# *Advice on the annual Implementation Statement*

## JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme

## 17 August 2021

*This note has been prepared for the Trustees of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme (the "Scheme") in response to your request that we provide a draft Implementation Statement for the Scheme.*

### Background and introduction

There is a requirement for most trust-based defined benefit ("DB") and defined contribution ("DC") pension schemes to produce an annual Implementation Statement (the "Statement") which covers the Scheme Year.

For DB schemes without a DC section (such as your Scheme), the Statement should set out how, and the extent to which, the Trustees have followed the **voting and engagement policies** in their Statement of Investment Principles ("SIP") during the Scheme Year.

The Statement is also required to include a description of the voting behaviour by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the Scheme Year and state any use of the services of a proxy voter during that year.

### Key points to note

TPR has issued some limited guidance[1] for DC scheme trustees, but it has not issued any guidance for DB trustees. The Pensions and Lifetime Savings Association (PLSA) has produced a guide for trustees which includes a standard template for manager voting disclosures.

We have produced the draft Statement in this note based on our current understanding of the requirements and the PLSA guidance. Ultimately it is the Trustees' responsibility to produce a compliant Statement and TPR is able to impose fines for non-compliant statements. We would note that TPR's guidance remains limited and industry practice is at a very early stage of development. Therefore**, you may wish to obtain legal advice to ensure that all requirements have been met**.

In the section of the Statement on voting behaviour, we have included data on the Scheme's investments that hold equities (ie the Newton Real Return Fund). We have requested Newton provide its choice of the "most significant votes".

Newton provided commentary on ten of the most significant votes undertaken within the Real Return Fund over the period. We have provided three examples of these in section 3.3 of the Statement, based on percentage weight of the portfolio. Details of the other significant votes are available upon request.

### Next steps

We propose that you review the Statement and include it within your Report & Accounts ending 31 March 2021 to comply with the relevant regulations.

The Report & Accounts need to be finalised within seven months of the end of the Scheme Year, ie by 31 October 2021. **You are required to publish your Statement on a website for public access as soon as the Report & Accounts are signed off.**

We expect you will use the same location for the Statement that was published last year.

There is considerable interest in Implementation Statements from TPR, policymakers, and the media; as such you should ensure you are comfortable with the content being in the public domain.

Please let us know if you have any questions or would like to discuss.

[1] Under the heading "Implementation report". Search for "Implementation report" and it should be the third mention of this phrase on the webpage.

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# *Implementation Statement, covering the Scheme Year from 1 April 2020 to 31 March 2021*

The Trustees of the JO Plowright & Co (Holdings) Limited Pension & Assurance Scheme (the "Scheme") are required to produce a yearly statement to set out how, and the extent to which, the Trustees have followed the voting and engagement policies in their Statement of Investment Principles ("SIP") during the Scheme Year. This is provided in Sections 1 and 2 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

## 1. Introduction

No changes were made to the voting and engagement policies in the SIP during the Scheme Year. The last time these policies were formally reviewed was on 30 September 2019.

The Trustees have, in their opinion, followed the Scheme's voting and engagement policies during the Scheme Year, by continuing to delegate to their investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. The Trustees took a number of steps to review the Scheme's new and existing managers and funds over the period, as described in Section 2 below.

## 2. Voting and engagement

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

In May 2020, the Trustees reviewed LCP's responsible investment ("RI") scores for the Scheme's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the managers' approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2020.

The Trustees were satisfied with the results of the review, with the Scheme's investment managers scoring very strongly overall and amongst the top ranked managers LCP surveyed. As such, no further action was taken.

Following a review of the Scheme's strategy, the Trustees agreed to invest in the BlackRock Sterling Short Duration Credit Fund in February 2021. In selecting and appointing this manager, the Trustees reviewed LCP's RI assessments of the shortlisted managers. At the manager selection day, voting and engagement were discussed with each manager and the Trustees questioned the managers on their RI practices.

## 3. Description of voting behaviour during the Scheme Year

All of the Trustees' holdings in listed equities are held within Newton's pooled diversified growth fund (ie the Newton Real Return Fund), and the Trustees have delegated to Newton the exercise of voting rights. Therefore the Trustees are not able to direct how votes are exercised and the Trustees themselves have not used proxy voting services over the Scheme Year.

