



Engagement Policy Implementation Statement

Hall and Woodhouse Limited and Subsidiary Companies Retirement Benefits Plan

This paper has been produced for the Hall and Woodhouse Limited and Subsidiary Companies Retirement Benefits Plan ("the Plan"), as the Trustees of the Plan ("the Trustees") prepare their Engagement Policy Implementation Statement ("EPIS").

At a glance...

The first part of this document, provides guidance to the Trustees in relation to the preparation of the EPIS, including information regarding the regulatory background, data gathered, significant votes and next steps.

The remainder of the document includes the draft EPIS that has been prepared for the Trustees to review.

Regulatory background

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that from 1 October 2020, the pension scheme trustees of defined benefit schemes outline how they have ensured that the stewardship policies and objectives set out in their Statement of Investment Principles ("SIP") have been adhered to, by preparing an EPIS. The EPIS must:

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

Pension scheme trustees must publish the EPIS online, before 1 October 2021. Pension scheme trustees are also required to include the EPIS in the annual scheme report and accounts.

Why bring you this paper?

This document provides the advice relating to preparation of the EPIS, and the initial draft of the EPIS for the year ending 31 March 2021.

Next steps

- Trustees to review details in relation to the preparation of the EPIS.
- The finalised EPIS must be included in the Plan's Annual Report and Accounts.
- The EPIS will also have to be published on a publicly accessible website.

Prepared for: The Trustees of the Hall and Woodhouse Limited and Subsidiary Companies Retirement Benefits Plan

Prepared by: Aon Responsible Investment Team

Date: 14 September 2021

Preparing the EPIS

Data

Aon has gathered information from your asset managers, when preparing this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time we expect industry wide templates to be more widely adopted and more consistent information received from investment managers. We believe it is reasonable to use the information in this document for the purpose of this year's EPIS.

While information was gathered and reviewed, to keep the statement relatively concise we have disclosed detailed stewardship information in a proportionate way.

Significant votes

The investment manager has provided the voting statistics (where relevant) and examples of "significant" votes. Investment managers typically have their own criteria for determining whether a vote is significant. In terms of what constitutes a significant vote, examples of this may be:

- a vote that was contentious that had more than 15% against management; and/or
- a vote where the investment manager voted against a management recommendation or different from the service provider recommendation; and/or
- a vote that is connected to a wider engagement initiative with company management; and/or
- a vote that demonstrates clear and considered rationale; and/or
- a vote that the Trustees consider inappropriate or based on inappropriate rationale; and/or
- a vote that has significant relevance to members of the Plan.

Materiality considerations

This statement does not disclose stewardship information on any investments in gilts or cash due to the limited materiality of stewardship to those asset classes.

Additionally, this statement does not disclose information on the additional voluntary contribution ("AVC") platform providers or funds on the grounds of materiality.

Annuity policies have not been included as the Trustees recognise that they cannot directly influence the investment process nor stewardship policies and practices of the policy provider.

Next steps

The Trustees should review the document to ensure that they are comfortable with the statements being made on their behalf. Once the Trustees have reviewed, they should agree and finalise the EPIS.

The EPIS is required to be included in the Plan's Annual Report and Accounts. In addition, the Trustees are required to publish a copy of the EPIS on a publicly available website.

Further actions to engage with your investment managers

Having reviewed some of the examples provided, the Trustees may wish to consider engaging directly with the managers to understand their voting and engagement practices. This would provide more detail on how these actions reconcile with the Trustees' responsible investment policies. This could be done by inviting the manager to a meeting during 2021 to discuss responsible investment in more detail.

Your EPIS

The remainder of this document provides the Trustees with their EPIS to be reviewed and agreed.

Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things 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 SIP.
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their 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. The EPIS for the Hall and Woodhouse Limited and Subsidiary Companies Retirement Benefits Plan ("the Plan") has been prepared by the Trustees of the Plan ("the Trustees") and covers the Plan year 1 April 2020 to 31 March 2021.

Plan stewardship policy summary

The below bullet points summarise the Plan's Stewardship Policy in force over the majority of the reporting year to 31 March 2021.

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

The Trustees regularly review the suitability of the Plan's appointed investment manager. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed manager. If an incumbent manager is found to be falling short of the standards the Trustees expect, the Trustees may undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees review the stewardship activities of their investment manager on a regular basis, covering both engagement and voting actions with relevance to the Plan.

