

Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 5 April 2020. This statement 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 guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme are as follows:

- To meet the obligations to the beneficiaries of the Scheme.
- To pay due regard to the interests of the sponsoring Company in the size and incidence of the sponsoring Company's contribution payments.
- To provide benefits in full as they fall due and reduce the dependency of the Scheme on excess investment return.

The Trustees are aiming to restore and then maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The aim will be to take on any investment risk in a controlled way. In addition to this, as the funding position improves, the aim is to gradually reduce the level of investment risk taken such that over the longer term the majority of the investment risk should be removed and the funding position restored.

Policy on ESG, Stewardship and Climate Change

The Scheme's Statement of Investment Principles ("SIP") includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment manager. Monitoring is undertaken on a regular basis.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the investment manager in relation to particular products or activities.

Engagement

Monitoring

- The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment manager. Over the year, no changes were made to the Scheme's strategic asset allocation and no new investment managers were appointed by the Trustees.
- As part of the monitoring process, the Trustees consider the ESG ratings provided by Mercer and how each investment manager embeds ESG factors into its investment process. ESG ratings are provided on a quarterly basis as part of the Scheme's investment and funding report (on a rating scale of ESG1 to ESG4, with ESG1 being the highest rating). A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically but the Trustees will discuss rating changes and decide if any action should be taken.
- The Manager will be expected to report on their own ESG policies as and when requested by the Trustees; over the year, the Trustees asked their investment manager to summarise their approach to ESG when presenting at Trustees' meetings.

Stewardship

- Over the year, the Scheme's investment consultant, Mercer requested that the investment manager confirm compliance with the principles of the UK Stewardship Code on behalf of the Trustees. The Scheme's investment manager confirmed that they are a signatory of the current UK Stewardship Code and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.
- Over the period, the Trustees did not set any investment restrictions on the appointed investment manager in relation to particular products or activities.

Voting Activity

The investment manager is expected to provide voting summary reporting when requested by the Trustees.

Over the last 12 months, the voting activity on behalf of the Trustees was as follows:

LGIM – Pooled funds

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile votes which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement; and
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

A summary of the voting undertaken for LGIM's flagship global pooled index funds over 2019 is provided below:

- There have been 4100 votable meetings over the year, of which LGIM has voted in 3686 of these meetings on behalf of the Trustees. In these meetings, there were a total of 50900 votable proposals; and
- LGIM has participated in the vote for 50631 of the 50900 votable proposals. In around 83% of these votes for proposals, LGIM has indicated their support to the companies' managements, while voting against around 17% of the proposals.