Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustee produces an annual implementation statement which outlines the following:

- A summary of the changes made to the Statement of Investment Principles ("SIP") over the Plan year;
- Explain how and the extent to which the Trustee has followed its objectives and policies over the Plan year, as set out in the SIP.
- Describe engagement activity undertaken and the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on its behalf) during the Plan year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above, in relation to the Defined Benefit Section SIP, dated September 2020, only. This Implementation Statement ("IS") has been prepared by the Trustee and covers the Plan year 6 April 2020 to 5 April 2021.

1. Review of and changes to the SIP

The SIP was updated in September 2020 to take account of new regulations which came into effect from 1 October 2019. The regulations required the Trustee to include policies relating to Responsible Investment, Stewardship (e.g. voting and engagement) and non-financial factors such as members' views.

During the Plan year the Industries Division, for tactical reasons due to the market environment, reduced the Investment Objective to a return of at least liabilities +2% p.a. net of fees. The long term strategic target of the Industries Division remains liabilities +3% p.a. net of fees. This change necessitated an update to the SIP, which was completed in consultation with the sponsoring employer. The SIP was also reviewed and revised over the course of the year to take account of further regulatory changes which required the Trustee to outline policies regarding how it incentivises investment managers to achieve its long-term objectives, policies on cost transparency and policies on voting and stewardship.

The most recent SIP includes the changes outlined here and was agreed and approved by the Trustee ahead of the 1 October 2020 deadline.

The Trustee consulted with the Sponsor when making these changes and obtained written advice from Aon, the Trustee’s investment adviser.

2. Evidence on how the Trustee has met their SIP objectives and policies

The Trustee outlines in the SIP a number of key objectives and policies. The full wording of these SIP policies can be found in the SIP document at this link: https://www.myppgpension.com/pdf/ppg-db-sip-2020-f.pdf

We have considered the broad themes these objectives and policies fit into and have noted these below together with an explanation of how these objectives have been met and policies adhered to over the course of the year. The Trustee will set out where they expect more information or engagement to be provided by its managers.

Other SIP Policies

Policies relating to investment strategies and objectives

This change necessitated an update to the SIP, which was completed in consultation with the sponsoring employer. The Trustee can report that there has not been any departure from the SIP by the Plan's investment manager during the year ended 5 April 2021.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Additionally, the Plan's investment manager meets with each of the underlying managers on a six-monthly basis to carry out a deep-dive session focused on ESG. These deep-dive sessions cover both how each manager incorporates ESG considerations into their investment process and their stewardship activity.

Due to the complex and interrelated nature of the Plan's risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially).

The Trustees intended policy is to monitor, where possible, these risks periodically. The Trustee receives quarterly reports for each Division of the Plan showing:

- *Asset allocation.*
- *Overall performance versus the Plan's investment objective and liability benchmark.*
- *Any significant issues with the fund managers chosen by the Manager that may impact their ability to provide the service agreed by the Trustee.*

Policies relating to Environmental, Social and Governance Factors

Over the Plan year the Trustee formulated policies around Responsible Investment that were documented in the Statement of Investment Principles.

The Trustee relies on Aon to raise potential ESG concerns with any of the investment funds. Over the Plan year no such concerns were raised. The Trustee's specific policies in relation to ESG matters, as set out in the SIP are:

- *Environmental: We believe that the Plan is exposed to the risks posed by climate change and it may impact the Plan's investments over its time horizon; We recognise that it is possible to practically prepare for climate change and we expect both Aon and underlying investment managers to position assets accordingly where appropriate to do so*
- *Social: The Trustees expect, where appropriate, Aon will engage with underlying managers to consider the impact companies invested in have on customers and society; The Trustees expect, where appropriate, Aon will engage with underlying managers to avoid investing in the most harmful companies*
- *Governance: We believe that poorly governed companies are more likely to underperform and that good stewardship can lead to better risk- adjusted returns; We expect Aon to monitor the voting and engagement practices of underlying fund managers and to act on this information where appropriate*

The Trustee expects its asset managers to exercise their voting and engagement rights where possible. The Trustee, assisted by Aon, has collated their asset managers' voting and engagement records for the year. These are documented later in this Statement.

The views of the Sponsor, where applicable, have been aligned to the Plan's ESG objectives. The Trustee and Sponsor have jointly received training, delivered by Aon, on regulatory matters relating to stewardship and responsible investment in a broader context. In September 2020, following consultation with the sponsor, the Trustee implemented revised wording and updated the SIP to meet the regulatory requirements.

Policies relating to costs and transparency

Over the year the Trustee has monitored the total expense ratio of each of their funds through Aon's quarterly monitoring report and through the cost disclosure report provided by the investment manager.

Policies relating to arrangements with managers

The Trustee recognises that the arrangements with the Manager, and correspondingly the underlying investment managers, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the Manager is incentivised to operate in a manner that generates the best long-term results for the Plan and its beneficiaries.

The Trustee receives regular reports and verbal updates from the Manager on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan objectives and assesses the Manager over long-term periods.

Aon's Investment Manager Research ("IMR") Team is responsible for researching, rating and monitoring investment managers across all asset classes. This includes some aspects of the manager's alignment with Trustee policies generally, for example, whether the manager is expected to achieve the performance objective and a review of their approach to ESG issues. AIL invests only in buy-rated managers. IMR meets with each of buy-rated managers on a quarterly basis to receive an update on the portfolio, performance and any major developments. Following discussions with the manager, they review each sub-component rating and overall rating. In addition to regular monitoring, triennially IMR performs a deep dive review of every buy-rated manager. It also meets with managers on an ad-hoc basis if there are significant changes to any monitoring points which raise concern (changes to investment team, poor performance, etc.).

Plan Stewardship Policy Summary

The Plan Stewardship Policy in force over the majority of the reporting year to 5 April 2021 is summarised below.

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee annually reviews the stewardship activity of Aon Investments Limited to ensure the Scheme's stewardship policy is being appropriately implemented in practice. The Trustee receives annual reports on stewardship activity carried out by Aon Investments Limited, these reports include detailed voting and engagement information from underlying asset managers.

As part of Aon Investments Limited's ("AIL") management of the Plan's assets, the Trustee expects AIL to:

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

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

Where voting is concerned, the Trustee expects its underlying investment managers, to recall stock lending, as necessary, in order to carry out voting actions.

The Trustee may engage with the Manager [AIL]*, who in turn is able to engage with underlying asset 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 they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.*

The Trustee has also summarised its beliefs around responsible investment issues through the following statements:

- *Current approach: The Trustee expects Aon* [Aon Solutions UK Limited] *to consider Environmental, Social and Governance ("ESG") ratings and additional information to monitor the appropriateness of investment arrangements and where appropriate; We expect underlying fund managers to consider ESG issues related to the companies or assets they invest in.*
- *Implementation: We expect both Aon and underlying investment managers to integrate ESG considerations into the investment process; We expect Aon to keep abreast of developments and emerging best practice on responsible investment issues and to manage the portfolios accordingly; We will ask our advisers to provide regular updates on their responsible investment activities; We will make our policies available to members.*

3. Voting and Engagement Activity

Summary

Overall, the Trustee is of the opinion the stewardship carried out on behalf of the Scheme is adequate, and in line with the stewardship policy as stated in the SIP. The Trustee notes the efforts from their investment manager ("AIL") in monitoring the appointed underlying asset managers and encouraging better practices where appropriate. Similarly, the other examples reviewed demonstrate the willingness and ability of the appointed underlying asset managers to take proactive stewardship activity.

The Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time, in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme, through considered voting and engagement.

Engagement – Fiduciary Manager Aon Investments Limited ("AIL")

Under the Trustee's fiduciary mandate, managed by Aon Investments Limited ("AIL"), AIL appoint underlying asset managers to achieve an overall target return. The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

AIL have undertaken a considerable amount of engagement activity over the period, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings in 2020 predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL was able to analyse and discuss the voting and engagement activities undertaken during calendar year 2020, highlighting areas of improvement and discussing manager strategy in the area of Responsible Investment moving forward. Meetings have been ongoing through the beginning of 2021.

Aon Solutions UK Limited ("Aon") also actively engage with asset managers and this is used to support AIL in their fiduciary services. Over the period, Aon's Engagement Programme maintained a dialogue with one of its leading global asset managers on behalf of many of their clients which invest with the manager. This culminated towards the end of 2020 in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- Aon's analysis of the manager's voting actions over the period showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that the manager had markedly changed its voting policies in the second half of 2020, and reassured Aon that moving forward, vote decisions would better align with their stated positions on such ESG matters. Aon expect to see this reflected in voting actions by mid-2021.
- Aon expressed concern that given the level of potential influence the manager had, the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged Aon's concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how it is updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

Aon welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

Voting and Engagement activity – Equity and multi-asset Funds

Over the year, the Plan has invested in numerous arrangements with AIL.

AIL Global Equity Strategy

Sands Capital ("Sands")

Voting

Sands monitors the occurrence of shareholders' meetings for the businesses owned in each strategy and obtains and evaluates the proxy-related research and materials relating to the securities being voted. The firm also receives proxy voting research from Glass Lewis, Stakeholders Empowerment Services ("SES") and Institutional Shareholder Services ("ISS") but does not necessarily vote according to the guidelines provided by these services. The research is instead used as an efficient means to collect and organise the proxy issues.

When a client has delegated its proxy voting authority to Sands, the firm determines, prior to the voting deadline, how to vote on each proxy proposal based on the firm's analysis of any relevant information and the firm's proxy voting policy. Sands uses ISS to electronically receive proxy ballots, to submit voting instructions, and to record client votes for reporting purposes.

Sands holds a policy that votes made in proxy should consider the short and long term implications of each proposal. Sands states that it's neither an activist in corporate governance nor an automatic supporter of management, but holds a policy which usually means it will vote with recommendations from management. This is because it believes the management teams of most companies it invests in generally seek to serve shareholder interests. Sands will vote in accordance with the recommendation of management, unless, in Sands' opinion, such a recommendation is not conducive to long term value creation or otherwise in the best interest of its clients.

Any specific voting instructions provided by a client or its designated agent in writing will supersede Sands' proxy voting decision.

Voting Example – NIKE

An example of a significant vote against management took place in September 2020 regarding executive officer's compensation at NIKE, Inc and was assessed as significant as Sands was in the minority on this issue and felt that the company's disclosures around a multi-year compensation plan made it difficult to support. Sands believed that:

- Paying a combined $20M transition bonus to the ex-Chief Executive Officer ("CEO") & incoming CEO without clear disclosed targets was inappropriate; and
- That utilising the 'top 45% total shareholder return for the S&P 500' was not an appropriate hurdle for compensating top-tier executives at a company like NIKE.

Sands engaged with the company and a compromise was made and adjusted for as part of the compensation package. Sands still felt as though the quality of the pay program did not match the levels of pay provided to the CEOs. There is also a notable gap between other senior executives and incoming CEO's pay package. Sands plans to continue engaging the company on this to assist in improving the plan over time.

Engagement

Sand's engages on business-specific matters that may have a material impact on its investments. It will engage with companies for the following three objectives:

1. To inform its business cases and build conviction in businesses
2. To exchange perspective on matters relevant for long-term shareholders' interest
3. To discuss ballot proposals and inform its proxy voting decision.

Engagement Example – Grail

In September 2020, Sands engaged with Illumina regarding its acquisition of Grail, a company it had spun out in 2016. Sands had several concerns around the deal (valuation, process, possibly insider ownership), and decided to engage the company on the matter in order to better understand the acquisition. Sands first engaged the CEOs of Illumina and Grail, who laid out their strategic thinking behind the proposed acquisition, and then followed up with two Illumina board members. The engagement allowed Sands to gain some comfort around the transaction given the long-term opportunity for Illumina. Following the closure of the deal, Sands has advised the board that it would like the CEO's compensation to be directly tied to the performance of Grail given that it was his decision.

Harris

Voting

Harris has a proxy voting committee that is responsible for recommending proxy voting guidelines, establishing and maintaining policies and procedures for proxy voting, and ensuring compliance with these policies and procedures.

Harris uses its own bespoke policy, however it utilises ISS' platform to vote.

Harris states that it will normally vote in line with management's recommendations, as it believes "voting with management is generally the same as voting to maximise the expected value of investments" following the extensive assessment of the company's management when choosing to invest.

Voting example – Liberty Global

An example of a significant vote against management took place in June 2020 whereby Harris voted against management in relation to executive officers' compensation at Liberty Global plc. Harris, along with c. 35% of shareholders voted against management regarding its remuneration policy, as they believed the CEO's compensation was excessive, and that half of it was time based, rather than performance.

Engagement

Harris regularly monitors invested companies and takes appropriate action if investment returns are at risk. To ensure that the companies are acting in its shareholders’ best interests, Harris regularly communicates with management about new initiatives and matters affecting the business. Annually, Harris has more than a thousand management meetings with C-level executives and board members.

By the time Harris decides to invest in a company, it already concludes that management and the board of directors are likely to act in shareholders’ best interests. When management does not meet Harris' expectations, a private, direct conversation is initiated. Engagement is carried out under the premise that unsatisfactory or insufficient change by the company will generally be met with divestment.

Engagement example – Oracle

In November 2020, Harris engaged with Oracle Corporation regarding gender and racial pay gap reporting. After considering the case, Harris decided to vote with management against this resolution, but engaged with the company directly to communicate the importance that it attaches to this issue, which Harris has stated it will continue to monitor to insure that the issue is being adequately managed. Harris did not support the shareholders' resolution as it believed it was not in the financial interest of shareholders, but because it stated that Oracle are already reporting in line with other tech companies and undertaking sufficient initiatives to ensure gender equality in the workplace.

GQG

Voting

GQG's portfolio management team is responsible for proxy voting decisions. While the majority of portfolio company proxy votes are company-management-initiated, routine in nature, and voted in accordance with GQG’s proxy voting policy, some proxy categories warrant an escalated review by GQG. The categories warranting a review generally represent proxies that are strategic to the company. Therefore, GQG escalates certain categories of proxy votes to a designated GQG investment analyst with the responsibility to ensure that those proxies are being voted in the best interests of GQG’s clients given the potential significance of the proxy vote to the company's shareholders. An example of some of the categories/sub-categories of proxies that are escalated are: takeover related, corporate governance, shareholder rights etc.

GQG utilises ISS's Sustainability Policy.

