

# **Warner Electric Limited Retirement Benefits Scheme Implementation Statement for the year ended 5<sup>th</sup> April 2021**

## **Purpose**

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This Implementation Statement provides information on how, and the extent to which, the Trustees' policies in relation to the exercising of rights (including voting rights), attached to the Scheme's investments, and engagement activities have been followed during the year ended 5 April 2021 ("the reporting year"). In addition, the Statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

## **Background**

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During 2020, the Trustees considered how to update their policy in relation to ESG and voting issues which, up until that point, had simply been a broad reflection of the investment managers' own equivalent policies. The Trustees' new policy was documented in the updated Statement of Investment Principles dated August 2020.

## **The Trustees' updated policy**

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The Trustees have determined their approach to financially material considerations over the Scheme's long-term funding horizon – including environmental, social and corporate governance ("ESG") factors – by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention, and realisation of investments.

## **Manager selection exercises**

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One of the main ways in which this updated policy is expressed is via manager selection exercises; the Trustees seek advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

During the reporting year, there were no such manager selection exercises undertaken.

## Ongoing governance

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The Trustees, with the assistance of XPS, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry and, at least partly, on a review of data relating to the voting and engagement activity conducted annually.

## Adherence to the Statement of Investment Principles

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During the reporting year, the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

## Voting Activity

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The main asset class where the investment managers will have voting rights is equities. The Scheme has specific allocations to both public and private equities, and investments in equities will also form part of the strategy for the diversified growth funds in which the Scheme invests. Therefore, a summary of the voting behaviour and most significant votes cast by each of the relevant investment manager organisations is shown below. Based on this summary, the Trustees conclude that the investment managers have exercised their delegated voting rights on behalf of the Trustees in a way that aligns with the Trustees' relevant policies in this regard.

*Please note that all information provided on voting activity has been written by the investment managers. Any views expressed are not necessarily those of the Trustees.*

## LGIM UK Equity Index Fund

### Voting Information

Legal and General Investment Management UK Equity Index Fund

The manager voted on 100% of resolutions of which they were eligible out of 12,574 eligible votes.

### Investment Manager Client Consultation Policy on Voting

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients. LGIM's voting policies are reviewed annually and take into account feedback from their clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continue to develop their voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

### Investment Manager Process to determine how to Vote

All decisions are made by LGIM's Investment Stewardship team and in accordance with LGIM's relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the LGIM team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures LGIM's stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

### How does this manager determine what constitutes a 'Significant' Vote?

As regulation on vote reporting has recently evolved with the introduction of the concept of 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure they continue to help their clients in fulfilling their reporting obligations. LGIM also believes public transparency of their vote activity is critical for their clients and interested parties to hold them to account.

For many years, LGIM has regularly produced case studies and/ or summaries of LGIM's vote positions to clients for what LGIM deemed were 'material votes'. LGIM is evolving their approach in line with the new regulation and are committed to providing their clients access to 'significant vote' information.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;

- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

LGIM will provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications.

For any additional questions on specific votes, LGIM publicly discloses their votes for the major markets on their website. The reports are published in a timely manner, at the end of each month and can be used by clients for their external reporting requirements. The voting disclosures can be found by selecting 'Voting Report' on the following page:

LGIM Vote Disclosures ([issgovernance.com](https://issgovernance.com))

### Does the manager utilise a Proxy Voting System? If so, please detail

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions

To ensure LGIM's proxy provider votes in accordance with their position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believes all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to its voting judgement. LGIM has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service providers. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

### Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
International Consolidated Airlines Group	Resolution 8: Approve Remuneration Report was proposed at the company's annual shareholder meeting held on 7 September 2020.	LGIM voted against the resolution.	28.4% of shareholders opposed the remuneration report.
Outcome: LGIM will continue to engage closely with the renewed board.			
Imperial Brands plc	Resolutions 2 and 3, respectively, Approve Remuneration Report and Approve Remuneration Policy.	LGIM voted against both resolutions.	Resolution 2 (Approve Remuneration Report) received 40.26% votes against, and 59.73% votes of support. Resolution 3 (Approve Remuneration Policy) received 4.71% of votes against, and 95.28% support.

Outcome: LGIM continues to engage with companies on remuneration both directly and via IVIS, the corporate governance research arm of The Investment Association. LGIM annually publishes remuneration guidelines for UK listed companies.			
Pearson	Resolution 1: Amend remuneration policy was proposed at the company's special shareholder meeting, held on 18 September 2020.	LGIM voted against the amendment to the remuneration policy.	At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO.
Outcome: 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 will now need to be addressed through continuous engagement.			
SIG plc.	Resolution 5: Approve one-off payment to Steve Francis proposed at the company's special shareholder meeting held on 9 July 2020.	LGIM voted against the resolution.	The resolution passed. However, 44% of shareholders did not support it. LGIM believes that with this level of dissent the company should not go ahead with the payment.
Outcome: LGIM intends to engage with the company over the coming year to find out why this payment was deemed appropriate and whether they made the payment despite the significant opposition.			
Barclays	Resolution 29 Approve Barclays' Commitment in Tackling Climate Change Resolution 30 Approve ShareAction Requisitioned Resolution	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.	Resolution 29 - supported by 99.9% of shareholders Resolution 30 - supported by 23.9% of shareholders (source: Company website)
Outcome: The hard work is just beginning. LGIM's focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. LGIM plans to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.			

## LGIM Overseas Equity Consensus Index Fund

### Voting Information

Legal and General Investment Management Overseas Equity Consensus Index Fund

Outcome: The manager voted on 99.84% of resolutions of which they were eligible out of 67525 eligible votes.

### Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Qantas Airways Limited	Resolution 3 Approve participation of Alan Joyce in the Long-Term Incentive Plan Resolution 4 Approve Remuneration Report.	LGIM voted against resolution 3 and supported resolution 4.	About 90% of shareholders supported resolution 3 and 91% supported resolution 4. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration, in our view.
Outcome: We will continue our engagement with the company.			
Whitehaven Coal	Resolution 6 Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.	LGIM voted for the resolution.	The resolution did not pass, as a relatively small number of shareholders (4%) voted in favour. However, the environmental profile of the company 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 our ESG-focused funds – and select exchange-traded funds – were not invested in the company.

Outcome: LGIM will continue to monitor this company.			
Lagardère	Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).	LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardère SB directors (resolutions B,C,E,F,G).	Even though shareholders did not give majority support to Amber's candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)
Outcome: LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.			
Medtronic plc	Resolution 3 Advisory Vote to Ratify Named Executive Officers' Compensation.	LGIM voted against the resolution.	The voting outcome was as follows: For: 91.73%; against: 8.23%.
Outcome: LGIM will continue to monitor this company.			
Olympus Corporation	Resolution 3.1: Elect Director Takeuchi, Yasuo at the company's annual shareholder meeting held on 30 July 2020.	LGIM voted against the resolution.	94.90% of shareholders supported the election of the director
Outcome: LGIM will continue to engage with and require increased diversity on all Japanese company boards.			

## Summary

Based on the information received, the Trustees believe that the investment managers have acted in accordance with the Scheme's stewardship policies as set out in the Scheme's SIP.

The Trustees and the investment consultant are working with the investment managers to provide additional information in the future in order to enhance their ability to assess the investment managers' voting and engagement.

## Trustees of the Warner Electric Ltd Retirement Benefits Scheme

**JULY 2021**