

# Aerosols International Limited Pension Plan

## Engagement Policy Implementation Statement

### **Introduction**

This statement sets out how, and the extent to which, the Stewardship policy in the Statement of Investment Principles ('SIP') produced by the Trustee has 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 2018/2019 and the guidance published by the Pensions Regulator.

### **Investment Objectives of the Plan**

The Trustee's primary investment objective is to ensure that it can meet its obligations to the beneficiaries of the Plan both in the short and long term. Greater details on the Trustee's specific investment objectives can be found in the SIP.

Whilst the current investment objectives were formulated following the actuarial valuation that occurred on 5 April 2017, the Trustee believes that the objectives and the resultant investment strategy remain broadly consistent with the actuarial valuation methodology and assumptions used by the Scheme Actuary at the triennial valuation in 5 April 2020. The valuation as at 5 April 2020 was finalised in July 2021. At the time of writing this Statement, the Trustee are awaiting advice from their investment consultant on any proposed changes to the investment strategy, following completion of this valuation.

### **Investment Strategy**

During the course of the financial year, the Trustee did not make any changes to the Plan's investment strategy.

### **Review of the SIP**

The Plan's SIP was updated in September 2020. The changes made to the SIP reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How arrangements with the asset managers incentivise the asset managers to align their investment strategy and decisions with the Trustee's policies in SIP.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustee monitors portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of arrangements with the asset managers.

## **Plan's Investment Structure**

Over the course of the year, the Plan's assets were invested via a Trustee Investment Policy (TIP) with Mobius Life Limited (Mobius). Mobius provides an investment platform and enables the Plan to invest in pooled funds managed by third party investment managers.

As such, the Trustee have no direct relationship with the Plan's underlying investments managers.

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

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change, which also sets out the processes followed by the Trustee in relation to voting rights and stewardship.

The Trustee has considered financially material factors such as ESG issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Plan for members. The Trustee believes that ESG factors are implicitly reflected in the expected risk and return profile of the asset classes the Plan is invested in and it is therefore in members' best interests to account for these factors within the investment process.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the ESG policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect the fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Plan's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Plan with the help of the investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Use ESG ratings information provided by its investment advisor, to assess how the Plan's investment managers take account of ESG issues; and
- Request that all of the Plan's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant

The following sections set out how the Trustee's engagement and voting policies were followed and implemented during the year.

## **Engagement**

### **Monitoring**

- The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment managers.
- Managers will be expected to report on their own ESG policies as and when requested by the Trustee.
- The Plan's investment performance report is reviewed by the Trustee on a half yearly basis – this includes ratings from the investment adviser. These ratings include an indication of Mercer's conviction in the ability of a manager to deliver its performance objectives. Deteriorations in these

ratings may prompt the Trustee to consider terminating certain managers. The investment performance report includes details of how each investment manager is delivering against their specific mandates

### **Stewardship**

- Over the year, the investment adviser, on behalf of the Trustee, requested that the investment manager confirm compliance with the principles of the UK Stewardship Code.
- Over the period, the Trustee did not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

### **Voting Activity**

The Plan has no direct relationship with the pooled funds it is ultimately invested in, and therefore no voting rights in relation to the Plan's investments. The Trustee has therefore effectively delegated its voting rights to the managers of the funds the Plan's investments are ultimately invested in.

The Trustee has not been asked to vote on any specific matters over the reporting period.

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) in which the Plan's assets are ultimately invested.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will take on board industry activity in this area before the production of next year's statement.

The table on the following page sets out a summary of the key voting activity over the financial year:

Fund	Proxy voter used?	Votes cast			Most significant votes (description) Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions	
<b>LGIM</b> Global Equity (70:30) Index Fund	LGIM's Investment Stewardship team uses Institutional Shareholder Services, Inc. (ISS) '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. To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.	79,697	11,947	558	<p><b>Vote example 1</b></p> <p><b>Company:</b> Barclays</p> <p><b>Date:</b> 07/05/2020</p> <p><b>Resolution:</b> Barclays' Commitment in Tackling Climate Change</p> <p><b>Vote:</b> For</p> <p><b>Rational:</b> Resolution has the backing of ShareAction</p> <p><b>Outcome:</b> Pass</p> <p><b>Vote example 2</b></p> <p><b>Company:</b> Procter &amp; Gamble</p> <p><b>Date:</b> 13/10/2020</p> <p><b>Resolution:</b> Report on effort to eliminate deforestation.</p> <p><b>Vote:</b> For</p> <p><b>Rational:</b> Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that investee companies are not contributing to deforestation</p> <p><b>Outcome:</b> Pass</p> <p><b>Vote example 3</b></p> <p><b>Company:</b> Cardinal Heath</p> <p><b>Date:</b> 04/11/2020</p> <p><b>Resolution:</b> Ratify Executive Officer's compensation</p> <p><b>Vote:</b> Against</p> <p><b>Rational:</b> Bonus was excessive as The Compensation Committee excluded a large settlement cost from the earnings calculations, which resulted in executive pay being boosted.</p> <p><b>Outcome:</b> Pass</p>
<b>LGIM</b> Diversified Fund	As above	115,604	20,473	647	As above

<b>LGIM</b>	As above	44,755	7,183	613	<b>Vote example 1</b>
Global Emerging Markets Equity Index Fund					<p><b>Company:</b> Samsung Electronics</p> <p><b>Date:</b> 17/03/2020</p> <p><b>Resolution:</b> Resolution 2.1.1: Elect Park Byung-gook as Outside Director Resolution 2.1.2: Elect Kim Jeong as Outside Director Resolution 3: Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member</p> <p><b>Vote:</b> Against</p> <p><b>Rational:</b> ere not satisfied with the independence of the company board and that the independent directors are really able to challenge management. LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.</p> <p><b>Outcome:</b> Pass</p>

**Notes:** ISS = Institutional Shareholder Services Inc.