Schroders solutions

HBG Pension Plan (‘Plan’)

31 December 2021 Implementation Statement

June 2022

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the HBG Pension Plan (the 'Plan') in relation to the Plan's Statement of Investment Principles (the "SIP").

A copy of the current SIP dated 28 September 2020 can be found here: https://www.bam.co.uk/media-centre/resources

This Implementation Statement covers the Plan year from 1 January 2021 to 31 December 2021 (the "Plan Year"). It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Plan Year; and
- The voting by or on behalf of the Trustee during the Plan Year, including the most significant votes cast and any use of a proxy voter during the Plan Year.

The Trustee is responsible for the investment of the Plan assets. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned. The Trustee also sets the investment strategy and general investment policy but has delegated the day-to-day investment of the Plan's assets, within pre-defined constraints to professional Investment Managers. The Trustee, with advice from their advisers, appoints and monitors the Plan's Investment Managers.

A copy of this Implementation Statement is available on the following website: https://www.bam.co.uk/media-centre/resources

2. How the Trustee's policies on exercising voting rights and engagements have been followed over the Plan Year

The Trustee made no changes to the voting and engagement policies contained in the SIP during the year but keep this under review.

The Plan's SIP sets out the Trustee's policies in relation to stewardship, corporate governance and Environmental, Social and Governance (ESG) factors.

The Plan invests in assets with voting rights attached. However, these investments are generally made via pooled investment funds with the Investment Managers where the Plan's investments are pooled with other investors. Direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to those underlying Investment Managers.

The Trustee continues to believe it is appropriate to delegate voting and engagements decisions to their Investment Managers in order to achieve an integrated and joined up approach to ESG factors, voting and engagement together. In this way as the Investment Managers consider ESG factors as part of the investment decisions being taken on behalf of the Trustee, the Trustee is satisfied that the Investment Managers can also take account of direct engagement or other factors relating to any voting or engagement and respond to these (as appropriate).

In particular, the Trustee reviewed the voting and engagement records of its Investment Managers at the March 2022 Trustee meeting. The review provided the Trustee an opportunity to consider if the investment managers have approached ESG and stewardship on behalf of the Trustee in line with the expectation; and if not, what action the Trustee might wish to take. As part of the review, The Trustee concluded that they continued to be satisfied with its Investment Managers voting and engagement behaviour and has therefore not sought to influence voting behaviours. Although the Trustee does not intend to change its position at this time, it will continue to monitor the Investment Managers voting and engagement records on an ongoing basis.

During the Plan year the Trustee has carried out the following activity in relation to these policies:

- On behalf of the Trustee, monitoring of the Investment Managers' ESG and stewardship policy was carried out through regular investment and operational due diligence reviews and meetings by the Trustee's investment adviser with any important updates communicated to the Trustee over the Plan Year.
- The Trustee with the help of their investment adviser, monitored the performance of the Investment Managers against their agreed performance objectives at each of the quarterly Trustee meetings during the Plan Year.
- The Trustee reviewed the regulatory developments with regards to ESG and climate change disclosures.
- The Trustee has reviewed the voting and engagement activity carried out by its Investment Managers during the Plan Year; a summary is provided in the next section.
- The Trustee established an ESG Action Plan as a governance item to ensure to that matters relating to their ESG responsibilities remain on agenda and progress is monitored and discussed at Trustee meetings on an ongoing basis.

In February 2021 the Trustee established their engagement priorities through the use of ESG beliefs survey. The engagement priorities identified were

- E – Climate change
- S - Human capital
- G - Corporate behaviour

The Trustee has set out in the appendix a set of engagement examples which are in line with the Trustee's engagement priorities over the Plan Year.

Trustee also noted that their own priorities aligned with their investment advisor's engagement priorities, which for 2021 included themes in each of the following categories:

- E Climate change: carbon emissions and footprint of our funds
- S Human capital: employee engagement and satisfaction
- G Corporate governance: board composition, executive pay / compensation

Following activity during the Plan Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the Statement of Investment Principles over the Plan Year.

3. Voting and Engagement Summary

This statement includes information on the underlying investment managers investing in securities. Where proxy voting agents have been used, this has been included in the voting information.