At least annually, GQG's Trading Research and Execution working group reviews, with the designated proxy review investment analyst, any votes that were inconsistent with GQG's proxy voting policy and the recommendations of GQG's proxy voting agent, ISS, to consider and recommend to the Investment Review Committee whether any changes should be made to GQG's proxy voting policy. GQG was unable to provide an example of a significant vote as it does not track significant votes.

AIL have opened a dialogue with GQG to assist it in improving its policy for reporting on significant votes.

Engagement

GQG states it will engage with company management if it believes such an engagement will maximise shareholder value in the long term. GQG leverages its third-party ESG service provider, Sustainalytics, to monitor and provide ESG risk rankings across its portfolios. If a company's ESG Risk Rating is significantly downgraded, GQG's investment team will review the cause of such a downgrade and where appropriate, will engage with company management to discuss the issue further. GQG may also use individual engagements with companies to supplement research and monitoring for current and potential holdings.

GQG also periodically partakes in thematic engagement, whereby it sends questionnaires to selected companies regarding a certain topic and shares the responses across investment teams. This may lead to additional engagement if necessary. Collaborative engagement is also something GQG participates in through working with ISS to identify companies who have failed to respect established ESG norms, or joining conference calls with companies in collaboration with other investors.

Engagement example – Barrick Gold

In August of 2020, GQG disinvested from the company Barrick Gold following engagements regarding tailings dam (a dam used to store by-products of mining operations) safety issues. The discussions with management intensified concerns about the effectiveness of Barrick's ESG procedures and the safety of its tailings dams. The company's response to GQG's questions lacked transparency and were undermined by further research by GQG's non-traditional analysts.

Longview

Voting

Longview engages Glass Lewis to carry out proxy voting for all institutional clients who request that Longview takes responsibility for the implementation of its voting rights.

All voting decisions are made on a case-by-case basis by Glass Lewis's specialist research analysts, in line with its detailed regional policies, which are approved by Longview on an annual basis. However, Longview would advocate the exercising of votes, contrary to Glass Lewis policy, where necessary. The decision to vote contrary to Glass Lewis's recommendation is made collectively by the Research team and Chief Investment Officer ("CIO") and will often follow engagement between our Research team and the company.

Longview receives Glass Lewis Proxy Voting reports from Glass Lewis, which cover all proposals to be discussed at upcoming company meetings, including those related to ESG. These reports are circulated to the lead Research Analyst for each stock, who confirm, in writing, their agreement or otherwise with Glass Lewis's recommendations. In cases where Longview deems Glass Lewis's decision to not be in the best interest of its clients, the Research team will intervene and cast a vote against its recommendation.

Longview states that it believes companies should be managed in the interest of the shareholders and therefore it ensures clients' voting rights are used responsibly. Longview provided a number of significant voting examples at a strategy level.

Voting example – Anonymised at request of Longview

In April 2020, Longview voted against management on the resolution of a shareholder proposal regarding right to act by written consent proposed by a multinational financial services corporation. No intent was communicated to the company ahead of the vote. Rationale for the voting decision was that bonuses and share based incentives should only be paid when management reach clearly defined and relevant targets, which are aligned with the interest of the shareholders, as written consent enables shareholder to take action on important issues that arise between annual meetings. The outcome of the vote was not tracked by the proxy provided by Glass Lewis, but only the percentage of votes cast.

This was a significant example based on the portfolio weight of the company at the time of voting and as more than 15% of votes were against management.

Engagement

Longview engages with the senior management of the companies it invests in, and concentrates on strategy, corporate responsibility, and any factors that would affect a company's ability to deliver long-term sustainable value for shareholders. It evaluates engagement with companies through ongoing dialogue with management and incorporates these results into its own investment criteria. While Longview will put its views forward strongly in meetings, it does not consider itself an activist. If it did not believe, after lengthy discussions, that management were acting in the shareholders’ best interest, it would sell the holding in order to minimise loss of shareholder value.

Arrowstreet

Voting

Arrowstreet engages a third-party service provider, ISS, to provide proxy-voting services for client accounts (including Arrowstreet Sponsored Funds). This includes vote analysis, execution, reporting and certain recordkeeping services. ESG principles are taken into account in the service provider’s standard proxy voting policies. In addition, Arrowstreet makes enhanced, ESG-specific, proxy voting services available upon request. Proxy voting services are monitored periodically by Arrowstreet's Client Operations team.

Arrowstreet generally follows the recommendations of its proxy provider, ISS, but may override an ISS decision in circumstances where ISS discloses a material conflict of interest, and Arrowstreet determines that doing so would be in the best interests of its clients. The third-party voting service is reviewed regularly, to ensure proxy voting recommendations are based on current and accurate information and to address any conflicts of interest or other areas of concern from the service provider.

Arrowstreet does not currently track significant votes.

AIL have opened a dialogue with ArrowStreet to assist them in improving its policy for reporting on significant votes.

Engagement

At a firm level, Arrowstreet recognises that engagement is increasingly important to some of its investors and, as a result, have partnered with a leader in responsible investing to provide that service. All engagement activities are fully outsourced through Sustainalytics, offering an established, standardised and systematic engagement framework with a global investor base. The engagement framework is incident and compliance based; driven to remediate and mitigate violations of international norms and standards involving: labour, environment, business ethics and human rights. Historically, Arrowstreet did not engage with companies and, due to the timing of this new partnership with Sustainalytics, has not been able to provide engagement data for the requested time period but hope to be able to accommodate future requests.

AIL Global Multi-Factor Equity

LGIM Multi Factor Equity Fund ("LGIM")

Voting

LGIM make use of the ISS proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. LGIM has put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example – Pearson

In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson. Pearson issued a series of profit warnings under its previous CEO. Despite this, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting ("EGM") was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.

This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. LGIM also discussed the shortcomings of the company's current remuneration policy.

LGIM spoke with the chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

33% of shareholders voted against the co-investments plan and therefore, by default, the appointment of the new CEO. While this resulted in the plan being passed, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement going forward.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here.

Engagement example – Proctor and Gamble ("P&G")

An example of engagement over 2020 was with P&G. P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century Capital Manager ("Green Century") that P&G should report on effort to eliminate deforestation (voted on in October 2020) in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution – although P&G has introduced a number of objectives and targets to ensure their business does not increase deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources. More detail on this stewardship example can be found here.

AIL Emerging Markets Equity Strategy

Neuberger Berman ("NB") Emerging Markets

Voting Policy

NB has developed custom Proxy Voting Guidelines that comprehensively lay out its voting positions, including on corporate governance, environmental, and social issues. NB believes that proxy voting is an integral aspect of investment management and as such, has designated a Governance & Proxy Committee (“Proxy Committee”) with the responsibility for:

1. developing, authorising, implementing and updating NB’s policies and procedures;
2. administering and overseeing the governance and proxy voting processes; and
3. engaging and overseeing any third-party vendors as voting delegates to review, monitor proxies and/or apply DB's custom Guidelines.

The application of NB's custom Guidelines is audited on a quarterly basis to ensure accuracy and their internal audit team audits the proxy voting policies and procedures on an annual basis in an effort to ensure their soundness and identify opportunities for improvement.

NB has engaged Glass Lewis as its advisor and voting agent to:

1. provide research on proxy matters;
2. vote proxies in accordance with NB’s custom Voting Guidelines or as otherwise instructed and submit such proxies in a timely manner;
3. handle other administrative functions of proxy voting;
4. maintain records of proxy statements received in connection with proxy votes and provide copies of such proxy statements promptly upon request; and
5. maintain records of votes cast.