Where the Trustees identify significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of conflicts of interest, of a fund manager or other stakeholder; they will consider the methods by which they would monitor and engage with such an asset manager or other stakeholders.

The full SIP can be found here: <https://www.psgovernance.com/communications/Hall-Woodhouse.html>

Plan stewardship activity over the year

Training

Over the year, the Trustees had high-level training on responsible investment, 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 Trustees discussed an action plan to appoint a fiduciary investment manager and review its wider investment strategy, including in respect of ESG risks and opportunities.

Updating the Stewardship Policy

Throughout the year, the Trustees have been proactive to ensure the Stewardship policy in the Plan's SIP had been appropriately updated.

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

This has been made available on Punter Southall Governance Services' website where it can be accessed by the public.

Climate risk management / TCFD / carbon reporting

The Trustees aim to put in place an action plan to meet the requirements as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks. Aligning the Plan to the TCFD can be a long process and requires careful planning.

Manager Appointments

During the year, the Trustees initiated a plan to appoint a fiduciary investment manager, which they expect to complete in 2021. This will give the Trustees greater access to advice, including in respect of ESG matters, as well as in relation to strategic investment strategy decisions.

Voting and engagement activity – Equity funds

Over the period, the Plan was invested in the Legal & General Investment Management ("LGIM") Global Equity Fixed Weight 50:50 Index and the World Emerging Markets Equity Index funds.

Legal & General Investment Management

Voting policy

LGIM make use of the Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary environmental, social and governance ("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 seek to uphold what they consider to be minimum best practice standards all companies should observe. LGIM retain 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.

Over the year to 31 March 2021	Global Equity Fixed Weight 50:50 GBP Hedged	World Emerging Markets Equity Index
Number of resolutions eligible to vote	44,680	36,036
% of resolutions voted on for which the fund was eligible	99.97%	99.89%
Of the resolutions on which the fund voted, % that were voted against management	16.29%	13.40%
Of the resolutions on which the fund voted, % that were abstained from?	0.15%	1.38%

Voting example

The investment manager did not provide voting examples at strategy level for the Emerging Markets Equity fund, therefore this example represents LGIM voting engagement for the Global Equity Fixed Weight 50:50 fund only.

An example of significant vote was in favour of Whitehaven Coal given in October 2020. 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 the use of coal in the future 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 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. As the company is on LGIM's Future World Protection List of exclusions, many of LGIM's ESG-focused funds and select exchange-traded funds were not invested in the company.

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

Engagement policy

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.

LGIM have also begun producing quarterly stewardship reports, more detail on recent activity can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/esg-impact-report-q1-2021.pdf

Engagement example:

LGIM engaged at a firm level with Procter and Gamble ("P&G") in relation to their use of 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 that P&G should report on effort to eliminate deforestation (voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Council to fully understand the issues and concerns.

Following these engagements, LGIM voted in favour of the resolution as P&G has introduced objectives and targets to ensure their business does not impact deforestation.

However, LGIM felt P&G were not doing as much as it could, and asked P&G to respond to a Carbon Disclosure Project Forests Disclosure and continue to engage on the topic with P&G and other and 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: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity – Fixed Income

The Fund also invests in a fixed income strategy, AAA-AA-A Over 15 Year Corporate Bond fund, managed by LGIM. While the Trustees acknowledge the ability for fixed income managers to vote or engage may be less direct than for other asset classes, it is encouraged that LGIM are aware and active in their role as a steward of capital, based on information provided.

LGIM engages on a firm wide level, hence the information relayed above is also applicable to this fund.

In summary

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustees note that their investment manager was able to disclose evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement.

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Copyright © 2021 Aon Solutions UK Limited. All rights reserved. aon.com. Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales No. 4396810. Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN. This document and any enclosures or attachments are prepared on the understanding that they are solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. In this context, "we" includes any Aon Scheme Actuary appointed by you. To protect the confidential and proprietary information included in this document, it may not be disclosed or provided to any third parties without the prior written consent of Aon Solutions UK Limited.

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard. Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

Aon Solutions UK Limited's Delegated Consulting Services (DCS) in the UK are managed by Aon Investments Limited, a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.

