

Engagement Policy Implementation Statement

The Lookers Pension Plan

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 Trustee produce an annual implementation statement which outlines the following:

- Explain how and the extent to which it has followed its engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on its behalf) during the scheme 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 engagement policy implementation statement ("EPIS") for the Lookers Pension Plan (the "Plan") has been prepared by the Trustee (the "Trustee") of the Plan and covers the Scheme year from 1 April 2020 to 31 March 2021.

Plan Stewardship Policy Summary

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

Extract from SIP - Stewardship

- *The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.*
- *The Trustee regularly reviews the continuing suitability of the Plan's appointed investment managers and takes advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed investment managers. If an incumbent investment manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee will undertake to engage with the investment manager and seek a more sustainable position but may look to replace the investment manager.*
- *The Trustee reviews the stewardship activities of its investment managers on a regular basis, covering both engagement and voting actions. The Trustee will review the alignment of its policies to those of the Plan's investment managers and ensure its investment managers, or other third parties, use its influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.*

The full SIP can be found here: [Lookers - Pension Plan \(lookerspension.co.uk\)](https://lookerspension.co.uk)

Plan stewardship activity over the year

Training and Viewpoints survey

Over the year, the Trustee had a responsible investment training session with their investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

The training session was provided to the Trustee in August 2020. Ahead of this meeting the Trustee had completed a responsible investment "Viewpoints Survey" with the final responses to this survey discussed at the August meeting, leading to the desired updates to the SIP to capture the Trustee's views and principles being made in September 2020.

Updating the Stewardship Policy

To expand the SIP in line with regulatory requirements for policies such as costs transparency and incentivising managers; and to capture the Trustee's views and principles; the Trustee reviewed and expanded its Stewardship Policy in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Plan's investment managers and other considerations relating to voting and methods to achieve their Stewardship Policy.

Ongoing Monitoring

Investment monitoring takes place on a regular basis with monthly dashboard and quarterly monitoring reports being provided to the Trustee by their investment advisor, Aon. Quarterly monitoring reports include ESG ratings, where applicable, and highlight any areas of concern, or where action is required.

The ESG rating system is for 'Buy' rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Manager Appointments

The Trustee undertook a formal review of the Plan's appointed investment managers towards the end of the Plan year, with a specific focus on the managers ability to evaluate and subsequently integrate ESG considerations in the investment process. The Trustee concluded that the appointed managers/funds were appropriately incorporating ESG risks in the investment process, but identified an opportunity to switch the Plan's holding with PIMCO to a similar PIMCO mandate where there was evidence that ESG considerations were at the forefront of the investment process. The switch was actioned in July 2021 at no cost and with no change to the overall investment strategy of the Plan.

Voting and Engagement Activity – Equity Fund

During the year, the Plan invested in the following equity fund:

Manager	Fund Name
Legal & General Investment Management ("LGIM")	Developed Balanced Factor Equity Index Fund

LGIM

Voting

LGIM makes use of the Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment its own research and proprietary ESG (environmental, social and governance considerations) 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. Even so, LGIM retains 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.

Developed Balanced Factor Equity Index Fund over year to 31 March 2021	
Number of resolutions eligible to vote on over the year	15,435
% of resolutions voted on for which the fund was eligible	100.00%
Of the resolutions on which the fund voted, % that were voted against management	17.93%
Of the resolutions on which the fund voted, % that were abstained from?	0.24%

Voting Example: Pearson

In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson.

The company put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy at an extraordinary general meeting ("EGM"), which was tied to the appointment of a proposed CEO. Shareholders supportive of the new leadership were therefore unable to separately evaluate the remuneration policy.

LGIM spoke with the chair of Pearson's board in relation to plans for the change in leadership and discussed the shortcomings of the company's current remuneration policy. Additionally, LGIM relayed its concerns prior to the EGM that the performance conditions within the remuneration policy were not appropriate and should be re-evaluated to best align management incentives with those of the shareholders.

In the absence of any changes to the proposal, LGIM took the decision to vote against the amendment to the remuneration policy. In all, 33% of shareholders voted against the remuneration policy and the appointment of the new CEO. While the proposal received sufficient support to be passed, the engagement highlighted concerns around governance, which LGIM has stated will be challenged through continued engagement going forward.