While NB utilises research from proxy advisors as supplementary data to help inform their analysis, voting decisions are determined by NB's custom Voting Guidelines and proprietary research.

During the period, NB voted on 100% of the 1,363 resolutions it was eligible to vote on at 147 meetings.

Voting Example - Detsky Mir

In December 2020, NB voted against the management of Detsky Mir on the resolution to reduce board size with the intent communicated to the company ahead of the vote. NB voted against the management as reducing board size would remove an opportunity to have more independent directors at the meetings. This was considered a significant vote as it was publicly disclosed and had strong engagement with management and board members. As an outcome this resolution received only 24.38% shareholder support. NB will continue to engage management and board members to ensure independent board members are appointed where it makes sense.

Engagement

NB engages with companies through meetings, written communications, shareholder proposals and proxy contests and proxy voting. The research and portfolio management teams host on average over 1,500 meetings per year, in addition to conference calls and on-site company visits. At the strategy level, NB engaged with 59 entities during the period.

Engagement Example - Huatai

Since 2019, NB has been engaging with Huatai on the theme of Governance, with a focus on its leadership and the separation of the company's CEO from chairperson. NB (along with other shareholders) has engaged Huatai, the Chinese securities broker, over the past year on a variety of ESG topics including:

1. corporate governance, and
2. human capital development.

This engagement was led by NB’s global equity central research analyst. NB engaged through in-person meetings (pre-Covid), calls, video-conferencing and email exchanges. As an outcome of these engagements, Huatai named a new Chairperson, a role the CEO agreed to give up, and human capital development, where the firm improved employee training and feedback processes. The firm has also established ESG Risk Management Policies that apply to client business activities (e.g., financing). NB will continue to engage on the various topics.

Oaktree Emerging Markets Equity Fund ("Oaktree")

Voting Policy

Oaktree assigns the relevant analyst to assess each voting opportunity on a case-by-case basis. They use ProxyEdge solely for ballot calendar management and submitting voting instructions as they believe each analyst is better placed to decide how a vote should be actioned. The firm believes it is important for the analyst to know each item on the company vote register, so they can provide direct feedback to management.

During the period, Oaktree voted on 100% of the 1,003 resolutions that it was eligible for at 101 meetings.

Voting Example

In March 2021, Oaktree voted against management at Vale, in an amendment to reduce the number of ordinary meetings and amend the minimum number of members to call a meeting of the Board of Directors, according to the Management Proposal. Oaktree's engagement with the company to-date led them to believe that, under the current regime, board members were moving governance processes in the right direction but at times, not quickly enough. Reducing the number of ordinary meetings whilst also making it more challenging for members to call a meeting – raising the bar from two, to a minimum of five members – does not benefit minority shareholders who are, just now, gaining a larger voice (after the dissolution of the shareholders agreement last November). Oaktree expects significant movement at board level now that minority shareholders are able to vote for individual candidates. Oaktree stated that reducing the number of ordinary meetings felt counter-productive for getting the soon-to-be newly constituted board up to speed, given the potential for many new faces. Lastly, requiring a greater percentage of shareholders or board members to call a meeting goes against the firm’s proxy guidelines.

Oaktree states that they regularly speak with Vale to offer suggestions on ways to improve its governance practices. In this specific case, Oaktree did not communicate with management because their voting action was clear cut, as the proposal violated Oaktree's firm's proxy guidelines.

Engagement

Through their strong relationships with company management, Oaktree believes it can play a constructive role in helping companies improve their practices. Oaktree has added capability to its research database allowing it to tag ESG commentary notes where applicable. This allows teams to follow developments and improvements and showcase those engagements where they act as a fiduciary or a stakeholder to improve corporate responsiveness. Oaktree states that it engages with every company in its portfolio as well as many others in its investment universe.

Oaktree has implemented an ESG "Escalation Committee" to enhance decision-making process when a significant ESG-related event occurs at the company level. Following such event, the research analyst covering the stock will fill out an escalation template detailing the event, potential ESG implications and any ESG score revisions. The escalation template will then be reviewed by the Escalation Committee, which consists of at least one portfolio manager and several research analysts, excluding the analyst responsible for the name. The Committee will determine an action to take on the stock typically that same day, resulting in a timely and unbiased decision.

Engagement example

In April 2020, the management of a property company, Guangzhou R&F, announced it would buy a property management business. Oaktree believes that management was taking advantage of listing rules to avoid requiring independent shareholder approval. The outcome was that Oaktree divested from the company. Oaktree stated "Such grievous disregard for fair treatment of shareholder rights is a gross abuse of management power and showcases poor governance".

Coronation Global Emerging Markets Fund ("Coronation")

Voting Policy

Coronation's voting guidelines focus on the election of directors and board representation, remuneration and appointment of auditors.

Coronation's voting process starts with analysts analysing and reviewing the voting notice and engaging with a company where necessary. Coronation then reports the outcome to senior members and the CIO. The investee company is informed of any "No" votes or abstentions and which are then followed up by a letter or telephone call to company management explaining the reason for doing so.

Coronation's voting decisions are as a result of the guidelines and principals as set out within its Proxy Voting Policy. The proxy voting guidelines build on its corporate governance principles and provide a reference point for analysing resolutions put forward at shareholder meetings and for formulating voting recommendations. Coronation does not adopt a prescriptive approach to voting, and these guidelines are not rigid rules. Coronation's fiduciary duty to investors requires them to examine each proposed resolution and the context in which it applies. Therefore, when voting on behalf of clients, Coronation considers, on a case-by-case basis, those factors that are in the best interests of clients and those which, in Coronation's view, may negatively affect the value of client investments. For this reason, there may be instances in which shares may not be voted in strict adherence to these guidelines. Coronation continuously re-assesses its proxy voting guidelines and engages with the broader team, industry experts, other institutional investors and industry bodies so as to continuously act with its long-term investment horizon and client's best interests in mind.

Coronation does not outsource the voting of shares as they believe it forms part of their investment offering and approach and they cast votes in 100% of the 789 eligible ballots during the period at 67 meetings.

Voting Example - China Literature Ltd

In June 2020, Coronation voted in support of the management of China Literature Ltd on a resolution regarding the approval of the issuance of equity or equity-linked securities without pre-emptive rights. The intent was communicated to the company ahead of the vote. Coronation did not feel it was in minority shareholder interests to grant an open ended mandate to issue shares. If the issuance of shares is required, then it must be put to a shareholder vote with a specific reason for issuance. This is a significant example because it is a material issue of alignment with shareholder interest, particularly that of minority shareholders.

Engagement

Coronation states that it is continuously working towards ensuring ESG standards are improved to promote a long-term sustainable outcome for all stakeholders. They focus on material ESG issues which they believe will have the most meaningful impact on a company's long-term prospects. They will engage throughout the year, not only at the time of corporate events, so that the company has sufficient time to address such concerns before formal voting. Coronation believe that a pre-emptive engagement and rectification provides a preferable outcome for all stakeholders than formulaic voting at general meetings.

