

Manweb Group of the ESPS – 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 Trustee has been followed during the year to 31 March 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 Group

The Trustee believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Group, as set out in the SIP, are as follows:

- The Group Trustee seeks to invest the Group's assets so as to maximize the likelihood:
 - that benefits will be paid to members as they fall due, and
 - of continued long-term financial support from the sponsoring Employer.

In addition, in consultation with the sponsoring Employer, the Group Trustee has adopted the following specific objectives:

- To target an expected return in excess of the expected change in the value of the liabilities, which, in conjunction with the contributions to be paid by the Sponsoring Employer under the agreed Recovery Plan, is consistent with the following funding objectives
 - to achieve and maintain a funding level determined on the ongoing funding basis of at least 100% by 2028.
 - to achieve a funding level of 100% by 2028 by reference to liabilities determined using duration based gilt yields and inflation expectations with 0.4% p.a. outperformance assumed.

The Trustee has delegated certain investment powers to an Investment Sub-Committee (the "ISC").

Policy on ESG, Stewardship and Climate Change

The Group's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in June 2021.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided in June 2018. Following this training, the Trustee undertook a review of its investment beliefs to assist the Trustee with establishing policies in this area. Following the Trustee's investment beliefs being documented, the updated policies were incorporated into the SIP in

September 2019. The Trustee keeps the policies under regular review with the SIP subject to review at least annually, but typically quarterly.

In June 2021 the ISC received further training on climate change, including the forthcoming regulatory requirements and the risks and opportunities associated with climate change. Further training is planned for the ISC later in 2021, including on setting metrics for assessing climate change risk, how these can be measured and monitored and also how to set appropriate targets for the Group.

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Engagement

As set out in the SIP, the Trustee has given appointed investment managers full discretion in evaluation ESG factors, including climate change considerations. The Trustee also considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers.

During the year under review, CBRE (the Group's property manager) presented to the Investment Sub Committee. During the manager's presentation, the ISC questioned the investment manager on how they integrate ESG in to their investment process and discussed example investments as case studies.

Of the Group's managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held indirectly through the Diversified Growth Funds (DGFs) (BlackRock and Nordea).

- The Trustee reviewed Nordea and BlackRock (DGF mandates) in regards to their approach to ESG and their annual voting and stewardship activities at the June 2020 ISC Meeting. The ISC was comfortable that the managers' engagement policies were in line with those of the Trustee, but agreed to review the mandates regularly, at least annually, in case the policies changed.
- A summary as at 31 March 2021 is provided below:
 - Nordea engage with investee companies (and vote) on various issues, such as shareholder rights, board composition, remuneration and risk management.
 - Over the last year, Nordea has taken part in 150 ESG engagement cases in relation to the Diversified Growth mandate. There were three key areas of engagement; the aim to improve climate-related disclosures, like alignment to the Task Force on Climate related Financial Disclosures (TCFD) reporting (companies involved included Waste Management, Inc., Colgate and Pepsi Co.), clean energy and water handling, where Nordea particularly focused on pharmaceutical companies (such as Bayer, Amgen and J&J to ensure there was correct water management and less waste) and finally on sustainability and life on land, which included Unilever, where Nordea focused on TCFD reporting but also on their deforestation policies.

- BlackRock’s Stewardship team engages annually with companies globally on ESG issues, meets with executives and board directors, communicates with the company’s advisors and engages with other shareholders, where appropriate.
- In the 12 months to 31 March 2021, BlackRock has had 938 engagements with companies in their DGF portfolio. Governance was a topic of engagement in 88% of cases, social issues were considered in 44% of engagements and 62% of cases included environmental engagement. BlackRock’s environmental engagements focused primarily on climate risk and environmental impact management as well as operational sustainability. The main focus of the governance engagement included board composition and effectiveness, corporate strategy and remuneration.
- The Trustee has asked their investment managers, where applicable, to confirm compliance with the principles of the UK Stewardship Code and also to confirm if they are signatories of the UN Principles of Responsible Investment (UN PRI). The ISC have reviewed the managers’ responses.
- The investment performance report, produced by the Group’s investment consultant, is reviewed by the ISC on a quarterly basis – this includes ratings (both general and specific ESG) from the investment consultant. All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the ISC has discussed the reasons with the investment consultant. When implementing a new manager, the ISC will consider the ESG rating of the manager.