### 3.1 Description of Newton's voting processes

Overall, Newton prefers to retain discretion in relation to exercising its clients' voting rights and has established policies and procedures to ensure the exercise of global voting rights. Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company's individual circumstances, its investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. It is only in the event of a material potential conflict of interest between Newton, the investee company and / or a client that the recommendations of the voting service used (Institutional Shareholder Services) will take precedence.

### 3.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the period is provided in the table below.

| | Newton Real Return Fund |
|---|---|
| Total size of fund at end of reporting period | £5,476.8m |
| Value of Scheme assets at end of reporting period | £10.2m |
| Number of holdings at end of reporting period | 91 |
| Number of meetings eligible to vote | 98 |
| Number of resolutions eligible to vote | 1,307 |
| % of resolutions voted | 99.2% |
| Of the resolutions on which voted, % voted with management | 85.4% |
| Of the resolutions on which voted, % voted against management | 14.6% |
| Of the resolutions on which voted, % abstained from voting | 0.0% |
| Of the meetings in which the manager voted, % with at least one vote against management | 38.0% |
| Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor | 9.9% |

### 3.3 Most significant votes over the Scheme Year

We have been provided commentary on ten of the most significant votes undertaken by Newton within the Real Return Fund over the period. We have provided three examples of these below based on percentage weighting within the portfolio. Details of additional significant votes are available upon request.

- **LEG Immobilien AG, August 2020. Vote:** Against.

  **Summary of resolution:** Approval of remuneration policy.

  **Outcome of the vote**: 22.2% Against

  **Rationale:** Newton voted against the proposed pay arrangements on account of their lack of alignment with performance. The executive long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, Newton was concerned that long-term awards could vest for below-median poor performance. Furthermore, the introduction of special remuneration awards through transaction-based bonuses were not considered to be ideal for promoting talent retention due to these generally being one-off in nature.

  **Criteria against which this vote has been assessed as "most significant":** Newton believes investor scrutiny of pay arrangements is increasing. The significance of the high vote against is important to note given that a majority of pay proposals from companies rarely see such high levels of dissent.

- **Microsoft Corporation, December 2020. Vote:** Against.

  **Summary of resolution:** Elect Director, Advisory Vote to Ratify Named Executive Officers' Compensation and Ratify Deloitte & Touche LLP as Auditors**.**

  **Outcome of the vote**: 1.1%, 0.9%, 0.3%, Against compensation committee members; 3.9% Against reappointment of the auditor; 5.3% Against executive officers' compensation.

  **Rationale:** Despite improvements to executive remuneration practices over recent years, Newton remained concerned that approximately half of long-term pay awards vest irrespective of performance. Newton voted against the executive compensation arrangements and against the three members of the compensation committee. Newton also voted against the re-appointment of the company's external auditor given that its independence was jeopardised by having served in this role for 37 consecutive years.

  **Criteria against which this vote has been assessed as "most significant":** The company is recognised as a leader among its US peers in terms of its approach to corporate governance. Its executive pay structure is also better than most but there exist fundamental improvements that should be made.

- **Linde plc, July 2020. Vote:** Against.

  **Summary of resolution:** Executive compensation arrangements and election of directors.

  **Outcome of the vote**: 1.8%, 7.6%, 2.1%, 8.2%, 9.8%, 40% Against elected Directors; 9.6% Against Advisory Vote to Ratify Named Executive Officers' Compensation.

  **Rationale:** Newton decided to vote against the advisory vote on executive compensation, and against the members of the remuneration committee members. A majority of long-term pay awards vest based on time served, which means executive pay is not subject to rigorous performance conditions and therefore not aligned with shareholders' interests. In addition, some of the perks to the CEO seem unnecessary and excessive, including the use of company aircraft for personal purposes, financial planning expenditures, and additional years of service credits beyond time served at the company being considered to calculate his pension benefit.

  **Criteria against which this vote has been assessed as "most significant":** Newton expects more shareholders will increase their scrutiny of pay versus performance and reflect this in their voting decisions; as such, shareholder dissent may increase and result in unnecessary media attention that can foster both financial and reputational issues. In addition, director election rarely achieves such a high level of dissent as seen by one nominee receiving a 40% vote against.