

# Engagement Policy Implementation Statement

## The Hartwells Pension Plan (1971) (“the Plan”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustees and covers the Plan year 1 September 2021 to 31 August 2022.

### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the “Regulations”). The Regulations require that the Trustees produce an annual statement which outlines the following:

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles (“SIP”).
- Describe the voting behavior by or on behalf of the Trustees (including the most significant votes cast) during the Plan year and state any use of third-party provider of proxy voting services.

### Executive summary

Based on the activity over the year by the Trustees and their investment managers, the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement. In particular, the Trustees expect improvements from LGIM, PIMCO and IFM on its reporting of fund level voting and engagement examples. The Trustees investment advisor, Aon, will engage with the managers to pursue improvements in their disclosures.

### Plan stewardship policy

The below bullet points summarise the Plan’s stewardship policy in force over the Plan year to 31 August 2022.

The full SIP can be found here: <https://www.hartwell.co.uk/pages/pension-plan-statement-of-investment-principles/>

- The Trustees recognize 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 creates long-term financial value for the Plan and its beneficiaries.
- As part of their delegated responsibilities, the Trustees expect the Plan’s fund managers to:
  - 1) take into account social, environment or ethical considerations in the selection, retention and realisation of investments; and
  - 2) where appropriate, engage with investee companies to promote good corporate governance and accountability with the aim to protect and enhance the value of assets; and
  - 3) exercise the Trustees’ voting rights in relation to the Plan’s assets.
- The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees expect, the Trustees undertake to engage with the manager and seek a more sustainable position and may ultimately look to replace the manager.

- The Trustees review the stewardship activities of their fund managers on an annual basis, covering both engagement and voting actions, and will report on this information in the Engagement Policy Implementation Statement. The Trustees will review the alignment of their policies to those of the fund managers and look for the fund managers, or other third parties, to use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner.
- The Trustees may, where appropriate, engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest. When a concern is identified, the Trustees will engage with their investment adviser to consider the methods by which, and the circumstances under which, they will monitor and engage with the fund managers and other stakeholders.

## Plan stewardship activity over the year

The Trustees receive regular investment updates from their investment managers, including where appropriate on matters relating to responsible investment. The Trustees' ongoing monitoring takes different forms, including investment performance monitoring, ad-hoc market updates and annual investment risk disclosures.

### Investment Performance Monitoring

The Trustees receive on a quarterly basis, monitoring reports from their investment adviser outlining the valuation of all investments held and the performance of these investments and also consider any transactions encountered during the quarter. Investment returns are compared with appropriate performance objectives to monitor the relative performance of these investments.

## Voting and Engagement activity – Equity and Multi-Asset funds

Over the year, the material equity and multi-asset investments held by the Plan were:

Legal & General Investment Management (LGIM)	UK Equity Index
Legal & General Investment Management (LGIM)	World equity
Liontrust Asset Management	UK Equity Fund
Schroders	Diversified Growth Fund
Newton Investment Management (Newton)	Real Return Fund

Some managers use the services of proxy voting organisations for various services that may include research, vote recommendations, administration, and vote execution.

In this section, there is a summary of voting information and examples of significant voting activity for each of the Plan's relevant managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has its own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on an inappropriate rationale
- a vote that has significant relevance to members of the Plan

The Trustees consider a significant vote as one which the voting manager deems to be significant or a vote where more than 15% of votes were cast against management.

### Legal & General Investment Management (LGIM)

#### Voting

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy, if appropriate, for example if engagements with the company have provided additional information.

The table below shows the voting statistics for LGIM's Funds for the period to 30 June 2022:

	World Equity Index Fund	UK Equity Index Fund
Number of resolutions eligible to vote on over the period	3,156	10,901
% of resolutions voted on for which the fund was eligible	99.8%	100.0%
Of the resolutions on which the fund voted, % that were voted against management	20.3%	6.1%
Of the resolutions on which the fund voted, % that were abstained from	0.7%	0.0%

Source: investment manager

#### Voting Example - World Equity Index Fund: Accenture

In January 2022, LGIM voted against the management of Accenture, a professional services company, on a resolution to elect Arun Sarin as a Director. LGIM voted against the proposal because it expects board members not to hold too many external positions to ensure they can undertake their duties effectively. The vote passed with 86% votes in favour of the resolution.

