Allegion UK Pension Plan

Implementation Statement

for scheme year ending 5 April 2022

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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 2022.

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/contactus/pensions.html

2. Voting and engagement

Updates to Trustees' stewardship policies:

The SIP was updated in May 2021 but there was no change to the stewardship policies.

The May 2021 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 by ensuring that the portfolio's carbon intensity is at least 20% improved vs the market and stocks that are not aligned to SDG 7 'Affordable and clean energy' and SDG 13 'Climate action' are 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.
- The Towers Watson Investment Management ("TWIM") Core Diversified Credit Fund ("CDCF"):
  - This fund generally prefers engagement over exclusion, allowing skilled underlying managers to consider the risk/return balance of each investment. However, in the case of systematic strategies, exclusions are sometimes applied. For example, the BNYM Fallen Angels High Yield Bond Fund applies an ESG screen specifically to protect the fund from investing in companies whose recovery may be impaired due to ESG concerns (eg companies subject to environmental red flags; tar sands and thermal coal companies; and companies with a very low Environmental score due to climate or carbon risks).

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.

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

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustees).

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 Willis Towers Watson are currently the chair.

Engagement activities by EOS on public policy over the year included:

- Engagements with over 1,200 companies on a total of 4,154 issues and objectives representing assets under advice of $1.64tn.
- 64 responses to consultations or proactive equivalents and 71 discussions with relevant regulators and stakeholders.
- Voting recommendations in relation to over 128,000 resolutions, with over 20,000 being against management.
- Active participation in a number of stewardship initiatives including Climate Action 100+, PRI, Investor Alliance for Human Rights and the International Corporate Governance Network.

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;
- Co-founding the Net Zero Investment Consultants Initiative with eleven other investment consultants 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);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.

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	3,221	36,110	99.8	79.2	19.4	1.4	12.4
LGIM Robeco Global Sustainable Multi-Factor Equities Index Fund	2,293	26,901	99.7	78.0	18.9	1.2	12.4
LGIM MFG Infrastructure Equity – GBP Currency Hedged	97	1,106	100.0	83.5	16.4	0.2	12.2
LGIM Heitman Global Prime Property Securities Fund	94	1,052	100.0	84.8	15.0	0.2	10.7
FSSA Investment Managers	99	794	100.0	93.6	6.4	0.0	8.2

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	**ExxonMobil Corporation**
Date of vote	26-May-21
Summary of the resolution(s)	• A number of ESG shareholder proposals • Apppointment of four activist director nominees • Re-election of the chair/CEO • Re-appointment of auditors • Remuneration report
How the manager voted	LGIM voted FOR: • A number of ESG shareholder proposals • The four activist-proposed director nominees LGIM voted AGAINST: • The re-election of the chair/CEO • The re-appointment of auditors • The remuneration report
Where voting against management, was the intent communicated to the company ahead of the vote?	Yes. LGIM announced their voting stance ahead of the AGM, with their position being widely covered in major news outlets and referenced in the voting recommendations from proxy adviser ISS.

Rationale for the voting decision	Due to persistent concerns around governance, climate and capital allocation, ExxonMobil was removed from select LGIM strategies in 2019 through sanctions applied under LGIM's Climate Impact Pledge. While acknowledging steps taken since then around carbon disclosure and targets, LGIM remained concerned with the strength of Exxon's sustainability strategy. Additionally, LGIM remained opposed to the re-election of the company's chair/CEO as they believe the separation of roles provides a better balance of authority and responsibility. LGIM therefore now escalated their engagement by: • Supporting a number of ESG proposals. • Supporting an activist investor who proposed an alternative slate of directors, as they felt that the experience and skills of the proposed four candidates would make a positive contribution to board effectiveness, evolution of business strategy, and oversight, providing much-needed constructive challenge at a time of industry disruption. • Opposing various re-elections and appointments.
Outcome of the vote	• A majority of shareholders voted for a report on climate-related lobbying. • Three of the four proposed new directors were appointed. • The chair of the remuneration committee was not reappointed to the board.
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"	This is the most high-profile example to date of a climate-related proxy contest; a recently formed hedge fund with a minority stake managed to galvanise sufficient support to replace a third of the board at a company that less than a decade ago was the world's largest by market capitalisation. In addition, this vote is considered to be significant as LGIM publicly pre-declared it before the shareholder meeting, which is an engagement tool used selectively as part of LGIM's escalation strategy.

Example 2

Manager	**LGIM**
Company name	**Apple Inc.**
Date of vote	04-March-22
Summary of the resolution	This was a shareholder resolution for a Civil Rights audit and report.
How you voted	LGIM voted FOR the resolution (against management).
Where voting against management, was the intent communicated to the company ahead of the vote?	Yes. LGIM engaged with the company prior to the annual meeting and communicated how they were likely to vote. More generally, LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.
Rationale for the voting decision	LGIM considered the issues in question to be a material risk to the company and its shareholders.
Outcome of the vote	Passed. 53.6% of the votes were in favour of the resolution.
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	LGIM will continue to engage with Apple on this topic to track what changes are made in response to this resolution and the effects of such changes.

The criteria by which this vote is assessed to be "most significant"	This was a high-profile vote with a degree of controversy and high client and public scrutiny. Apple shareholders have generally sided with management in recent past. The reversal of that trend for such a proposal indicates a shift in preferences amongst shareholders and highlights the potential impact such resolutions can have in the future.

Example 3

Manager	**LGIM**
Company name	**Intel Corporation**
Date of vote	13-May-21
Summary of the resolution	Report on Global Median Gender/Racial Pay Gap.
How the manager voted	LGIM voted for the resolution (against management).
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.
Rationale for the voting decision	LGIM views gender diversity as a financially material issue and expects companies to disclose meaningful information on their gender pay gap and the initiatives being applied to close any stated gap.
Outcome of the vote	Did not pass. 14.3% of shareholders supported the resolution.
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	LGIM will continue to engage with their investee companies, 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 views gender diversity as a financially material issue and have been using their position to engage with companies on this issue for many years and will continue to push for progress in this area. As part of their efforts to influence their investee companies on having greater gender balance, LGIM expect all companies in which they invest globally to have at least one female on their board, with stronger requirements in many larger markets.

Example 4

Manager	**FSSA**
Company name	**Chaozhou Three-Circle (Group) Co.Ltd**
Date of vote	02-June-21
Summary of the resolution(s)	The company’s eligibility for issuance of shares without pre-emptive rights.
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 discount being provided was deemed excessive and as such not in the interest of shareholders. Furthermore the size of the equity placement was deemed excessive.

Outcome of the vote	The total amount of funds raised in this issuance reduced to RMB 3.9Bn from the original target of 7.5Bn.
Implications of the outcome e.g. lessons learned and likely future steps in response to the outcome	FSSA are particularly stringent in their voting of governance matters. Small matters count, and FSSA feel there is always scope for their Chinese portfolio companies to become even better over time hence they will continue to push on this front. FSSA intend on communicating/engaging more with companies in future meetings on areas for improvement and on items they have voted against at AGMs.
The criteria by which this vote is assessed to be "most significant"	FSSA noted this a significant vote as it was against management's recommendation.