

# Gallaher “M” Pension Scheme 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 Trustee produces an annual implementation statement which outlines the following:

- Explain how and the extent to which they have 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 EPIS has been prepared by the Trustee and covers the Scheme year 1 April 2020 to 31 March 2021.

## Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in effect over the majority of the reporting year to 31 March 2021. The full SIP can be found at [XXXX](#)

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 Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee expects investment managers to;

- Engage with investee companies (both debt & equity) with the aim of protecting and enhancing the value of assets
- Exercise voting rights
- Take into account Environmental, Social Governance (“ESG”) issues in the selection, retention and realisation of investments
- The Trustee regularly reviews the suitability of the Scheme’s investment managers and takes advice from its investment consultant on possible changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights and engagement by the appointed managers.

If an incumbent manager is found to be falling short of the standards the Trustee expects, the Trustee will engage with the manager to understand the approach and seek a more sustainable position and may ultimately replace the manager.

## Scheme stewardship activity over the year

The Trustee outlines in its SIPs a number of key objectives and policies. The activities undertaken to meet these objectives and policies may be carried out by the Trustee directly or by the Investment Sub Committee on its delegated behalf. For ease of reference all sections below refer to the Trustee.

In line with regulatory requirements, the SIP was updated in August 2020 with policies covering cost transparency and incentivising managers. The Trustees also reviewed and expanded the stewardship policy. The updated wording illustrates how the Trustees recognise the importance of its role as stewards of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve its stewardship policy.

### Ongoing Monitoring

The Trustee discuss a quarterly investment report at Trustee meetings provided by its investment advisor (Aon). The reports include ESG ratings 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.

### Responsible Investing reporting

Over the year, a responsible investing manager report was prepared for the Trustee by Aon. The document summarised a number of Environment, Social and Governance (ESG) questions posed to the Scheme's investment managers and their responses, as well as suggested follow-up actions for the Trustee to engage with the investment managers.

## Voting and Engagement activity – Equity

The Scheme is invested in the following funds:

Manager	Fund Name
Baillie Gifford & Co	Global Alpha Fund
Walter Scott & Partners Limited	Global Equity Fund

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

### Baillie Gifford & Co (“Baillie Gifford”)

#### Voting

An integral part of Baillie Gifford's commitment to stewardship is thoughtful voting on its clients' holdings. It is Baillie Gifford's belief that voting should be investment led since voting is an important part of the long term investment process. The Governance & Sustainability team oversees the voting analysis and execution in conjunction with the portfolio managers and it does not outsource any part of the responsibility for voting to third parties. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and endeavours to vote every one of its clients' holdings in all markets.

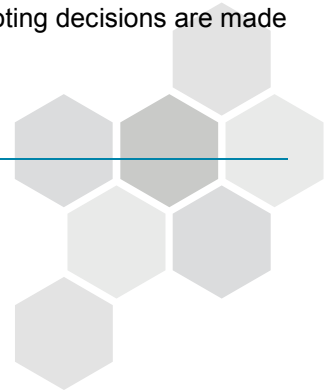
The Baillie Gifford Governance and Sustainability team make voting decisions in conjunction with the portfolio managers (i.e. the managers of the various underlying strategies within its funds). However, it does not regularly engage with clients prior to submitting votes unless a segregated client has a specific view on a vote.

Baillie Gifford is cognisant of proxy advisers' voting recommendations Institutional Shareholder Services ("ISS") and Glass Lewis). However, it does not delegate or outsource any of its stewardship activities or rely upon a

proxy adviser's recommendations when deciding how to vote on its clients' shares. All voting decisions are made in-house.

### Over the year to 31 March 2021

No. of meetings eligible to vote at	114
% of resolutions voted where eligible	93.8%
Of the resolutions voted, the % voted against management	2.4%
Of the resolutions voted, the % of votes abstained	0.7%



An example of a significant vote was Baillie Gifford voting for a shareholder resolution in Tesla Inc's ("Tesla") annual general meeting in September 2020. It supported a shareholder proposal to eliminate supermajority voting requirements from Tesla's bylaws and to adopt a simple majority voting standard. This resolution was deemed significant because it was submitted by shareholders and received greater than 20% support. Baillie Gifford had previously supported the same change at the 2019 meeting, when it was put forward by the company itself. The resolution received almost full support from those shareholders that did vote. However, it did not pass at that time because less than two thirds of shareholders actually voted on the resolution. Baillie Gifford has discussed this resolution as part of its recent conversation with Chair Robyn Denholm where it reiterated its support for this change. The 2020 resolution received majority shareholder votes and therefore was passed.

### Engagement

Baillie Gifford stated in its latest Governance and Sustainability report that its Stewardship Principles included;

- Prioritisation of long-term value creation
- Constructive and purposeful boards
- Long-term focused remuneration with stretching targets
- Fair treatment of stakeholders
- Sustainable business practices

Baillie Gifford's engagement activity is investment-team led, and all members of its investment staff are involved in its ongoing work on stewardship. Its investment staff meet with company leadership teams to understand their business strategy and discuss and monitor progress, both before and after taking a holding. However, Baillie Gifford is equally mindful of not attempting to 'micro-manage' its holdings in areas where it has no special expertise or insight, or distracting management from their core role of running the business for the long-term.