Engagement Example - British American Tobacco (“BAT”)

Another example of engagement during the period involved the announcement of the appointment of a new Chairman of the Board at BAT. Coronation initiated their engagements with the objective to discuss the strategic direction of the Company, namely that around the new appointment and revised remuneration incentives. Coronation engaged with the outgoing Chairman of the Board of BAT and the Senior Independent Director (who is also the Head of the Remuneration Committee). Coronation discussed the criteria for the selection of the new Chairman with BAT and shared some perspectives on where it felt the company had room for improvement. In addition, the board's perspective on the company's performance in next generation products (“NGP”s) was discussed. Based on some prior objections to the current incentive Plan, Coronation shared its view that there should be an explicit link between management remuneration incentives and the company's performance in NGPs given the strategic importance of NGPs to the future prospects of the company. Coronation followed up this discussion with a letter to the Chairman of the Remuneration Committee formalising its thoughts on the matter. Following the announcement of new NGPs related remuneration Key Performance Indicators (“KPI”s), Coronation felt that it required further clarity on the issue.

Coronation further followed up with the Head of Reward at BAT to better understand how these KPIs would be measured and verified.

ESG remains in the remit of the investment team with a dedicated analyst. On two separate occasions, Coronation engaged with both the outgoing Chairman of the Board of BAT and the Senior Independent Director (who is also the Head of the Remuneration Committee), as well as the Head of Reward at BAT. Upon the conclusion of their first engagement, Coronation wrote a letter to the Board formalising its thoughts on the issues at hand. Coronation currently sees no need to escalate its engagement efforts as it is comfortable with information and action items provided by the Head of Reward at BAT and is comfortable with the detail provided by the firm.

TT International Emerging Markets Unconstrained ("TT International")

Voting Policy

TT International's policy is to vote on all issues on every stock it owns in what it believes to be the best interest of its clients. If there is a material concern regarding management or governance within a company it is invested in it will vote against management, engage with the company in question, and may ultimately decide to sell the shares if appropriate.

Voting is the responsibility of TT International’s dedicated Proxy Voting team, in conjunction with the relevant portfolio manager. TT International receives alerts from ISS advising of all meetings, and also of those meetings where there is a vote against management. TT International reviews ISS's research for all meetings, in particular, when there is a vote against management. TT International will always have the final decision (over the ISS recommendation).

During the period, TT International voted in over 98% of the 771 resolutions for which it was eligible at 84 meetings.

Voting Example - Samsung Electronics Company Ltd. (“Samsung”)

In March 2021, TT International voted against management of Samsung Electronics on the following three resolutions:

1. Elect Park Byung-gook as Outside Director;
2. Elect Kim Jeong as Outside Director Resolution; and
3. Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member.

In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics and only son of the former company chairman, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds worth about KRW 8.6 billion (c£5.5Bn). Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company's funds to bribe the impeached former President Park Geun-hye. While Lee was released from prison, he was not acquitted of the charges. Based on the court's verdict, Lee actively provided bribes and implicitly asked, then president, Park to use her power to help his smooth succession. The court further commented that the independent compliance committee established in January 2020 has yet to become fully effective.

TT International felt that the directors noted above had collectively failed to remove criminally convicted directors from the board. The inaction was seen as indicative of a material failure of governance and oversight at the company. Despite TT International's vote, this resolution passed, however TT International felt that this was warranted at this time, as removing the company's CEOs may be detrimental to the company's operation, as well as shareholder value.

Engagement

As an active manager, TT International strongly believes in frequent and detailed engagement with the companies in which it invests, as well as with those in the broader universe. TT International seeks to engage with a large number of companies on a regular basis and publishes statistics on its engagements on its website every quarter. It normally expects to engage with all its holdings at least once a year.

Engagement Example - Banco do Brasil

TT International engaged with Banco do Brasil, regarding climate change, as it faces higher acute physical climate risks and sought to understand Banco do Brasil's exposure to the heavy drought in Southern Brazil. TT International's thematic engagements are prioritised according to its broader assessment of ESG risks and in 2020, TT International determined "high priority" environmental and social issues as physical climate risk and health & safety. The engagement was typically conducted via email, was led by the Internal TT International investment team, and supported by TT International's head of ESG. TT International discussed the impact of drought in Rio Grande do Sul and how it would affect the asset quality.

GQG Emerging Markets Fund ("GQG")

Voting Policy

For this fund, the voting and engagement policies remain the same as previously mentioned as part of the AIL Equity Strategy.

Within the Emerging Markets fund, GQG voted in over 97% of the 634 resolutions it was eligible to vote at in 75 meetings.

GQG was unable to provide voting examples at a strategy level, as they state they do not currently track significant votes.

Engagement Example - Vale

In August of 2020, GQG's engagement with Vale continued with discussions around tailings dam safety issues. The company provided detailed risk assessment information about its tailings dam portfolio. It provided updates to the company's relocation and compensation efforts, answering GQG's specific questions about its relations with local communities. GQG detected the start of a cultural shift at Vale that is much more geared towards transparency and safety. As a result, they invested in the company.

AIL Global Impact Strategy

Baillie Gifford Positive Change Fund ("Baillie Gifford")

Voting Policy

Baillie Gifford's Governance and Sustainability team oversees its voting analysis and execution in conjunction with its investment managers. Baillie Gifford utilises research from proxy advisers ISS and Glass Lewis for information purposes only and does not delegate or outsource any of its stewardship activities or follow or rely upon proxy advisers' recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford votes in line with its in-house policy and not with the proxy voting providers' policies. Baillie Gifford also has specialist proxy advisors in the Chinese and Indian markets to provide it with more nuanced market specific information. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines. Baillie Gifford believes that voting should be investment led, because how it votes is an important part of the long-term investment process. Baillie Gifford endeavours to vote every one of its clients' holdings in all markets.

During the period, Baillie Gifford voted at over 95% of the 376 resolutions it was eligible to vote on at 36 meetings.

Voting Example - Tesla Inc ("Tesla")

In September 2020 Baillie Gifford voted for a shareholder resolution in the Tesla annual general meeting ("AGM"). Baillie Gifford supported a shareholder proposal to eliminate supermajority voting requirements from Tesla's bylaws and to adopt a simple majority voting standard. Baillie Gifford thinks this change is in shareholders' best interests.

This resolution was deemed significant because it was submitted by shareholders and received greater than 20% support. As an outcome this resolution was passed.

Baillie Gifford supported this change at the 2019 meeting, which was put forward by Tesla Inc. The resolution received >99% support but did not pass because it failed to have 2/3 of shares outstanding voted. Baillie Gifford has discussed this resolution as part of its recent conversation with the Chair where Baillie Gifford reiterated its support for this change. A majority of shareholders supported this resolution and therefore Baillie Gifford hope to see change.

Engagement

Baillie Gifford does not regularly engage with clients prior to submitting votes, however if a segregated client has a specific view on a vote then Baillie Gifford will engage with the client on this. If a vote is particularly contentious, Baillie Gifford may reach out to clients prior to voting to advise them of this or request them to recall any stock on loan.

Full details of Baillie Gifford's engagement policy can be found on page 23 of its Stewardship Report here.

Engagement - Alphabet

Baillie Gifford attended Alphabet's quarterly ESG call in June 2020, Baillie Gifford submitted several questions ahead of the meeting relating to how the company will respond to shareholder concerns raised at the AGM, particularly on human rights. Baillie Gifford also asked about how Google plans to incorporate explainable artificial intelligence across its business which would improve the transparency of its algorithms. The call was hosted by Investor Relations and Google's Head of Sustainability and mainly focusing on the social and environmental concerns of shareholders and a commitment was made to have a human rights representative on the next call in September. Topics addressed during Alphabet's September ESG call with shareholders included:

- Content moderation (positive results from increased Artificial Intelligence interventions; full details in its now quarterly Transparency Reports),
- Human rights (the company has changed its algorithms following a close review of its approach to hate speech in 2019, while human rights analysis is being embedded as a core part of product development), and
- Modern slavery (Google has joined a group of companies led by the Responsible Business Alliance to examine claims of forced labour in its supply chains in China). Baillie Gifford wishes to dig deeper into such topics and continue to seek closer engagement with management.