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.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

LGIM have also begun producing quarterly stewardship reports and more detail on recent activity can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/esg/esg-impact-report-q4-2020.pdf

Engagement Example: Proctor and Gamble

LGIM engaged at a firm level with Procter and Gamble ("P&G") in relation to its 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 its 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 although P&G has introduced objectives and targets to ensure its business does not impact deforestation. 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 its 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 Plan also invested in two fixed income strategies.

While the Trustee acknowledges the ability to engage and influence companies may be less direct than in comparison to equity holdings; from the information received, the Trustee is encouraged that the managers are aware and active in its role as a steward of capital.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Plan over the year.

PIMCO Global Libor Plus Bond Fund

Engagement

PIMCO's ESG credit research team leads its engagement efforts, in coordination with the broader credit research team of over 75 analysts, including the specific credit analyst covering each issuer. The manager's ESG credit analyst team regularly engages with issuers on material ESG topics including climate change and related sustainability targets, human capital management, sustainable development goals ("SDG") alignment and best practices in Green/Social and Sustainability bond issuance while its broader credit analyst team engages with the issuers they cover on ESG topics that have the potential to impact fundamental credit performance in the near term.

Further detail on PIMCO's policy can be found here: <https://www.pimco.co.uk/en-gb/our-firm/policy-statements>

Engagement Example: Dell

In 2020 PIMCO engaged with Dell Inc regarding supply chain management. This engagement activity was undertaken solely by PIMCO and led by its engagement specialist and credit team. PIMCO engaged Dell on labour rights issues in its supply chain, including compliance on working hours and response and investigation on forced labour disputes.

The investment manager encouraged the company to disclose supplier audit coverage and assurance progress for conflict mineral sourcing ('conflict resources' are natural resources extracted in a conflict zone and sold to perpetuate the fighting). Dell was encouraged to include sub-tier suppliers in this assessment and make public commitments to 100% Responsible Minerals Assurance Process ("RMAP") for conflict mineral sourcing.

Following the engagement Dell confirmed its audits cover much of the supply chain. Dell also updated disclosure on RMAP-conformant supplier list to maintain transparency. In 2021, Dell is working to achieve 100% RMAP conformance for conflict mineral such as tin, tantalum, tungsten, gold and cobalt; metals which form a fundamental part of the production process of its technology products. PIMCO will continue to engage with Dell on supply chain transparency and traceability.

BlueBay Asset Management ("BlueBay") Total Return Diversified Credit Fund

Engagement

BlueBay believes that providers of debt do have a role in engaging with issuers on matters with the potential to impact investment returns. Given BlueBay's approach of not automatically excluding issuers from investment based on their ESG performance, actions to mitigate such risks are raised with investments teams where appropriate. However, it states that client expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that as debt investors, BlueBay are not owners and as such have more limited legal mechanisms to influence issuers.

Engagement Example: Petroleos Mexicanos ("Pemex")

In 2020, BlueBay engaged with Pemex regarding Climate change. The objective was to encourage the company to curb its emissions, improve governance practices and strengthen climate-related financial disclosures. BlueBay considers this topic to be a material consideration for Pemex, one of the largest global energy companies, realising scope for the company to adopt a more progressive approach to climate change, noting SGD 7 (affordable and clean energy) and 13 (climate action).

The engagement was initiated (in the form of a letter) in July 2020 by BlueBay's ESG team alongside the relevant credit analyst and was part of a collaborative engagement with Climate Action 100+ (CA100+), following BlueBay's own bilateral ESG engagement with the company during the first quarter of 2020 on a range of ESG matters.

Having had numerous e-communications with the company since, October was the first formal call with company representatives from investor relations and the planning department (with the latter having responsibility for ESG-related matters). The call was important to directly draw attention to the CA100+ initiative, as management has been busy with other developments and not been as forthcoming on engaging with BlueBay. Pemex representatives stressed that the Chief Investment Officer ("CIO") was aware of the matter and would take direct responsibility for outlining a response to the engagement in the coming months. The company advised investors to look out for the upcoming publication of the annual sustainability report and business plan update, which would include new information on Pemex's climate strategy. Therefore, BlueBay was assured the company took ESG issues seriously and recognised the need to be more transparent about its efforts.

BlueBay continues to hold the position, which gives greater ability to engage with management, and will continue to engage the company on the importance of this theme.

In Summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that most of its applicable investment managers were able to disclose strong evidence of voting and engagement activity.

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

This Engagement Policy Implementation Statement was approved by the Trustee on 13 October 2021.