Engagement Policy Implementation Statement

The Wiltshire (Bristol) Limited Retirement Benefits Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast) during the scheme year and state any use of the services of a proxy voter during that year.

The Engagement Policy Implementation Statement ("EPIS") for the Wiltshire (Bristol) Limited Retirement Benefits Scheme ("the Scheme") has been prepared by the Trustees and covers the Scheme year 1 May 2020 to 30 April 2021.

Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme's Stewardship Policy in force over the majority of the reporting year to 30 April 2021. The latest Scheme SIP was updated in September 2020 and can be found at this website:

Auto Trader - UK's largest digital automotive marketplace for new and used cars

- *The Trustees recognise the importance of their role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the Scheme's investments reside. The Trustees recognise that ultimately this creates long-term value for the Scheme and its beneficiaries.*
- *The Trustees expect the Scheme's investment manager to use its influence as a major institutional investor to exercise the Scheme's rights and duties as a stakeholder including voting, along with — where relevant and appropriate — engagement with underlying investee companies.*
- *The Trustees will, on an annual basis, ask their investment manager to provide its responsible investment policies – including its policies with respect to its stewardship practices – and details of how it integrates ESG into its investment decision making process in relation to the investments held by the Scheme.*
- *The Trustees engage with their investment manager as necessary for more information to ensure that robust active ownership behaviours, reflective of the Trustees' active ownership policies, are being actioned.*
- *The Trustees have identified key areas of concern around climate change risks, corporate governance and their investments' broader social impact, particularly relating to diversity and inclusion, and will level scrutiny on their investment manager accordingly. The Trustees expect that their investment manager will, where relevant, actively monitor for these risks within its investment processes and that it will provide transparency on their activities with respect to the mitigation of these risks.*

Scheme stewardship activity over the year

Training and updated Stewardship Policy

Over the year, the Trustees had responsible investment training sessions with their investment advisor, which provided the Trustees with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

The first training session was provided to the Trustees on 4 May 2020 where the Trustees were made aware of the upcoming regulatory changes. During the training sessions and throughout the year, the Trustees have been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustees also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustees recognise the importance of its role as a steward of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Ongoing Monitoring

The Trustees will, on an annual basis, ask LGIM to provide its responsible investment policies which includes, its policies with respect to its stewardship practices and details of how it integrates ESG into its investment decision making process, in relation to the investments held by the Scheme. LGIM presented this to the Trustees at the 14 September 2020 Trustee meeting.

Aon’s management research team also produce ESG ratings for the LGIM funds. 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.

Manager Appointments

The Scheme’s only manager are LGIM who have a comprehensive list of detailed RI policies covering Corporate Governance, Voting & Engagement, Climate Change and Sustainability. LGIM also takes a pro-active approach to stewardship with thought leading engagement on issues such as biodiversity. The Trustees have an ESG focussed action plan that includes reviewing their existing arrangement with LGIM. For example, LGIM were invited to the 14 September 2020 Trustees meeting and asked to do an ESG deep-dive to ensure their ESG credentials were aligned with the Scheme's policies.

Voting and Engagement activity – Legal and General Investment Management

Over the year the Scheme was invested in several funds with Legal and General Investment Management ("LGIM"). These included asset classes such as, equity, private equity, real estate and fixed income.

The voting information and engagement information provided in this report is applicable for the equity funds and the funds with underlying equity that the Scheme was invested in over the period, for example private equity, real estate and fixed income funds. These funds are:

UK Equity Index fund	Global Real Estate Equity Index fund
North America Equity Index fund	Private Equity Passive fund
Europe (ex UK) Equity Index fund	FTSE Developed Core Infrastructure Index fund
Japan Equity Index fund	High Yield Bond fund
Asian Pacific (ex Japan) Equity Index fund	

Voting activity on behalf of some assets is less relevant to the other funds the Scheme was invested in over the period, so only the engagement information below applies. These funds are the passive corporate bond fund and the managed property fund.

The voting statistics are outlined in the appendix for all equity funds and funds with underlying equity. The Trustees consider a significant vote to be one that LGIM deems to be significant or a vote where more than 15% of the votes were against management.

LGIM were unable to provide examples of significant votes for the High Yield Bond Fund, FTSE Developed Core Infrastructure Index Fund, Private Equity Passive Fund, and the Global Real Estate Equity Fund despite the voting statistics showing a high level of votes against management. However, LGIM confirmed that their reporting for non-equity funds and products is currently under development. The Trustees are considering their approach with regard to raising this with LGIM via its investment advisor, Aon, in order to encourage the manager to provide greater transparency and detail across all their invested assets.

<u>Voting</u>

LGIM make use of third party provider Institutional Shareholder Services ("ISS")'s proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what they consider to be the minimum best practice standards all companies should observe. LGIM retain the ability to override any voting decisions made by ISS based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

A selection of voting examples conducted by some of the funds over the period are outlined below.

<u>Significant Voting Example – Lagardère</u>

This is a significant vote example in relation to Europe (ex UK) Equity Index fund.

An example of significant vote was LGIM voting in favour of five proposed candidates and voting against five incumbent Lagardère directors. Activist fund, Amber Capital, proposed the appointment of eight new directors to the supervisory board of Lagardère and the removal most of the incumbent directors.