Mirova Global Sustainable Equity Fund ("Mirova")

Voting Policy

Voting principles are defined by Mirova's Responsible Investment Research Team, which is composed of analysts who are experts in ESG issues. Mirova's voting policy is updated annually and is validated by its Executive Committee, and by the Compliance and Internal Control Department. It is presented to the Executive Committee each year.

Resolutions are analysed by Mirova's Responsible Investment Research team. Voting decisions are the responsibility of the voting committee, which is composed of its Head of Research, Heads of Equities and Fixed Income. Portfolio managers and extra-financial analysts may be invited to participate in the committee's deliberations depending on the subject under discussion.

Mirova's external voting service provider is in charge of:

- Informing Mirova of upcoming shareholders' meetings related to securities in its voting universe,
- Analysing resolutions according to the principles defined in the voting policy,
- Providing access to a voting platform for the exercise of voting rights, and
- Transmitting voting instructions to the issuer.

The service provider is in direct contact with custodian banks, from which it receives a list of every position held for each portfolio within the Mirova voting universe, daily. The votes for each account are registered on the voting platform.

During the period, Mirova voted at 100% of the 65 resolutions it was eligible for at 4 meetings.

Voting Example - Oracle Corporation

In November 2020, Mirova voted against the management of Oracle Corporation on a resolution of Advisory Vote to Ratify Named Executive Officers' Compensation. A vote against the resolution was warranted because there are no environmental or social criteria attached to either the short or long-term Incentive Plans. Ahead of the voting season, Oracle Corporation was contacted twice. The voting policy and main recommendations were sent within the context of good corporate governance and appeals were also sent to CEOs with regard to shareholder return considering the Covid-19 pandemic. It was made clear that Mirova does not support CEO packages that do not include Corporate Social Responsibility ("CSR") criteria. This vote is considered significant as it relates to Mirova's core philosophy on responsible corporate governance: the stakeholder-centred approach and/or the integration of CSR at its core. As an outcome of this vote it was passed.

Mirova is aware that its views on Responsible Corporate Governance are disruptive, specifically in the US/Asia markets where the stakeholder-centred approach and the integration of CSR at governance level remain limited. Mirova states that it intends to continue promoting these values, leveraging its votes, but also its Research Team as its analysts individually and collaboratively liaise with companies on key sustainability issues. Mirova also intend to be more active on the proxy voting sphere by co-filing and filing shareholder resolutions, allowing it to gain leverage and visibility.

<u>Engagement</u>

From 2013, Mirova, at the manager level, started engaging on the theme of climate change with the companies held within its portfolios. The objectives of these engagements are directly linked to UN Sustainability Development Goal ("SDG") number 13 as below:

1. Implement measures to reduce the greenhouse gas emissions associated with company's broader activities, including indirect emissions, and show a proactive approach towards increasing climate change resilience; and
2. Measure greenhouse gas emissions using a lifecycle approach that considers both scope 3 and avoided emissions.

Reducing emissions is a priority in order to ensure sustainability. While important reduction efforts are necessary, it is believed that specific adaptation strategies will need to be implemented to mitigate certain effects including protection of water resources, drought-resistant cultures, installation of break waters, and relocation of activities, among others.

At Mirova, the investment approach is based on the belief that innovation and integrating sustainability issues at the core of company strategies will lead to long-term success. Mirova also believes investors may influence listed companies through individual and collective engagement actions with their management. The climate objective is one of the impact pillars addressed by Mirova's equity strategies thanks to, among others, systematic engagement on the topic.

This firm level engagement is conducted by each ESG analyst on their relative coverage. Overall, six analysts are continuously working on analysing and engaging with the investees. Mirova's ESG analysts engage in dialogue with the companies which represent the bulk of Mirova's equity and fixed-income investment portfolios. This type of engagement aims not only at encouraging companies to adopt better ESG practices, but also at promoting the development of solutions to key environmental and social challenges in every sector via dedicated products and services.

Engagement Examples - Microsoft

At the strategy level, since 2016, Mirova along with Responsible Business Alliance (“RBA”) collaboratively engaged with Microsoft. Microsoft's points of engagement revolve around the following aspects:

- Evolution of supply chain management practices,
- Reinforcement of measures favouring data privacy,
- Adoption of a more thorough approach on their environmental footprint,
- Transparency surrounding the management of redundancies, and
- Disclosure of the country-to-country tax report.

Some significant sustainability risks have arisen with the development of cloud-based solutions, a wider hardware offer and the failed operation with Nokia Devices. The company has very advanced practices on many key issues, but improvement is expected on other key areas and notably data privacy (mostly linked to the Xbox platform), supply chain management and tax optimisation practices. Thus, engagement is a great tool to support the company in the implementation of best practices.

Most considerations regarding Microsoft are related to its sustainability risk management, thus, ensuring the company's activities are not negatively interfering with the achievement of SDGs. Microsoft has historically been responsive to the engagement attempts. In 2018, the Inland Revenue (“IR”) transferred recommendations to people respectively in charge of the subjects and provided some elements of answers, but only citing information already available in the company's report. In 2019, when asked about its intentions to address its gender equality controversy, the company provided extensive answers, notably on efforts made to better recruit, to endorse proactive legislation, to publish more transparently, etc. Mirova will be looking for materialized improvements in future years. In 2020, Mirova specifically engaged with the company on the alleged involvement with suppliers resorting to Uyghurs' forced labour. The company responded that investigations revealed no cases of forced labour at concerned manufactures.

Nordea Global Climate and Environmental Strategy ("Nordea")

Voting Policy

Nordea’s policies and principles define how they act in corporate governance-related matters and set the rules for which strategies apply and how the voting of the shares owned by the funds shall take place. A Corporate Governance Committee has been set up in order to ensure appropriate handling of the corporate-governance matters, and the operational responsibility rests with the Corporate Governance Function (outside the RI organisation). However, the Corporate Governance function and the RI team work closely and representatives from the RI team coordinate the work between the two functions.

Proxy voting is supported by two external vendors to facilitate the voting and provide analytic input. Nordea use ISS for proxy voting, execution, as well as research, while Nordic Investor Services is mainly used for analysis.

During the period, Nordea voted on 84% of the 831 resolutions it was eligible to vote on at 61 meetings.

AIL contacted Nordea in respect of the proportion of eligible votes cast and were reassured that Nordea has an aggregated voting setup, which means that it votes on the most important assets of its aggregated positions. Although the focus is at aggregated level, Nordea strives to vote for a large proportion of the holdings in its funds and pays special attention to the holdings in Nordea’s Responsible Investment-enhanced products. Nordea’s decision whether to vote or not, is mainly based on the size of the holding and the ownership level in the specific company. Other factors include if there are any specific ESG reasons, if the company needs support or if it has an ongoing engagement.

