

## **SME Centralised Pension Scheme – Engagement Policy Implementation Statement**

### **Introduction**

This statement sets out how, and the extent to which, the stewardship policy and related policies on environmental, social and governance ('ESG') factors and climate change set out in the Statement of Investment Principles ('SIP') have been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

### **Investment Objectives of the Scheme**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives it has set. As set out in the SIP, the Trustees primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aims to maximise returns at an acceptable level of risk, taking into consideration the circumstances of the Scheme.

The objectives set out above provide a framework for the Trustees when making investment decisions.

### **Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustees financial considerations on ESG factors, stewardship and climate change.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager who approaches investments in a responsible way and takes account of ESG related risks will lead to better risk adjusted performance as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken.

The Trustees accept the fact that it has very limited ability to influence the ESG policies and practices of the companies in which its managers invest.

### **Scheme's Investment Structure**

The Scheme invests in pooled investment vehicles managed by an investment manager. As such, the Trustees have no direct relationship with the Scheme's underlying investment managers. The Trustees have the responsibility of selecting the pooled funds, in conjunction with advice received from their investment advisor, Mercer.

### **Trustees Engagement**

Given the limited influence on ESG policies and practices of the companies in which its managers invest, the Trustees opted to invest in well-respected investment managers where ESG principles are an established part of the investment decision making process. The Trustees will therefore rely on the policies and judgement of the investment managers when assessing the impact on the value of the Scheme's investments. Thus, the Trustees have delegated the task of incorporating ESG, including climate change issues, to the investment managers and that these matters will be included in the consideration of the appointment of these managers going forward.

The Trustees will review ESG considerations at future reviews of the SIP, to make sure that the policy evolves in line with emerging trends and developments.

### **Voting Activity**

The Trustees have delegated their voting rights to the investment managers of the Scheme. The Trustees have not been asked to vote on any specific matters over the Scheme year.

Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e., all funds which include equity holdings).

Scheme's Section	Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
			Votes in total	Votes against management endorsement	Abstentions		
H Bowers J F Hutchings Keith Motors Pertwee & Back Reynards	Baillie Gifford Diversified Growth Fund	Baillie Gifford is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), but do not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on its clients' shares. All client voting decisions are made in-house. They vote in line with their in-house policy and not with the proxy voting providers' policies.	895	48	12	<p>The list below exemplifies potentially significant voting situations:</p> <ul style="list-style-type: none"> <li>— Baillie Gifford's holding had a material impact on the outcome of the meeting;</li> <li>— The resolution received 20% or more opposition and Baillie Gifford opposed;</li> <li>— Egregious remuneration;</li> <li>— Controversial equity issuance;</li> <li>— Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders;</li> <li>— Where there has been a significant audit failing;</li> <li>— Where we have opposed mergers and acquisitions;</li> <li>— Where we have opposed the financial statements/annual report;</li> <li>— Where we have opposed the election of directors and executives.</li> </ul>	<p><i>Covivio</i> – Opposition to five resolutions regarding in-flight and proposed long-term incentive scheme, which could lead to rewarding under-performance. After the vote, Baillie Gifford informed Covivio of their voting decision and advised that they expected more stretching performance criteria to apply to long term incentives going forward. Baillie Gifford continue to enter in to dialogue with the company on this and will take appropriate voting action in the future.</p> <p><i>Gecina</i> – Opposition to three resolutions relating to remuneration as we do not believe there is sufficient alignment between pay and performance. They have been opposing remuneration at the company since 2017 due to concerns with the targets applied to the restricted stock plan. Baillie Gifford continues to engage with the company to advise of areas for improvement.</p>

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Schroder Life Intermediated Diversified Growth Fund	Research is received from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings. In addition to relying on their own policies, they are also informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts.	20,396	1,570	61	<p>The fund considers "most significant" votes as those against company management.</p> <p>Such votes against will typically follow an engagement and the fund will inform the company of their intention to vote against before the meeting, along with their rationale.</p> <p>However, common practice is to support the management of the companies that they invest in.</p>	<p><i>Catalyst Pharmaceuticals, Inc.</i> – Vote against the election of the Director Philip H. Coelho due to a lack of gender diversity in the board and chairs the nomination committee. The outcome of the resolution was the election of the director.</p> <p><i>Amazon.com, Inc.</i> – Vote against the election of the Director Jonathan J. Rubinstein due to being a Lead Independent Director and ongoing concerns about labour standards and company responsiveness to shareholder concerns.</p>
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