The R&A Group Services Limited Pension Scheme – Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 December 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 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

In late November 2021, the Trustees transitioned their investment arrangements from a Trustee – Investment Advisory arrangement to a fiduciary management at Mercer, whereby day-to-day management of the assets are delegated to Mercer, with the Trustees retaining responsibility for the overall investment strategy and objectives. As such, the Statement of Investment Principles in place is currently in the process of being updated and to be agreed by the Trustees to reflect the updated arrangements. Therefore the information and commentary below is set out in context to the previous advisory arrangements. The revised SIP is expected to be approved and adopted in Q2 2022.

The Trustees believe it is important to consider the policies in place in the context of the principal formal investment objectives it has set for the Scheme, as follows:

1. *The Trustees' investment policy is guided by an overall objective of achieving, over the long term, a return on the investments which is consistent with the long term assumptions made by the Actuary in determining the funding of the Scheme;*

2. *Over the shorter term, the objective is to achieve a favourable return against the benchmark detailed…The Trustees believe that the investment strategy adopting for achieving this objective will also be appropriate for achieving a further objective of seeking to avoid the need for additional contributions arising from a mismatch between the assets and liabilities.*

Review of the SIP

The most up to date SIP was agreed in August 2020 in order reflect policies on engagement with the investment managers. In particular, the policies cover:

- Aligning manager appointments with investment strategy;
- Encouraging long-termism and consideration of ESG issues;
- Monitoring manager appointments;
- Monitoring portfolio turnover costs;
- Duration of manager appointments.

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

As mentioned, the SIP is currently being updated to reflect the change in arrangements from an advisory relationship to a fiduciary relationship between the Trustees and Mercer.

Policy on ESG, Stewardship and Climate Change

As set out in the SIP, the Trustees have given appointed investment managers full discretion in evaluating how ESG factors, including climate change considerations are taken into account in selecting and retaining the Scheme's investments. The Trustees also considered how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers.

As noted, given the change to fiduciary management, the responsibility for undertaking such tasks is now delegated to Mercer.

Investment Mangers' Voting and Engagement Activity

As set out in the SIP, the Trustees had given the investment managers full discretion in the evaluation of ESG factors, including climate change considerations. The Trustees also considered how ESG, climate change and stewardship was integrated within investment processes in appointing new investment managers.

The Trustees delegated their voting rights to the investment managers. The Trustees expected that the votes attached to the Scheme's holdings were exercised whenever practical by the Scheme's investment managers and that managers should engage with the companies in which they have invested with the aim of ensuring ESG factors, including climate change considerations were properly taken into account in the companies' business strategies.

Investment managers are expected to provide voting summary reporting (where applicable) on a regular basis, at least annually.

Of the Scheme's investment managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held directly in the managers' pooled funds (Baillie Gifford, Dodge & Cox, Veritas) or indirectly through the Diversified Growth Funds (Baillie Gifford).

- The investment performance report, produced by the Scheme's investment consultant, is reviewed by the Trustees on a 6 monthly basis – this included ratings (both general and ESG specific) from the investment consultant. Where managers may not be highly rated from an ESG perspective the Trustees discussed the reasons with the investment consultant. In November 2021, the Trustees appointed Mercer as fiduciary manager and the Trustees delegated manager selection, retention and monitoring exercises to Mercer.

- The Scheme's investment managers engaged with companies over the period under review on a wide range of different issues, including ESG matters. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (e.g. those linked to the Paris agreement). The Scheme's investment managers provided examples of instances where they had engaged with companies they were invested in or about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the investment managers invest in or by voting on resolutions at companies' Annual General Meetings.

The Trustees were active in challenging the investment managers in relation to voting and engagement.