Generally, Nordea aims to support proposals aiming to protect or enhance long-term shareholder value creation, to improve transparency on material ESG issues and to address material ESG risks that have emerged. For companies in which Nordea has a very limited opportunity to enact changes, or if unable to efficiently utilise shareholder rights, Nordea might choose not to vote or engage.

Voting Example - Linde PLC

In July 2020 Nordea voted against the management on the resolution of Advisory Vote to Ratify Named Executive Officers' Compensation proposed by Linde Plc. No intent was communicated to the company ahead of the vote. Rationale for the voting decision was that bonuses and share based incentives should only be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. The outcome of the vote that the resolution was passed.

This was a significant example based on the portfolio weight of the company at the time of voting and the alignment to Nordea's Corporate Governance Principles.

Engagement

At the manager level, Nordea focuses its efforts on companies that represent its largest holdings and where it believes it can create impact. All Nordea's funds are subject to norms-based screening which can drive engagement activities. Companies identified to be involved in a verified violation of international norms are prioritised if engagement is seen as an option. By engaging individually or collaboratively with other investors, Nordea tries to promote better corporate governance, risk management, performance or disclosure standards on a wide range of ESG-related issues

Nordea's Responsible Investment Team engaged on Environmental issues in collaboration with Climat100+: A collaborative five-year global initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions, and strengthen climate-related financial disclosures.

The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner that launched in December 2020. Nordea was among the first to join this initiative, committing to support the goal of net zero emissions by 2050.

Nordea's activities with regards to thematic engagement on environmental issues are aligned with the environmental objectives of the Nordea 1- Global Climate and Environment Fund, and are highly relevant with regards to:

- SDG 6: Clean water;
- SDG 7: Affordable and clean energy;
- SDG 11. Sustainable cities; and
- SDG 13. Climate Action.

The engagement activities consist of constructive dialogues with companies through face-to-face meetings, conference calls, letters and field visits. As such, the engagements completed by Nordea provide an opportunity to improve the understanding of companies that Nordea invests in, as well as the ability to influence them. Nordea engages proactively with companies and other stakeholders on behalf of all internally managed Nordea funds. The Responsible Investment Committee ("RIC") can decide to exclude a company if its operations are incompatible with Nordea's responsible investment policy or if the company does not respond to the engagement efforts. Nordea might take the role of lead investor in companies where its investments are substantial.

Engagement Examples - Republic Services Inc

From 2019, Nordea Responsible Investment team has continuously been in engagement with Republic Services, Inc. The objective of this engagement at the strategy level is improved health and safety performance targets, higher recycling ratio and more transparent and stringent emissions targets (methane) and toxic discharge targets. It is a significant example as this case represents a particularly long-term engagement effort with Republic Services, Inc.

This engagement is aligned with the environmental objectives of the Nordea 1- Global Climate and Environment Fund and is highly relevant with regards to SDG 6 and SDG 13[1].

In 2020 Nordea engaged via call with Head of RI Investment Research focused on emissions reporting and had a call with Head of Sustainability, advocating for a toxic discharge reduction target. The company's response gave Nordea

[1] United Nations Sustainable Development Goals

confidence that improvements were being made. The company has shown intention to publish more transparent ESG data and targets.

Nordea will continue the engagement and explore the feasibility of introducing objectives to increase recycling ratio, to reduce landfill waste volumes and introduce toxic discharge targets. Nordea has also revised the company's internal ESG Risk Score.

Engagement activity – Fixed Income and Return seeking bonds

The Plan also invests in a number of fixed income strategies with AIL sub-funds:

- AIL SF2 return-seeking bonds – Active Global Fixed Income
- AIL SF18 return-seeking bonds – Multi-Asset Credit
- AIL SF25 Low Risk Bonds

While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in their ability to encourage positive change. The Trustee appreciates that this may be more apparent for direct fixed income holdings, such as credit, rather than asset backed securities.

The following are a selection of examples that demonstrate some of the engagement activity being carried out on behalf of the Plan over the year.

PIMCO

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In ESG dedicated portfolios, PIMCO implements an additional ESG scoring system which considers how an issuer fairs against its peers regarding ESG momentum and chooses to invest in the issuers who score well in this ("ESG issuers"). PIMCO stated that for non-ESG dedicated portfolios, like the PIMCO Absolute Returns Bonds fund the Plan is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, it may benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

BlackRock

BlackRock believes bond investors, with their often multi-year perspective, are well positioned to engage collaboratively with management to endorse and promote sound ESG practices. Such engagement enhances BlackRock's credit analysis, by providing it with more comprehensive credit profiles of its borrowers.

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship team (“BIS”) is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock’s Global Fixed Income (“GFI”) Responsible Investing (“GFI-RI”) team may partner with the BIS team both to reflect ESG related topics from GFI investors as well to attend or host engagement meetings on certain highlighted “ESG flagged” holdings. An “ESG flagged” holding is one where BlackRock holds a significant exposure in GFI portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by the GFI-RI team was that with Exxon. In BlackRock’s discussion with the company, several engagement topics have been discussed such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the GFI-RI team including, the company's approach to the European regulatory environment, its views on electric vehicle penetration as a risk to their business, and its risk management in relation to physical climate change risks.

Aegon

Through AIL the Plan invests in European Asset Backed Securities (“ABS”) managed by Aegon. For Aegon, ESG analysis forms a critical aspect of its risk mitigation analysis. This is at the collateral, the originator and country of domicile levels, where each level is scored between one (best) and five (worst), with a weighted average taken to form their overall ESG score for the ABS bond.

Aegon's engagement efforts can be categorised according to three buckets; policy-based, thematic and product support. The reasons it starts these engagements include seeking to:

- Improve performance and promote companies' long-term financial performance;
- Monitor, manage and mitigate investment risk;
- Better understand companies and set expectations on company management;
- Set goals and timeframes to meet, in order to reach compliance with our policies;
- Improve ESG disclosure;
- Maximise positive sustainability outcomes, including those related to the SDGs;
- Encourage the issuance of green, social and sustainable bonds for the purpose of investment participation and growing sustainable business practices.

At a firm level, Aegon has engaged with a steel company regarding climate change. The goal here was to develop a transition plan to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement, and implement a climate governance framework. Aegon is part of an investor group that collaboratively aims to increase transparency around climate change.

Aegon sent an engagement letter on behalf of the Climate Action 100+ investor group and met with top executives of the company at its headquarters. Aegon also represented a group of investors in the company's AGM in discussions on lobbying practices, science-based targets and scenario planning and then followed-up after the release of the company's first climate action report. The CEO then committed to join the Energy Transitions Commission and announced that their first Carbon Action report is expected to include scenario analysis.

Engagement activity – Alternatives and Illiquid Managers

Liquid Alternatives – Active Diversifiers & Return-seeking hedge funds

Opportunities for engagement are more limited in such investments given their investment process and nature of investments. In particular, the Trustee acknowledges voting activity from the Hedge Fund managers may be limited due to the potentially short-term/opportunistic/ and often confidential nature of Hedge Fund investments. This is evident from some of the voting information gathered by applicable managers thus far; for example, one of the underlying appointed funds managed by Maverick, a long/short equity hedge fund had 51 eligible resolutions over the period, where they voted on 57% of these and abstained from 43%. While stewardship may be less material for these funds, the Trustee note that AIL will still periodically ask these responsible investment related questions and engage with Hedge Fund managers where appropriate and expect that over time, more detail will be provided.