Voting Activity

As set out in the SIP, the Trustee believes that responsible share ownership and seeking the best long-term value for investment in shares requires active exercise of voting rights.

The trustees have delegated their voting rights to the investment managers. Where applicable, the Trustee expects the Group’s investment managers, unless impracticable, to exercise all voting rights attaching to shares or securities and take account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The managers are authorised to exercise discretion to vote as they think fit, but in doing so reflect the best interests of the Group. The Trustee do not use the direct services of a proxy voter.

Investment managers, where relevant, are expected to provide voting summary reporting on a regular basis, at least annually. As noted in the previous section, of the Group’s managers, the Voting and Engagement policies and activities are most relevant for the Diversified Growth Funds with BlackRock and Nordea, where equities are held indirectly.

In June 2020, the ISC reviewed the Engagement and Voting reports produced by BlackRock and Nordea and the plan is for these reports to be reviewed on an annual basis going forward to ensure they continue to align with the Trustee’s policy.

Over the last 12 months to 31 March 2021, the key voting activity by BlackRock and Nordea on behalf of the Trustee was as follows:

- BlackRock Investment – Diversified Growth

- BlackRock has established an internal ESG investment team, BlackRock Investment Stewardship, who are responsible for proxy voting. BlackRock’s policy is, where practical, to vote 100% of the underlying securities within all its pooled funds in line with the established voting policy.
- Key information on the votes undertaken over the prior year are summarised below:
 - BlackRock voted in c96.6% of proposals over the year, split between c97.3% management proposals and c2.7% shareholder proposals.
 - Of BlackRock’s total number of votes, c88.6% were votes for the proposal and 6.9% were against. The remaining votes were split between withheld votes and abstained votes. BlackRock have noted that their policy is to refrain from abstaining votes, unless the valid option for voting against management is an abstain vote.
 - BlackRock aligned with management on c90.1% of votes (not including withheld votes) over the year, with the remaining votes being against management.
 - The majority of votes in the past 12 months have been Director and routine business related. Climate and ESG related votes contribute a small proportion of the overall votes for the year.
 - Significant vote example: Chevron Corporation – BlackRock’s Investment Stewardship team (BIS) voted for the proposal Report on Climate Lobbying Aligned with Paris Agreement Goals. This sought greater transparency into the company’s approach to political spending and lobbying, as aligned with their stated support for the Paris Agreement, to help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy.
- Nordea Asset Management – Diversified Growth

In terms of voting, Nordea votes both by proxy and by attending annual general meetings. Nordea’s Funds utilise two external advisors; Institutional Shareholder Services and Nordic Investor Services. However, all voting decisions are taken by Nordea, the external advisors only provide input and second opinion when prompted.

- Nordea has an aggregated voting strategy, where it strives to vote for as large a part of its total holdings in any given company as possible.
- Key information on the votes undertaken over the prior year are summarised below:
 - Nordea aligned with management in c87.5% of votes and voted against management in the remaining c12.5% of votes.
 - The majority of votes over the past 12 months have been Director and routine business related, for both management and shareholder proposals. ESG and climate related votes have made up a small proportion of overall proposals.
 - In relation to the ESG and climate related votes, Nordea voted in favour regarding the proposal for Johnson & Johnson to report on governance measures

implemented in relation to Opioids. This proposal was cast because it was felt shareholders would benefit from more specific information about proactive steps the board is taking to mitigate risks related to the manufacture and marketing of opioid-related products, and that incentives are aligned with the health of the communities it serves.

- Nordea also voted in favour of a proposal for Pfizer to report on the Gender Pay Gap and in favour of a proposal at Royal Bank of Canada to adopt a diversity target higher than 40% for the composition of the Board of Directors for the next five years.

Over the prior 12 months, the Trustee has not actively challenged the manager on its voting activity. Going forwards, the Trustee will be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change.

For and on behalf of Manweb Pension Trustee Limited as the Group Trustee of the Manweb Group of the ESPS

June 2021