The Trustees do not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity within the equity and DGF mandates were as follows:

<u>Baillie Gifford – Diversified Growth</u>

All of Baillie Gifford's voting decisions are made by their Governance & Sustainability team in conjunction with the investment managers. They do not regularly engage with clients prior to submitting votes, however if a segregated client has a specific view on a vote then they will engage with them on this. If a vote is particularly contentious, they may reach out to clients prior to voting to advise them of this or request them to recall any stock on loan.

Thoughtful voting of their clients' holdings is an integral part of their commitment to stewardship. Baillie Gifford believe that voting should be investment led, because how they vote is an important part of the long-term investment process, which is why their strong preference is to be given this responsibility by their clients. The ability to vote their clients' shares also strengthens their position when engaging with investee companies. Unlike many of their peers, they do not outsource any part of the responsibility for voting to third-party suppliers. They utilise research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with our Governance & Sustainability Principles and Guidelines and they endeavour to vote every one of their clients' holdings in all markets.

Key information on the votes undertaken over the period from 1 January 2021 to 30 November 2021 are summarised below:

	Total	resolutions voted with management	resolutions in which you voted against management	resolutions in which you abstained
Number of meetings	128			
Number of Eligible Resolutions to Vote on	1,462			
Number of Resolutions Voted	1,293 (c88%)	1,240	45	8

Baillie Gifford undertook 10 significant votes over the period. A summary is provided below:

	Category	Issue	Outcome of Vote
Rio Tinto (2 votes)	Governance	Baillie Gifford opposed the remuneration report as they did not agree with the decisions taken by the Remuneration Committee in the last year regarding executive severance payments and the vesting of long-term incentive awards.	Resolutions both passed
Vonovia SE (2 votes)	Governance	Baillie Gifford opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	Resolutions both passed
Galaxy Entertainment Group (2 votes)	Governance	Baillie Gifford opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	Resolutions both passed
Greggs plc	Governance	Baillie Gifford opposed the resolution to approve the Remuneration Report because of the Remuneration Committee's decision not to align executive directors' pensions with the workforce until four years after the Investment Association's guidance.	Resolution passed

Baillie Gifford noted 4 of their targeted engagement highlights over the period, including Amazon (social/governance), TAG Immobilien AG (environmental), Greencoat UK Wind (environmental/governance) and Peloton Interactive (governance).

<u>Baillie Gifford – Global Alpha</u>

Key information on the votes undertaken over the period from 1 January 2021 to 30 November 2021 are summarised below:

	Total	resolutions voted with management	resolutions in which you voted against management	resolutions in which you abstained
Number of meetings	103			
Number of Eligible Resolutions to Vote on	1,320			
Number of Resolutions Voted	1,264 (c96%)	1,230	27	7

Baillie Gifford undertook 22 significant votes over the period. A summary is provided below:

	Category	Issue	Outcome of Vote
Tesla Inc. (8 votes)	Social (6) and Governance (2)	Baillie Gifford opposed various shareholder resolutions requesting a report on the company's approach to human rights, declassifying the board, and additional reporting on D&I. Baillie Gifford think Tesla's current policies and practices are reasonable and improving, making these proposals unnecessary. Baillie Gifford supported a shareholder resolution requesting a report on the company's use of arbitration to resolve employee disputes. Baillie Gifford think additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.	Resolutions failed
The Charles Schwab Corporation (2 votes)	Governance	Baillie Gifford supported the shareholder resolution for disclosure of lobbying activities and expenditure as we believe that greater transparency would enable shareholders to assess alignment with the company's values and corporate goals.	Resolutions both failed

Baillie Gifford noted 2 of their targeted engagement highlights over the period, including CRH (environmental) and Siemens Gamesa Renewable Energy (social).

<u>Dodge & Cox – Global Stock Fund</u>

Dodge & Cox consider ESG factors, including factors related to climate change-related risks and opportunities, on a bottom-up basis to determine whether they have a material effect on their investment thesis and analysis of a company's potential risks and rewards. They have considered transition and physical climate-related risks and opportunities, including risks and opportunities from a transition to lower reliance on non-renewable energy resources and risks from sea level rise and greater frequency of extreme weather events, when they have been deemed to be material to their investment thesis on a company level.