One hedge fund manager within the strategy, Marshall Wace, implements an annual survey of its stewardship activities with the aim of providing details of the principal occasions on which the manager has felt it appropriate to intervene on stewardship matters. The survey is accompanied by data related to the manager's routine involvement with company managers of their underlying investments as well as any proxy voting records carried out by their proxy voting provider, Glass Lewis. Marshall Wace has also demonstrated active ownership by engaging with multiple companies. An example of this is where Marshall Wace wrote to Biohaven Pharmaceutical Holding Company's CEO suggesting that the company should produce an ESG report. Marshall Wace considers that the nature of its business brings significant value to society, however the lack of disclosure means that this is not fully disclosed externally (including through various ESG ratings providers).

Liquid Alternatives – Insurance Linked Securities

Leadenhall Capital Partners ("Leadenhall")

Leadenhall (an Insurance Linked Securities Fund manager within the AIL strategy) assesses adherence to ESG principles by considering specific factors. Examples may include

1. Environmental impact including pollution prevention (via underwriting standards) and remediation (via providing capital for protection), reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards

2. Social impact including human rights, welfare and community impact issues
3. Governance issues including board structure, remuneration, accounting quality and corporate culture

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group (MS&AD) and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. It is a member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall performs a detailed review of its Investment counterparties policies and controls including those concerning their explicit ESG and CSR frameworks. Where appropriate it will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

Illiquid Credit

M&G

Stewardship activities such as monitoring and engagement with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, research analysts and members of M&G's Corporate Finance & Stewardship team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team.

In 2020, M&G engaged with Seeker Music to establish a proper reporting protocol for the newly formed business. As Seeker Music is a new platform established by M&G and another shareholder, M&G has been working with the other shareholder and management team to ensure there are proper policies and procedures for the business. As a result of the engagement, M&G has put in place, amongst other policies, Music Copyright Management Policies & Procedures, Valuation Policy, Accounting Manual and ESG Policies & Procedures. M&G has also agreed in principle with management on monthly, quarterly and annual reporting packages for the board and for the shareholders, respectively. The next step of the current engagement on corporate reporting includes finalizing various reporting templates with the management team and obtaining board approval. This will also lead to the next phase of engagement on financial performance monitoring and strategy review and implementation.

York Distressed

Progress against the ESG impact plan is tracked through York's regular and established monitoring and reporting procedures. The fund seeks to continually improve diversity and inclusion as all levels, especially board level.

In 2020, York engaged with an investee company on diversity and inclusion. The objective of this engagement was to promote diversity and inclusion on the individual boards for each investment as part of the fund. The investment team together with the operating partner developed an ESG impact plan identifying initial goals for the theme. This plan was refined by the asset management team and operating partner as the business plan for the asset was developed. Female board representation across the Fund's Senior Vice Presidents has increased during the past year. For example, one of York's investments 'project mockingbird', an aircraft acquisition and tear down vehicle, was deliberately created to have at least 33% female Board representation. The Fund continues to monitor the potential diversity and inclusion opportunities across all investments at Board level.

Real Estate

The Plan is also invested in BlackRock UK property fund, Schroders UK Property Fund and Threadneedle Property Unit Trust

The Trustee recognises that the investment nature and processes in respect of real estate may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustee still expects that all their managers should open a dialogue to engage with key stakeholders they invest in should they identify concerns that may be financially material. The Trustee also recognises that the long-term and physical nature of real asset investments make ESG considerations especially important, and that attention is given to sustainability issues and trends, including the impact of climate change, resource constraints and demographic trends through its real asset investments

BlackRock

The UK property fund invests directly in UK real estate, where the concept of stewardship and engagement is less applicable. BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate (“GRESB”), which aims to assess and benchmark the ESG and other related performance of real assets across the market.

Engagement Example

Sustainability campaigns have been implemented at various properties across the BlackRock UK Property Fund to engage with tenants on a range of sustainability topics; from energy efficiency and carbon reduction, to sustainable transport and travel, waste management and recycling, wildlife conservation, and health and well-being. Birmingham Business Park (“BBP”) is a large office campus comprising over 1.7m sq ft of office space, spread across 148 acres of mature parkland, and with over 130 occupants, including Rolls Royce, IMI and Goodyear. Ongoing sustainability campaigns, together with quarterly ‘Sustainability Week’ events are now held at BBP and are open to all occupiers, as well as the wider local community.

BlackRock has conducted numerous campaigns and initiatives, a few examples being:

- The establishment of three on site bee-hives. The ‘BBP Honey’ generated by the bees is sold on site to tenants and visitors, with all proceedings going to local charities.
- On site pond dipping, woodland walks and ‘wildlife awareness’ talks at lunchtimes and after hours.
- The provision of ‘Pool Bikes’, together with on-site cycle storage facilities, for the use of all tenants.

As a result, BBP was awarded the Transport for West Midlands Top Cycling Award and Top Walking Award in 2017 in recognition of the efforts to encourage more sustainable modes of transport for all occupiers and tenants.

Schroders (AC Division only)

Schroders produces an Annual Sustainability Report which addresses ESG considerations, including provision of specific case studies of Schroders' actions and resulting outcomes.

Schroders' Real Estate business participates in the GRESB, the industry standard Real Assets sustainability benchmark, where the Fund scores well versus its peers (outperforming its peer group on each assessed metric). Schroders acknowledge that improving the characteristics of its asset portfolio is key to efficiency and improving asset values.

Schroders requires developments and refurbishments to incorporate sustainable standards and building certifications, with minimum standards in place. Schroders has also set specific targets across the Real Estate portfolio, which we view as a meaningful commitment to action. These include:

- Reduction of energy consumption by 18% over 2016-2021;
- 32% reduction in greenhouse gas emissions over 2016-2021;
- Zero landfill waste; and
- 100% consumption of renewable electricity.

The reporting from Schroders in this area is of a high standard.

Threadneedle

Threadneedle focuses its engagement efforts on the more material or contentious issues and the issuers in which have larger holdings –based on either monetary value or the percentage of outstanding shares. Threadneedle has ongoing engagements with many companies, as well as a number that it speaks to on an ad hoc basis, as issues arise.

Threadneedle actively participates in several investor networks, which complement its approach to engagement. Along with other investors, Threadneedle raises market and issuer-specific environmental, social and governance issues, share insights and best practice.

Threadneedle continues to engage with companies to better understand company's management of financial and non-financial risks and how it generates sustainable long-term returns. Companies' response to and management of Covid-19 will be a core part of this analysis going forward.

Equity Manager Voting Statistics

	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
Sand Global Growth	98.1%	4.5%	0.0%
Harris Global Equity	100.0%	5.0%	0.0%
GQG Global Equity	100.0%	6.7%	0.0%
Longview Global Equity	100.0%	5.3%	0.5%
Arrowstreet Global Developed Equity	96.5%	9.4%	1.1%
LGIM Multi Factor Equity	99.9%	18.0%	0.2%
Neuberger Berman	100.0%	10.9%	0.7%
Oaktree	100.0%	9.1%	1.8%
Coronation	100.0%	10.3%	4.2%
TT International	98.2%	9.5%	0.0%
GQG	97.2%	9.0%	2.4%
Baillie Gifford	95.21%	2.5%	0.6%
Mirova	100.0%	12.0%	5.0%
Nordea	83.9%	8.8%	0.1%

Source: Investment managers