

# *Implementation Statement, covering 1 January 2020 to 31 December 2020*

The Trustees of the Ahli United Bank (UK) Pension Fund (the “Fund”) 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 year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the 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 2 below.

## **1. Voting and engagement policies**

The Trustees have, in their opinion, followed the Fund’s voting and engagement policies during the 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. Over the period, the Trustees took a number of steps to review the Fund’s new and existing managers and funds:

- As part of its advice on the selection and ongoing review of the investment managers, the Fund’s investment adviser, LCP, incorporated 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 Fund’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 covered the approach to ESG factors, voting and engagement. The fund scores and assessments were based on LCP’s ongoing manager research programme and directly affect LCP’s manager and fund recommendations. The manager scores and red flags were based on LCP’s Responsible Investment Survey 2020.

The Trustees were satisfied with the results of the review and no further action was taken.

## **2. Description of voting behaviour during the year**

All of the Trustees’ holdings in listed equities are within pooled funds and the Trustees have delegated to their investment manager 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 year.

Over the year, the Fund’s investment funds that hold equities were as follows:

- L&G UK Equity Index Fund
- L&G North America Equity Index Fund
- L&G Europe (ex UK) Equity Index Fund
- L&G Japan Equity Index Fund
- L&G Asia Pacific exJapan Equity Index Fund

The Trustees have sought to obtain the relevant voting data for all of the investment mandates listed above for the period of this Statement. The Trustees will continue to work with their advisers and investment managers with the aim of providing fuller voting information in future implementation statements.

In addition to the above, the Trustees contacted L&G and JP Morgan (the Fund’s infrastructure manager) with respect to the Fund’s mandates that do not hold listed equities, to ask if any of the assets held by the Fund had voting opportunities over the period. Both L&G and JP Morgan confirmed that no voting is carried out with respect to these mandates.

### **2.1 Description of the voting processes - Legal & General Investment Management (“L&G”)**

All decisions were made by L&G’s Investment Stewardship team and in accordance with L&G’s relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same

individuals who engage with the relevant company. This ensures that L&G's stewardship approach flows smoothly throughout the integrated engagement and voting process, therefore sending consistent messaging to companies.

L&G's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by L&G. Use of ISS recommendations is purely to augment L&G's own research and tools. L&G's Investment Stewardship team also uses the research reports of Institutional Voting Information Services ("IVIS") for UK companies when making specific voting decisions.

To ensure that the proxy provider votes in accordance with L&G's position on ESG, L&G has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what L&G considers are minimum best practice standards which all companies globally should observe, irrespective of local regulation or practice.

L&G retains the ability in all markets to override any vote decisions, which are based on L&G's custom voting policy. This may happen where engagement with a specific company has provided additional information that allows L&G to apply a qualitative overlay to L&G's voting judgement. L&G has strict monitoring controls to ensure that votes are fully and effectively executed in accordance with its voting policies.

L&G believes that it is vital that the proxy voting service is regularly monitored. This is done through quarterly due diligence meetings with ISS. The standing agenda includes setting out L&G's expectations, an analysis of any issues L&G has experienced when voting during the previous quarter, the quality of the ISS research delivered, general service level, personnel changes, the management of any potential conflicts of interest and a review of the effectiveness of the monitoring process and voting statistics.

L&G has its own internal Risk Management System ("RMS") to provide effective oversight of key processes. This includes L&G's voting activities and related client reporting.