LGIM will continue to engage with its investee companies publicly advocate its position on this issue. LGIM considers this vote to be significant as it is an escalation of an engagement by vote on the topic of board composition.

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#### Voting Example - UK Equity Index Fund: Sage Group Plc.

In February 2022, LGIM voted against the resolution to re-elect Drummond Hall as a director for Sage Group Plc, a software company. LGIM voted in this way because it states there has been a lack of progress regarding gender diversity on the board. It considers issues around diversity and inclusion to be a material risk to companies and it expects boards to have at least one-third female representation.

The vote passed as 94.4% of shareholders voted in favour of the resolution. LGIM deemed this vote significant as it views gender diversity as a financially material issue for clients, with implications for the assets it manages on their behalf.

LGIM will continue to engage with the company and publicly advocate its position on this issue and monitor company and market-level progress.

#### Engagement

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 monitors several ESG topics and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all its clients.

More information can be found on LGIM's engagement policy <https://www.lgim.com/landq-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>.

At the time of writing, LGIM had not provided engagement examples for the fund. The Trustees' fiduciary manager, AIL, has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this. The example provided below is at a firm level, i.e. it is not specific to the fund the Plan is invested in.

#### Engagement Example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. The overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM wrote to 20 water utility companies to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of the issue was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

## Liontrust Asset Management

### Voting

Liontrust uses ISS to host its voting microsite which provides information on Liontrust's voting record. Liontrust subscribes to ISS' voting platform and receives voting recommendations. The ultimate decision for voting lies with Liontrust's investment team. Liontrust votes at all applicable meetings and takes voting research and platform services from ISS.

In terms of reaching a voting decision, where a management recommendation and Liontrust's proxy voting research provider's recommendation are in alignment, the manager will be minded to vote in the same way, except where votes concern approval of political donations and expenditure. In that case, the manager will be minded to vote against the proposal. Where there is divergence, the relevant Liontrust fund manager will decide on how to vote.

Liontrust determines the most significant votes to be those that:

- 1) fall within the period being asked about by its clients
- 2) is for a company / holding that is within the top 5 or top 10 holdings in the fund by weight (and for which there was a vote during the period), and
- 3) where there is a disagreement between Liontrust management and ISS' voting recommendation for a proposal.

The table below shows the voting statistics for UK Equity Fund for the period to 30 June 2022.

Number of resolutions eligible to vote on over the period	2694
% of resolutions voted on for which the fund was eligible	100.0%
Of the resolutions on which the fund voted, % that were voted against management	2.6%
Of the resolutions on which the fund voted, % that were abstained from	0.5%

Source: investment manager

### Voting Example - UK Equity Fund: Compass group

In April 2022, Liontrust voted against the resolution to re-elect Frank Dageard as director for Natwest Group, a British banking and insurance holding company. Liontrust voted in this way because in addition to his role as non-executive director of the Company, Frank Dageard serves on boards of three other publicly listed companies. Liontrust believe this could potentially compromise his ability to commit sufficient time to his role at NatWest Group Plc. The vote was passed. Liontrust deemed this vote significant as this item was from a meeting of one of the portfolio's top 5 holdings in the reporting year where ISS and management voting recommendations disagreed.

### Engagement

Liontrust views engagement as a critical component of its investment process in helping the manager understand its investments, key issues and potential risks companies might face going forward. Liontrust will engage with the underlying companies it invests in via meetings, phone calls and written communications as part of its investment process, with the level of engagement being driven by its own assessment of the material issues a company faces.

Liontrust reports on its engagements, including any subsequent votes, in its quarterly reports to clients in their annual Responsible Capitalism report.

Engagement Example

Over 2021, Liontrust continued its engaged with Electrocomponents on the topic of supply chain resiliency and carbon footprint. Liontrust engaged with the company three times to talk about, among other things, the steps the company is taking to ensure its supply chain is robust, has sufficient oversight, is of a manageable size (in terms of supplier numbers), and is working to reduce carbon emissions across the platform. The engagement was primarily between the company's management and with investor relations.