Key information on the votes undertaken over the period from 1 January 2021 to 30 November 2021 are summarised below:

	Total	resolutions in which they voted with management	resolutions in which they voted against management	resolutions in which they abstained
Number of meetings	62			
Number of Eligible Resolutions to Vote on	937			
Number of Resolutions Voted	937 (100%)	905	32	0

Dodge & Cox use Institutional Shareholder Services ("ISS") as their proxy administrator. Dodge & Cox vote in line with the Dodge & Cox Proxy Voting Policies and Procedures and manually vote at proxies. Dodge & Cox do not define "significant votes". They noted that all votes are in line with their proxy voting policies and procedures. As such there is no engagement or significant vote information provided by Dodge & Cox

Veritas – Global Focus Fund

Veritas believe ESG factors offer the most valuable insight when the framework is fully integrated into fundamental analysis that allows it to be placed in context along with industry, business, company and financial analysis. As concentrated investors who think and act like long term owners, Veritas endeavor to fully integrate sustainability in all its important dimensions into company analysis and valuation, as they have done from the inception of the funds. Veritas uses the proxy services of Institutional Shareholder Services ("ISS").

Key information on the votes undertaken over the period from 1 January 2021 to 30 November 2021 are summarised below:

	Total	resolutions in which they voted with management	resolutions in which they voted against management	resolutions in which they abstained
Number of meetings	29			
Number of Eligible Resolutions to Vote on	468			
Number of Resolutions Voted	468 (100%)	423	45	0

Veritas undertook 45 significant votes over the period. A summary is provided below:

	Category	Issue	Outcome of Vote
Safran SA (10 votes)	Governance	Veritas opposed various resolutions requesting approval for issuance of equity or equity-linked securities for private placement.	Of the various resolutions 5 failed and 5 passed
Facebook Inc. (8 votes)	Governance (6) and Social (2)	Veritas withheld 3 votes to elect 3 directors to the board due to concerns about executive pay. Further, Veritas	The director election resolutions and amending non-employee director compensation passed.

		voted against a resolution to amend non-employee director compensation policy. Veritas supported two resolutions in connection requiring an independent board of directors chair and approving a recapitalisation plan for stock to have one vote per share. Lastly Veritas voted for two resolutions in connection with platform misuse and reporting of online child sexual exploitation.	The resolutions for an independent chair, one share per vote, and the two social issues failed.
Alphabet Inc. (8 votes)	Governance	Veritas voted against electing 4 directors to the board due to poor stewardship of the company's pay programs. Veritas voted for three resolutions to include sustainability as an executive KPI, report on takedown requests and require an independent board member with human or civil rights experiences. Veritas voted against a stock plan due to concerns that the cost was deemed excessive.	All 4 directors' resolutions were passed. All 3 resolutions related sustainability as a KPI, takedown request reports and independent human or civil rights experiences failed. The stock plan resolution passed.

Veritas noted 16 of their targeted engagement highlights over the period. 9 issues related to Environmental issues (Vinci, Thermo Fisher Scientific, United Health Group, Charter Communications, Apollo Hospitals, Intercontinental Exchange, Sonic Healthcare, The Cooper Companies, Unilever (Hindustan)), 1 social issue (Thermo Fisher Scientific) and 6 Governance issues (United Health Group, BAE Systems, Beckton Dickinson, Fiserv Inc. x3).

Going forwards, given the switch to a fiduciary management arrangement, the Trustees have delegated day to day responsibility of selecting, retaining and monitoring managers to their fiduciary manager Mercer. Full information will be provided by Mercer covering the voting statistics and engagements undertaken for the Scheme year.

For and on behalf of the Trustees of The R&A Group Services Limited Pension Scheme

April 2022