Summary of voting activity – relevant mandates (31 December 2021)

	River and Mercantile Dynamic Asset Allocation Fund	BlackRock Dynamic Diversified Growth Fund
Asset allocation	£30.9m	£32.4m
Total meetings eligible to vote	155	965
Total resolutions eligible to vote	2,082	12,082
% of resolutions did you vote on for which you were eligible?	89%	100%
% did vote with management?	76%	93%
% vote against management?	25%	6%
% abstained	2%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	17%	0%

Source: All data in this section has been provided by the investment managers. Voting statistics provided on the Plan's equity holdings in both the outright equity managers and the equity held within the Dynamic Asset Allocation managers.

Note:

- River and Mercantile and BlackRock use Institutional Shareholder Services, "ISS", for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Plan holds.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

Trustee's conclusions on voting and engagement

The Trustee has considered the voting behaviour (provided in the Appendix) along with engagement activity that took place on their behalf during the Plan Year within the growth asset portfolio, cashflow matching credit portfolio and the liability hedging portfolio and is pleased to report that the Investment Managers have demonstrated high levels of voting activity, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustee noted that:

- Each relevant manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Investment manager showed they carried out a good level of engagement activities over the Plan Year.
- Challenge to management was demonstrated through votes by the Investment Managers against management.

- The ESG data quality provided by the investment managers has improved over the Plan Year.
- For the Plan, the general themes of the voting and engagement activity were in relation to environmental issues, climate strategy in particular. Executive pay, board diversity and improving social outcomes were the other main themes identified.
- BlackRock's proxy voting process is led by BlackRock Investment Stewardship team. BlackRock use proxy research firms in their voting process, primarily to synthesise information but they do not follow any single proxy research firm's voting recommendations. Although BlackRock appears not to vote against the recommendations from proxy adviser, it is mainly due to the fact BlackRock only use to proxy adviser to form its voting decision based on its own analysis and research.
- An example of a significant vote from BlackRock would be their vote in favour of a consumer discretionary company's proposal to conduct a Civil Rights Audit. Blackrock concluded that by undertaking and publishing a third-party audit of the company's corporate policies, practices, products, and services, above and beyond legal and regulatory matters; and assessing the racial impact of the company's policies, practices, products and services; along with providing recommendations to improve the company's racial impact - would complement the company's current programs to advance racial equity and might yield further insights to accelerate its progress.
- For the broad bond mandate, an example of the Plan's manager AllianceBernstein's engagement with a Brazilian materials company was cited as significant. The manager met with the head of sustainability to understand why the company had not submitted it's decarbonisation plan to the Science Based Targets initiative (SBTi) and to probe deeper on its carbon accounting. The company disclosed that it had not submitted its plans to SBTi yet because of methodology changes which it hopes to resolve later this year. The company's accounting for carbon offsets is very rigorous—using satellite imaging—and conservative. It counts incremental carbon capture only by upgrading forests, and not by counting carbon stores in the soil. AllianceBernstein continues to hold conviction that the company is a clear leader in this space.
- For the Cashflow Matching Credit mandate, an example of the Plan's manager Insight's engagement with a car manufacturer was noted. Insight has been in close contact with the company and has been monitoring the numerous steps the company has taken to improve product quality, governance and corporate structure, in particular the ESG topics. Insight engaged with the company during its ESG roadshow. The meeting was extremely thorough with the discussion covering a broad array of ESG topics. This engagement confirmed that the company is making genuine efforts towards improving their ESG profile.
- In relation to the liability hedging mandate, the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee is satisfied that the voting and engagement activity undertaken by the Investment Managers are in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustee will keep the position under review.

Appendix 1 – Examples of most significant votes and engagement carried out by the underlying managers

Engagement priorities	Examples
Climate change: carbon emissions and footprint of our funds	Chevron Corporation; Blackstone
Human capital: employee engagement and satisfaction	Johnson & Johnson
Corporate governance: board composition, executive pay and compensation	Microsoft

River and Mercantile

Facebook:

River and Mercantile voted FOR a shareholder proposal requesting that Facebook produce a report assessing the risk of increased sexual exploitation of children as it develops additional privacy tools such as end-to-end encryption.