Liontrust believes that the company has made considerable progress with its supply chain. While there is more work to be done, Liontrust feels that the company has a handle on this area and is working towards greater resiliency.

**Schroders**Voting

Schroders uses research from both ISS and Institutional Voting Information Service ("IVIS"), however it states that this research is only one component of the analysis which feeds into its voting decisions. Schroders stresses that its own research is also integral to its final voting decision. This research is conducted by its financial and ESG analysts. For contentious issues, Schroders' Corporate Governance specialists will engage with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Schroders considers most significant votes as those against company management. It opposes management if it believes that doing so is in the best interests of shareholders and its clients.

Schroders discloses its voting activity publicly. On a monthly basis, Schroders produces voting reports which detail how votes were cast, including votes against management and abstentions.

The table below shows the voting statistics for Diversified Growth Fund for the period to 30 June 2022.

Number of resolutions eligible to vote on over the period	18,051
% of resolutions voted on for which the fund was eligible	95.9%
Of the resolutions on which the fund voted, % that were voted against management	10.3%
Of the resolutions on which the fund voted, % that were abstained from	0.4%

Source: Investment manager

Voting example – Diversified Growth Fund: Total SE

In January 2022, Schroders voted in favor of a resolution to report on GHG emissions reduction targets for Costco Wholesale Corporation. The company has been asked to adopt science-based greenhouse gas emissions reduction targets for emissions from its full value chain. Schroders stated it supported this resolution since it is eager to see the company develop its strategies and targets relating to emissions reductions, as it was concerned about the risks associated with delayed action on climate change.

At the time of writing, Schroders did not disclose the outcome of this vote and the rationale behind deeming this vote significant.

Engagement

Schroders defines engagement to be purposeful communication with an entity (e.g. government, corporate, institution, financial counterparties, regulator, industry body or managers of Special Purpose Vehicles or funds) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is considered a key part of the ESG process at Schroders.

The Investment team monitors the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team, to ensure they are driving ESG improvements at the underlying holding level. Schroder's engagements can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying fund manager based on engagement activity.

#### Engagement Example – firm level

In 2021, Schroders engaged with a number of FTSE 100 companies to inform them that, from 2022 onwards, it will be using its shareholder votes to apply pressure on firms that have failed to meet board diversity targets.

Schroders believes that diversity is important for a company's long-term strategy and success. Further, this will allow for more constructive debate of different views as well as a better representation of wider stakeholders.

Schroders engaged by sending out letters to companies. Since sending out these letters, 25 companies acknowledged receipt, 15 provided a substantial response and one has since appointed a non-white director to its board. Schroders will monitor the progress of companies on this issue.

### **Newton Investment Management ("Newton")**

#### Voting

Newton states that its approach to responsible investment is embedded in its investment process. Newton aims to support and enhance its investment rationale for a company through active engagement and by exercising its clients' voting rights.

Newton uses proxy voting provider adviser ISS for administering proxy voting, as well as its research reports on individual company meetings.

Newton's Responsible Investment team reviews all voting resolutions for contentious issues, aided by advice from ISS. Newton may also decide to engage with the company or other interested parties for further information. Where Newton identifies a potential conflict of interest with its clients or the investee company, it follows the voting recommendations of ISS.

Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into consideration a company's individual circumstances, its investment rationale, and any information from its engagement activities, together with the relevant governing laws, guidelines, and best practices.

The table below shows the voting statistics for Newton's Real Return Fund for the year to 30 June 2022

Number of resolutions eligible to vote on over the period	1,424
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted, % that were voted against management	11.9%
Of the resolutions on which the fund voted, % that were abstained from	0.0%

Source: investment manager

#### Voting Example

In November 2021, Newton voted against two proposals regarding the approval of capital raising in relation to a proposed share issuance for the company Greencoat UK Wind Plc, a renewable energy infrastructure fund. Newton stated it voted in this way due to concerns with the discount to market price at which the shares would be issued, and that these shares would not necessarily be offered to existing shareholders.