In March 2021, Baillie Gifford engaged with a leading manufacturer of industrial equipment, Atlas Copco. Baillie Gifford discussed with the head of sustainability how the company's technology could enable its customers to reduce their environmental impact; many of whom operate in high-emitting industries. A primary benefit of using Atlas Copco equipment is energy efficiency which can result in a material financial saving for customers.

From this engagement, Baillie Gifford learned more about how the company coordinates its sustainability strategy across a decentralised business. Unfortunately, Baillie Gifford was not able to gain much insight into how the environmental characteristics of the company's equipment compares relative to peers. This will be an aim for future work.

Baillie Gifford remains supportive of long-term shareholders in Atlas Copco and will continue to engage with the company as part of better understanding how the business is supporting the transition to a low-carbon society.

### Walter Scott & Partners Limited ("Walter Scott")

#### Voting

In deciding how to vote, Walter Scott's Investment Operations team provides structured support such as gathering all relevant documentation and discussing the information with in-house stock champions. All of Walter Scott's investee companies have a stock champion which is typically the member of the research team who initiated the investment and who has responsibility for its oversight and stewardship. The role of the stock champion encompasses all ongoing research and analysis, as well as the monitoring of issues pertinent to the investment case. The decision on how to vote on a particular proxy is generally made by Walter Scott's stock champions with all votes signed off by a senior team member.

### Over the year to 31 March 2021

No. of meetings eligible to vote at	49*
% of resolutions voted where eligible	100.0%
Of the resolutions voted, the % voted against management	3%
Of the resolutions voted, the % of votes abstained	0.4%

\* There were 50 meetings in total but Walter Scott were unable to vote on Fastenal due to stock lending, therefore only 49 votable meetings.

Walter Scott provided a number of significant voting examples in relation to the Scheme's investments. One example of a significant issue Walter Scott identified is in relation to equity issuance. It voted against management on resolutions relating to equity issuance at companies such as Compass Group, Jardine Matheson and Reckitt Benckiser. In all instances, Walter Scott stated its reason for voting against management was that it would potentially dilute shares by more than 10%.

### Engagement

From 1 April 2020 to 31 March 2021, the research team at Walter Scott met with 341 companies at 592 meetings and calls. Some aspect of environmental, social or governance issues were discussed at 281 of these meetings with 185 companies. Walter Scott provided a number of fund level engagement case studies.

An example of engagement over the period is an ongoing engagement with CLP Holdings (an investor-owned power business in Asia-Pacific) regarding the reduction in the carbon footprint and improvement of governance structures around climate change. CLP Holdings has a large carbon footprint, due largely to the coal-fired power plants in its portfolio. Walter Scott believe that the company will deliver very significant reductions in carbon emissions as it actively manages its portfolio towards zero- or low-carbon technologies. Walter Scott wrote to the company, outlining its views, proposals and questions whilst also requesting a meeting with senior management which was able to take place by video call in March 2020 and since then Walter Scott has spoken to the management on this subject several times.

Walter Scott has invested a significant amount of time analysing this portfolio and engaging with management on its carbon reduction targets. This analysis and Walter Scott's engagement with management have been important factors in its decision to maintain an investment in CLP Holdings. Encouraging developments to CLP Holdings' coal portfolio have been witnessed, with the CEO indicating that the company is looking to exit one large coal plant in India and is in the process of working through the coal portfolio in China. Walter Scott expects this to be a multi-year process given the complexity of what is required to achieve the low-carbon objective and it states that it will continue to engage with CLP management going forward to monitor progress.

### Engagement activity – Fixed Income

The Scheme also invests in a corporate bond strategy managed by Insight Investments (Insight).

While the Trustee acknowledges the ability to engage and influence companies may be less compared to equity managers, from the information received it is encouraging that the manager is aware and active in its role as a steward of capital.

The following section demonstrates some of the engagement activity being carried out on behalf of the Scheme over the year.

### **Insight**

Insight proactively engages on industry and regulatory issues that have implications for its clients and the wider market. In 2020, it engaged with Total as the company considered issuing transition bonds (a new type of bond designed to allow companies to finance their gradual shift to a cleaner way of doing business) on the back of its new ESG strategy. Insight held an ESG centric call with Total to discuss in detail its ESG strategy and provide feedback on the potential transition bonds proposed. Insight has also engaged with the company on concerns relating to the board and accounting practices and it will continue to engage with the company to gain additional disclosure.

### **In summary**

Overall, the Trustee are satisfied that stewardship that has been carried out on their behalf by its service providers. The Trustee notes that all of its applicable investment managers were able to disclose strong evidence of voting and engagement activity.

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