- The rationale of the voting decision was:
  - Despite Facebook claiming it is has technologies across all of its platforms to proactively identify and report child exploitation, Tech Transparency Project released a study which shows Facebook failed to catch hundreds of cases of child exploitation between Jan-13 and Dec-19 on its platform
  - Concerns that the plan to apply end-to-end encryption across all messaging will severely hinder investigations of child predators - currently WhatsApp accounts for 10% of online sexual abuse on Facebook apps yet only makes up 1.3% of child abuse tip-offs from Facebook because of the existing end-to-end encryption
  - Shareholders would therefore benefit from further information on how Facebook are going to manage the increased risk of child sexual exploitation from their planned changes

Microsoft:

River and Mercantile voted FOR a shareholder proposal requesting that Microsoft reports on its median pay gap across race and gender, including several associated policy, reputational, competitive and operational risks, and risks related to recruiting and retaining diverse talent.

- The rationale of the voting decision was:
  - Microsoft does publish its gender pay gap statistics in the UK so they should also publish the median pay gap data for the US or global workforce and this will give a better gauge how well the company is advancing opportunities for woman and mitigating risks related to increased public scrutiny on gender pay issues
  - Microsoft does publish an racial equal pay statistic for the US but it is a subjective determination by Microsoft and the methodology and data to determine this statistic are not transparent or comparable across companies

- Microsoft has goals for increasing racial and ethnic diversity overall and in leadership role but it does not appear to have a similar goal for increasing gender diversity

BlackRock

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply their proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

Chevron Corporation:

BlackRock have voted for the resolution to reduce Scope 3 emissions and voted against the resolution to mandate reporting on Lobbying payments and Policy.

- The rationale of the voting decision was:
    - BlackRock supported this shareholder proposal, while recognizing the company's efforts to date, because it is consistent with what they expect of large companies like Chevron and its peers. The shareholder proposal requested that Chevron "substantially reduce the greenhouse gas (GHG) emissions of their energy products (scope 3) in the medium- and long-term future." Importantly, the proposal states that "to allow maximum flexibility, nothing in this resolution shall serve to micromanage the Company by seeking to impose methods for implementing complex policies in place of the ongoing judgement of management as overseen by its board of directors."
    - BlackRock believes that companies in carbon intensive industries should aim to set scope 3 emissions reduction targets. It is particularly important to assume responsibility, where reasonable, for the complete emissions profile of the company as the world transitions to a low carbon economy. BlackRock understand that this is still a relatively nascent practice, especially in the U.S.
    - BlackRock stated Chevron meets their expectations of companies regarding their activities and disclosures related to political spending and lobbying and reflected their feedback in its recently updated climate lobbying report. As a result, BlackRock voted against this shareholder proposal.
    - BlackRock regularly engages with companies to understand how their activities and disclosures related to political spending and lobbying are consistent with a company's overall strategy and long-term shareholder value creation. Companies should provide accessible and transparent disclosure so that investors and other interested stakeholders can understand how a company's political contributions or affiliations are aligned with its public messaging on strategic policy positions. BlackRock expect companies to monitor the positions taken by trade associations of which they are active members for consistency on major policy positions and to provide an explanation where inconsistencies exist.
- This voting is deemed significant as it is related to climate change.

Johnson & Johnson:

BlackRock have voted against an item to place a requirement for an Independent Board Chair and for aproposal to conduct a Civil Rights Audit.

- The rationale for the voting decision was:
    - Blackrock voted against this proposal because the company has a designated lead independent director who has a clearly defined role that supports board effectiveness'.
    - Blackrock have had ongoing discussions with JNJ regarding the board's structure and refreshment process to ensure that directors individually and collectively have the relevant skills and experience to guide the company, particularly as its strategy, material risks, and opportunities evolve. Given the highly complex and regulated nature of the pharmaceutical industry, a combined chair and CEO role allows for a structure that works for JNJ.
    - Based on Blackrock's analysis of JNJ's governance practices and continued engagement with the Lead Independent Director, they believe the board has an appropriate leadership structure in place and that the current lead independent director has a robust and independent oversight role.
    - Blackrock voted for the Civil Rights Audit proposal because they believe that an audit would reinforce the effectiveness of the company's current programs to advance racial equity and might yield further insights.
    - The shareholder proposal requests the company "conduct and publish a third-party audit (within a reasonable time, at a reasonable cost, and excluding confidential/proprietary information) to review its corporate policies, practices, products, and services, above and beyond legal and regulatory matters; to assess the racial impact of the company's policies, practices, products and services; and to provide recommendations for improving the company's racial impact." Blackrock agrees with the intent of advancing diversity, equity and inclusion (DEI) and supports the company's existing efforts to recruit, retain, support, and develop a diverse set of employees.
- This voting is deemed significant as it pertains to both the corporate governance structure and to the social responsibilities of the company.