As an outcome, the vote was passed. Newton state that while the outcome of the vote was not of a significant concern, it's engagement with the company suggests that any future capital raising will be dealt with sensitively by the company.

Newton considers this a significant vote as owing to the structure surrounding capital raising can mean existing shareholders' value is unnecessarily diluted.

### Engagement

Newton defines engagement as purposeful communication with a corporate entity where specific environmental, social or governance matters are the primary reasons for contacting the company in order to influence change, raise a concern or seek comfort.

Newton states that it works collectively with other like-minded investors as well as trade associations, government bodies and non-government organisations. Collective action may deal with specific company matters or broad industry concerns to develop best practice, raise awareness of an issue or enhance the effectiveness of engagement activities. A direct way Newton participates in and influences debate is by responding to industry consultations.

Newton states that it understands that it plays an important role in providing investors with access to investment solutions, and that with this comes an inherent responsibility to do what is right on behalf of clients, as well as wider asset owners and stakeholders in the financial system. Newton looks to contribute to solutions to systemic risks (such as climate change and social inequality) which might otherwise undermine its clients' interests. Newton has been an active participant in groups such as Climate Action 100+, Workforce Disclosure Initiative and International Corporate Governance Network.

### Engagement Example

Over the reporting period Newton engaged with Elanco Animal Health Inc. related to its Climate change theme. In order to assist Newton's proprietary ESG research on the company ahead of investing, it arranged a call with the company to better understand its approach towards two structural challenges that exist in the animal health industry – i) greenhouse-gas (GHG) emissions from livestock and ii) the increasing prevalence of anti-microbial resistance. This was its first ESG-led engagement meeting with the company, which was represented by its investor relations team.

The engagement undertaken, along with additional research conducted as part of Newton's ESG Quality Review of the company meant that the RI team deemed the company to be suitable for investment by its sustainable funds. Newton appreciates and expect engagement to continue as the company enacts its strategic objectives.

## **Engagement activity – Fixed Income funds**

Whilst voting rights do not apply to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation, and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Plan's fixed-income manager and alternative funds over the year.

### **PIMCO**

#### Engagement

PIMCO sees engagement as an essential tool for delivering impact for investors, markets and society. It believes that engagement can be partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment.

PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board qualifications and composition.



PIMCO states that for non-ESG dedicated portfolios, like the PIMCO fund the Plan is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, it may benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

At the time of writing PIMCO had not provided a fund level engagement example. The Trustees' investment adviser, Aon, will raise this issue with PIMCO at its next meeting. The example provided below is at a firm level, i.e. it is not specific to the fund the Plan is invested in.

#### Engagement Example (firm level)

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund green and social projects. These include the construction of a solar power plant and a smart hydro-agricultural development. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan.

### **Engagement activity – Infrastructure**

#### **IFM**

##### Engagement

IFM considers company engagement a key part of its ownership responsibilities and consistent with the long-term nature of its investment approach. Engagement may be undertaken by IFM in three ways:

1. Where there is a significant negative change in a governance factor
2. On an ad-hoc basis in response to issues arising for individual stocks
3. Around pre-determined themes.

IFM has an intimate knowledge of the companies in its portfolios and regularly engages with these businesses directly via its equities teams or through the Australian Council of Superannuation Investors (ACSI)<sup>1</sup>. It also engages with regulators, industry associations and the investment community to promote best practice responsible investment standards.

Each year, IFM may determine three or four key themes which form the basis for discussion with portfolio businesses. These themes will generally be aimed at improving corporate reporting and participation in initiatives that improve the level of environmental, social and governance performance of companies in the index. The themes will be notified in disclosures to investors.

##### Engagement example: Indiana Toll Road

IFM engaged with the management of the Indiana Toll Road (ITR), (a Toll Road in the Midwest region of the United States) after learning about their pilot program which introduced two electric vehicle charging stations at each point of the Rolling Prairie Travel Plazas at ITR.

In Q1 2022, following IFM advocacy the Colonial Board decided to start work on a comprehensive ESG program through the formation of a shareholder taskforce.

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<sup>1</sup> ACSI - Exists to provide a strong voice on financially material environmental, social and governance (ESG) issues through research, engagement, advocacy and voting recommendations.