## **2.2 Summary of voting behaviour over the year**

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

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5
Manager name	L&G	L&G	L&G	L&G	L&G
Fund name	UK Equity Index Fund	North America Equity Index Fund	Europe (ex UK) Equity Index Fund	Japan Equity Index Fund	Asia Pacific exJapan Equity Index Fund
Total size of fund at end of reporting period (£m)	21,852	40,548	13,429	7,700	449
Value of AUBUK Pension Fund assets at end of reporting period (£m)	34.9	21.2	16.9	11.1	6.3
Number of holdings at end of reporting period	597	240	458	513	618
Number of meetings eligible to vote	894	804	635	547	680
Number of resolutions eligible to vote	12,468	9,634	10,402	6,538	4,944
% of resolutions voted	100.00%	100.00%	99.88%	100.00%	100.00%
Of the resolutions on which voted:					
• % voted with management	93.12%	72.31%	84.19%	86.68%	77.37%
• % voted against management	6.87%	27.65%	15.47%	13.32%	21.61%
• % abstained from voting	0.01%	0.04%	0.35%	0.00%	0.02%
• % voted contrary to recommendation of proxy adviser	0.77%	0.28%	0.32%	0.24%	0.12%
Of the meetings in which the manager voted, % with at least one vote against management	3.24%	7.68%	4.46%	5.64%	8.39%

Columns may not sum due to rounding

## 2.3 Most significant votes over the year

Commentary on the most significant votes over the period has been provided by L&G. In determining significant votes, L&G's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- 1) High profile votes which have such a degree of controversy that there is high client and/ or public scrutiny;
- 2) Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at L&G's annual Stakeholder roundtable event, or where L&G notes a significant increase in requests from clients on a particular vote;
- 3) Sanction votes as a result of a direct or collaborative engagement;
- 4) Votes linked to an L&G engagement campaign, in line with L&G Investment Stewardship's 5-year ESG priority engagement themes.

We have selected the following significant votes to report based on a variety of region, subject matter and vote:

- **Pearson, UK, September 2020**

Vote: Against

Summary: "Amend Remuneration Policy" was proposed at the company's special shareholder meeting, held on 18 September 2020

Rationale: Pearson issued a series of profit warnings under its previous CEO. Shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items and felt forced to accept a less-than-ideal remuneration structure for the new CEO. L&G spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. The manager also discussed the shortcomings of the company's current remuneration policy as well as with the chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO's award. L&G also asked that the post-exit shareholding requirements were reviewed to be brought into line with its expectations for UK companies. In the absence of any changes, L&G took the decision to vote against the amendment to the remuneration policy.

- **Barclays, UK, May 2020**

Vote: For

Summary: 1) Approve Barclay's Commitment in Tackling Climate Change Resolution 20, and 2) Approve ShareAction Requisitioned Resolution

Rationale: The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. L&G was comfortable with the items proposed and voted in favour of both.

- **The Proctor & Gamble Company, US, October 2020**

Vote: For

Summary: Report on effort to eliminate deforestation.

**Rationale:** P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests. L&G engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. The manager spoke to representatives from the proponent of the resolution, Green Century. In addition, L&G engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, L&G decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, L&G felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to L&G in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for L&G is to ensure that companies it invests clients' assets in are not contributing to deforestation. L&G has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources.

- **Lagardère, France, May 2020**

**Vote:** L&G voted in favour of five of the candidates and voted off five of the incumbent directors.

**Summary:** Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).

**Rationale:** Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. L&G engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, L&G engages with both the activist and the company to understand both perspectives. L&G engaged with both Amber Capital, where it was able to speak to the proposed new SB Chair, and also Lagardère, where it spoke to the incumbent SB Chair. This allowed L&G to direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.

- **Whitehaven Coal, Australia, October 2020**

**Vote:** For

**Summary:** Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

**Rationale:** The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and

China - have announced targets for carbon neutrality around 2050. L&G has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

- **Olympus Corporation, Japan, July 2020**

Vote: Against

Summary: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020.

Rationale: Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. L&G has for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level L&G considers that every board should have at least one female director and deems this a de minimis standard. Globally, L&G aspires to all boards comprising 30% women. Last year in February, the manager sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that it expects to see at least one woman on the board. One of the companies targeted was Olympus Corporation. In the beginning of 2020, L&G announced that it would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100. L&G opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.