>While adjusted financial results are commonly used in incentive programs, adjustments of this magnitude, their impact on executive compensation, and the compensation committee's rationale all warranted a level of disclosure that was not provided by the company. The issue was particularly concerning given that the adjusted results impacted multiple fiscal years, and the proxy statement disclosure reconciling GAAP results and adjusted financials was limited and did not reflect the impact of excluding the litigation-related expenses.</p> <p>Shareholder pay resolutions are not binding, but a significant number of 'no votes' can force management to reconsider executive pay. We voted against the recommendation of Johnson & Johnson's Board on executive compensation.</p> <p>Ultimately, 57% of investor votes cast backed the healthcare company's executive pay for 2020. However, this was a low level of support for a proposal most shareholders usually rubberstamp.</p> <p>Companies typically will engage with shareholders and potentially adopt changes to their pay practices if they receive a significant number of votes against their compensation plans. Johnson & Johnson has so far defended its position, arguing that it was the company's "longstanding and publicly disclosed practice" not to include certain non-recurring gains and expenses, such as litigation-related items, in the targets and results of its executives. However, other companies facing low say-on-pay support have said that they will change their executive compensation structures. Drug distributor Cardinal Health (CAH), for example, has said that it will engage with shareholders to incorporate their views in its executive compensation plan after a minority of them revolted in November 2020 against an executive pay structure similar to Johnson & Johnson's.</p>
Outcome of the vote	Motion approved with 53.89% FOR vote
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor this.
On which criteria (as explained in the cover email) have you assessed this vote to be "significant"?	Vote against management

d. Most significant votes over the year (cont)

Company name	Microsoft Corporation
Date of vote	30/11/2021
Summary of the resolution	Shareholder proposal for Report on Gender/Racial Pay Gap
How you voted	For
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No
Rationale for the voting decision	Microsoft Corporation is US-listed multinational technology corporation which produces computer software, consumer electronics, personal computers, and related services. We voted for this proposal, against management's recommendation, as shareholders could benefit from the median pay gap statistics that would allow them to compare and measure the progress of the company's diversity and inclusion initiatives.
Outcome of the vote	Motion rejected with a 40.04% FOR vote
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor this.
On which criteria (as explained in the cover email) have you assessed this vote to be "significant"?	Vote against management