Amber Capital made their proposal because, in their opinion, Lagardère's strategy was not creating value for shareholders, the board members were not sufficiently challenging management on strategic decisions and for governance failures. LGIM engaged with both Amber Capital and Lagardère, where they spoke to the proposed new Chair of the supervisory board and the incumbent Chair. This allowed LGIM to gain direct perspectives from the individual charged with ensuring the board includes the right individuals to challenge management.

The outcome of the vote was that shareholders did not give majority support to Amber Capital's proposal but the resolution received a significant number of votes in favour (between 30-40%) which shows that many shareholders have concerns with the board.

This vote is deemed significant by LGIM because of the significant media and public interest on this vote given the proposed revocation of the company's board.

Significant Voting Example – Olympus Corporation

This is a significant vote in relation to the Japan Equity Index fund.

In July 2020, LGIM voted against the Olympus Corporation to elect director Yasuo Takeuchi at a company' annual shareholder meeting held on 30 July 2020.

LGIM believe that every board should have at least one female director as a minimum standard. Globally, LGIM aspire to all boards comprising 30% women. In general, Japanese companies have lagged behind companies in other countries in ensuring more women are appointed to their boards. The lack of gender diversity is also a concern below board level. Last year in February 2019, LGIM sent letters to the largest companies in the MSCI Japan Index that did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies written to was Olympus Corporation.

In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the Tokyo Stock Price Index (TOPIX100). LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.The opposition to the re-election was unsuccessful as 94.90% of shareholders supported the election of the director, however, LGIM will continue to engage with and require increased diversity on all Japanese company boards.

Significant Voting Example – Whitehaven Coal

This is a significant vote in relation to the Asia Pacific (ex Japan) Equity Index.

In October 2020, LGIM voted in favour of Whitehaven Coal. The resolution was to approve capital protection where shareholders are asking Whitehaven Coal for a report on potential wind-down of its coal operations, with the potential to return increasing amounts of capital to shareholders.

LGIM voted in the favour because of increasing uncertainty of coal utilization in future energy mix due to increasing competitiveness of renewable energy and coal being the most polluting fossil fuel. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects.

However, the resolution did not pass, as relatively only 4% shareholders voted in favour. The environmental profile of Whitehaven Coal continues to remain in the spotlight. In late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in significant environmental harm.

LGIM deemed this vote significant as it received media scrutiny and is emblematic of a growing wave of green shareholder activism.

Significant Voting Example – ExxonMobil

This is a significant vote in relation to the North America Equity Index.

An example of a significant vote was in the case of Exxon Mobil in May 2020, wherein LGIM voted against a resolution to elect director Darren Woods.

In June 2019, under LGIM's annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, the management announced that they will be removing ExxonMobil from their Future World fund range, and will be voting against the chair of the board. Ahead of Exxon's annual general meeting in May 2020, LGIM also announced they will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, LGIM's voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration. Although 93.2% of the shareholders supported the re-election of Darren Woods, LGIM believes that their vote against the re-election sends an important signal and they will continue to engage, both individually and in collaboration with other investors, to push for change at the company.

Significant Voting Example – Pearson

This is a significant vote in relation to the UK Equity Index.

An example of a significant vote was LGIM voting against the resolution to amend a remuneration policy proposed by Pearson, at the company's special shareholder meeting (EGM) on 18 September 2020. This resolution was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company. The company confirmed that if the resolution was not passed, 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 for the new CEO. LGIM also discussed the shortcomings of the company's current remuneration policy.

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

Whilst the outcome of the vote was that the resolution was passed, at the EGM 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value. But key governance questions remain which LGIM now plans to address through continuous engagement with the company.

This vote was deemed significant by LGIM on the basis that Pearson has had strategy difficulties in recent years and is a large and is a well-known UK company, together with the unusual approach taken by the company and LGIM's outstanding concerns.

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

An example of LGIM's engagement at a firm level was with Proctor and Gamble ("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 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation 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.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

In Summary

Based on the activity over the year by the Trustees and disclosures provided by their appointed service providers, the Trustees are of the opinion that the stewardship policy has been implemented adequately in practice. The Trustees note that LGIM was able to disclose adequate evidence of voting and engagement activity across some, but not all, funds. The Trustees expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Appendix – Voting Statistics for the year ending 30 April 2021

	Number of resolutions eligible to vote on	% resolutions voted on	% resolutions voted against	% resolutions abstained
UK Equity Index Fund	12,574	100.00%	7.05%	0.01%
North America Equity Index Fund	9,495	100.00%	28.17%	0.04%
Europe (ex UK) Equity Index Fund	11,412	99.89%	15.26%	0.53%
Japan Equity Index Fund	6,518	100.00%	13.92%	0.00%
Asia Pacific (ex Japan) Developed Equity Index Fund	5,150	100.00%	22.17%	0.02%
Global Real Estate Equity Index Fund	4,121	99.83%	16.80%	0.36%
Private Equity Passive Fund	880	100.00%	23.52%	0.00%
FTSE Developed Core Infrastructure Index Fund	1,969	100.00%	18.18%	0.05%
High Yield Bond Fund	47	100.00%	29.79%	2.13%

Note: Voting statistics are for the period 1 April 2020 to 31 March 2021. LGIM are able to provide information on the quarterly basis only.

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