

## **The HBG UK Pension Plan**

### **Statement of Implementation**

#### **Summary**

The Trustee has followed its Statement of Investment Principles approach to voting and engagement over the year to 31st December 2020 and expects this to have positively contributed to the Plan's performance. This statement includes information on the underlying manager's voting and engagement record. Where proxy voting agents have been used, this has been included in the voting information.

This statement of implementation has been completed over the year to 31st December 2020 and where applicable, underlying managers have provided examples of engagement.

#### **Broad Bonds**

##### ***Alliance Bernstein Diversified Yield Plus Fund ('AB'):***

AB conducted its first proactive ESG Engagement Campaign. They targeted over 350 of their largest holdings that did not have either climate change targets or ESG metrics in executive compensation, and asked companies to implement those measures in 2021.

##### **Most significant vote(s) and examples of Engagement:**

###### **Braskem (Brazilian petrochemicals):**

- AB met with the CEO and CFO of Braskem to discuss the environmental damages caused by the company's operations. Braskem's mining operations allegedly caused geological damages in northeast Brazil. Public prosecutors filed a lawsuit against the company and, in December 2019, the company reached a settlement with public institutions, recording R\$3.4 billion in provisions to cover damages.
- The company operated salt mining wells located in the state of Alagoas to supply raw materials to its chlor-alkali and dichloroethane plant. After a tremor in the area in March 2018—which caused damage such as fissures in buildings and craters in the streets—an official report issued by the Geological Survey of Brazil in May 2019 pointed to Braskem's activities in the region as the cause of the issue. The company proactively suspended its salt extraction, chlorine and caustic soda activities.
- With support from independent institutions and specialists, Braskem has been conducting studies to identify the cause of the geological phenomenon and analyze the situation of its wells. The studies are ongoing and being shared with the National Mining Agency, with which Braskem has maintained a constant dialogue.

Longer-term initiatives across AB include:

- Signing the KnowTheChain Investor Statement: Investor Expectations on Addressing Forced Labor in Global Supply Chains in 2020, and becoming a member of Farm Animal Investment Risk and Return (FAIRR), a global network of investors addressing ESG issues in the protein supply chain.
- Co-leading two collaborative Climate Action 100+ engagements with Petrobras and Sasol.

- Joining (as an observer) the Interfaith Center on Corporate Responsibility (ICCR) and KnowTheChain, in collaboration with the Principles for Responsible Investing (PRI), to engage with apparel and footwear companies to address forced labor in their supply chains, increased supply chain forced labor and labor risks related to COVID-19.

## Cashflow Matching Credit

### *Insight Maturing Buy and Maintain Funds:*

#### **Most significant vote(s) and examples of Engagement:**

##### **TOTAL IR:**

- In November 2020 TOTAL guided that the company was considering issuing transition bonds on the back of new ESG strategy
- Insight had an ESG-centric call with TOTAL IR during one of the energy conferences to discuss in further detail ESG strategy as well as provide feedback on potential transition bond idea
- TOTAL provided further details for their ESG strategy, targets and details on potential ways to achieve them
- Insight has provided feedback on potential interest in the new instrument and comment on potential structure for the instrument
- Following the discussion, Insight have reconfirmed its view of TOTAL as one of the leaders in energy transition among peers. That was confirmed in the last fundamental ranking review
  - Insight will continue to engage with TOTAL and sell-side banks on communicating feedback and assisting to shape the potential transition bonds for the energy sector

#### Longer-term initiatives across Insight include:

- Active engagement with other industry members to ensure clients' rights and considerations are fully represented, including:
  - Joining the Working Group on Sterling Risk-Free Rates.
  - Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.
  - Collaboration with peers on a range of issues, such as credit risk and ratings with the PRI initiative.
  - Encouraging issuers to submit their carbon emissions to the CDP initiative.
- Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.
- Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions - a key issue for pension funds seeking to manage risk effectively over the long term.
- Supported the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through their Advisory Council role with the Green and Social Bond Principles.

## Dynamic Asset Allocation

### **BlackRock Dynamic Diversified Growth Fund:**

#### **Voting Statistics 12 months to 31 Dec 2020**

Total Companies in Portfolio	No. of individual companies engaged	No of companies with multiple engagements	Engagement #: Environmental	Engagement %: Environmental	Engagement #: Social	Engagement %: Social	Engagement #: Gov	Engagement %: Gov
1008	469	227	520	58%	395	44%	520	58%

#### **Most significant vote(s) and examples of Engagement:**

##### **Exxon Mobil:**

- Resolutions: Items 1.2, 1.4 & 4 (Elect Director Angela F. Braly, Elect Director Kenneth C. Frazier & Require Independent Board Chair). BlackRock voted against the Directors for insufficient progress on TCFD (*Task Force on Climate-Related Financial Disclosures*) aligned reporting and related action, and for failure to provide investors with confidence that the board is composed of the appropriate mix of skillsets and can exercise sufficient independence from the management team to effectively guide the company in assessing material risks to the business.
  - BlackRock continue to see a gap in the company's disclosure and action with regard to several components of its climate risk management. It is seen as a corporate governance issue that has the potential to undermine the company's long-term financial sustainability.

### **R&M Dynamic Asset Allocation Fund:**

#### **Voting Statistics 12 months to 31 Dec 2020**

How many meetings were you eligible to vote at?	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?	In what % of meetings, for which you did vote, did you vote at least once against management?
33	230	90%	91%	9%	0.5%	45%

#### **Most significant vote(s) and examples of Engagement:**

##### **Barratt Developments PLC:**

- **Vote Against** – Proposal was to authorise EU political donations and expenditure. R&M voted against authorising any political donations or expenditure. This forms part of R&M's custom voting policy, which directly opposes all political donations and expenditure.

##### **Magellan Financial Group Ltd:**

- **Vote Against** – Proposal was for the appointment of a new Director. R&M voted against as a result of the nominee being a non-independent, non-executive director and R&M felt the board lacked a majority independence already.

### **Cisco Systems:**

- **Vote for** – Proposal was to require independent board chair – currently Cisco has a non-independent chairman and R&M agree it is best practices to have an independent chairman in place so R&M voted for the shareholder proposal requesting this.

### **Liability-Driven Investments**

The Plan holds c.62% of its assets in liability hedging instruments.

As LDI portfolios are very different to traditional equity or bond portfolios, engagement primarily focuses on trading counterparties and clearing members. BMO's Engagement work is structured both in terms of prioritisation (companies to whom they have the greatest exposure and to companies whom they feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones.

### ***BMO Liability Hedging Portfolio:***

BMO engaged with 8 LDI counterparties in H1 2020 and 9 LDI counterparties in H2 2020, reaching a total of 74 engagements with 14 milestones (improvement in a company's ESG practices) achieved.

### **Most significant vote(s) and examples of Engagement:**

#### **Barclays PLC:**

- Committed to align the entire financing portfolio to the goals of the Paris Agreement, and to regularly report on progress. As the first international bank with such a bold commitment, along with a rather large fossil fuel financing book.
- BMO have engaged the company on their environmental and climate risk management practices for their lending portfolio in the past.