<u>AllianceBernstein</u>

Suzano

- AB recently spoke with the head of sustainability at Suzano to understand why the company has not submitted its decarbonization plan to the Science Based Targets initiative (SBTi) and to probe deeper on its carbon accounting.
- Suzano is a Brazilian pulp and paper company with presence in more than 80 countries. The largest pulp and paper company in Latin America, Suzano has best-in-sector carbon figures, according to the Transition Pathway Initiative. However, environmental issues still bring negative attention to the forestry sector in Brazil.
- The company disclosed that it has not submitted its plans to SBTi yet because of methodology challenges, which Suzano is discussing with SBTi and hopes to resolve later this year.
- The company noted that the new Cerrado pulp mill project would have excellent environmental efficiency and a small radius from plantation to mill, reducing trucking and hydrocarbon usage. AB sees this plan as being in line with the company's best-in-industry carbon emissions per ton of product. Suzano's accounting for carbon offsets is very rigorous—using satellite imaging—and

conservative. It counts incremental carbon capture only by upgrading forests, and not by counting carbon stores in the soil. This strengthens AB's conviction that the company is a clear leader in the space.

- Suzano is among the first materials company to issue an ESG KPI-linked bond (in September 2020). AB advised the company to continue issuing KPI-linked bonds and that the targets should be relevant to the operations and ambitious in scale. The company noted that illegal deforestation has generated negative attention, but the forestry industry is not involved with these practices. Suzano is working with NGOs to help stop illegal activities and is advocating the Brazilian government to enforce laws that protect the environment.

- Suzano has the lowest greenhouse gas emissions of the entire industry by a large margin and is entirely self-sufficient in electricity. It generates more biomass energy than it consumes and cuts down only the trees that it has planted.

<u>Insight Investments</u>
Blackstone
Background:

- Blackstone is an American alternative investment management company. Insight engaged with Blackstone on their carbon emissions, and had discussions around their business strategy and financial policy.

- Insight's overall ESG assessment of Blackstone is positive with an Insight ESG rating of 2, this is due to strong S and G scores of 2 as despite a weaker E score of 4.

Engagement on carbon emissions:

- Blackstone have recently hired a Global Head of RE ESG, that promotes ESG integration to address long-term risks inherent in its investment portfolio; as well as regional heads in Europe & Asia, appointing dedicated ESG leads at portfolio companies.

- Whilst they have not yet established a net zero target, they are currently undergoing a full carbon footprint exercise to create a baseline for the 15% reduction, but no public target as of yet. The timing for their disclosure for carbon emissions is next year and they are considering what needs to be done in terms of ongoing reductions to hit a net zero target. They have also set 15% CO2 emission reduction across new investments where it controls energy usage (Scope 1 & 2 during first 3 years of ownership).

- Blackstone also highlighted their plans to track and reduce energy, water and waste use and the implementation of green clauses in new leases. Insight also discussed capex requirements to bring assets up to a good green standard; they acknowledged that it is hard to put a number on it with ever evolving standards but they have a rolling programme of refurbishment which they're looking to improve. However, this looks quite different by asset class so this is something Insight will continue to monitor and stay updated on with them.

Outcome and next steps:

- Insight continue to engage with Blackstone and will follow up with them on establishing their net zero targets.

- Overall Insight were encouraged with the transition plans and will monitor their progress with their rolling programme of refurbishment, as well as their efforts in energy, water and waste reduction.

Above examples taken from BlackRock DDGF, AB Broad Bonds and Insight MBAM.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement polices for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions (formerly known as River and Mercantile Investments Limited)	The voting and engagement policies have been provided to the Trustee separately
BlackRock	https://www.blackrock.com/corporate/literature/publication/2021-voting-spotlight-full-report.pdf
Alliance Bernstein	https://www.alliancebernstein.com/abcom/Our_Firm/Content/CGDocs/2017-AB-engagement-policy-FINAL.pdf
Insight	https://www.insightinvestment.com/investing-responsibly/