

# Lincolnshire Co-operative Pension Scheme

## ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 30 September 2020

### Introduction

This statement sets out how, and the extent to which, the Stewardship policy in the Statement of Investment Principles (SIP) produced by the Trustees has been followed during the year to 30 September 2020. 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, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations and the guidance published by the Pensions Regulator.

### Trustees' Investment Objective

The Trustees believe it is important to consider the policies in place in the context of the investment objectives it has set.

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees also ensure that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

### Policy on ESG, Stewardship and Climate Change

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Scheme's SIP includes the Trustees' policies on ESG factors, stewardship and climate change. The policies were last reviewed in August 2020. The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

The Trustee recognises that a proportion of the Scheme's assets are invested on a passive basis, which limits the investment manager's ability to take active decisions on whether to hold securities based on the investment manager's considerations of ESG factors, including climate change.

### **Scheme's Investment Structure**

The Scheme invests in pooled investment vehicles managed by an investment manager – Legal & General Investment Management (LGIM). As such, the Trustees have a direct relationship with the Scheme's underlying investment manager. The Trustees have the responsibility of monitoring the pooled funds, in conjunction with advice received from their investment advisor, Mercer.

### **Engagement**

In the last year, the Trustees have reviewed the investment manager's quarterly investment reports, which contains a section on corporate governance, including matters pertaining to ESG, stewardship or climate change.

## Voting Activity

The Trustees have delegated their voting rights to the investment manager of the Scheme. The Trustees have not been asked to vote on any specific matters over the Scheme year.

Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible.

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.

### Legal & General Investment Management ("LGIM") Passive Equity Funds

LGIM has been a signatory to the UK Stewardship Code every year since the inception of the Code and intends on being a signatory for the 2020 code once applicable. LGIM aims to comply with the EU Shareholder Rights Directive II while engaging in voting activity in accordance with the Investment Association's Responsible Investment Framework. Through the Institutional Investors Group on Climate Change, LGIM wrote to EU heads of state and governments highlighting their support for the proposed EU net zero emissions target and to senior officials in the European Commission pressing for a robust methane policy as part of implementing the Green Deal. Voting data is produced by LGIM using data extracted from the manager's third-party proxy-voting provider, Institutional Shareholder Services' ProxyExchange platform, an electronic voting platform used by LGIM's Investment Stewardship team to vote its clients' shares.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and / or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign in line with LGIM Investment Stewardship's 5 year ESG priority engagement themes.

The table on the following pages 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 Global Equity Fixed Weight (50:50) Index - GBP Hedged</b>	<b>Institutional Shareholder Services (ISS)</b> – recommendations only. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	39,082 resolutions eligible for (99.63% cast)	16.21% of votes cast	0.10% of eligible votes	<ul style="list-style-type: none"> <li>High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;</li> <li>Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;</li> <li>Sanction vote as a result of a direct or collaborative engagement;</li> <li>Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.</li> </ul>	<p><b>Pearson:</b> a vote ‘against’ amending the remuneration policy.</p> <p><b>Rational for vote:</b> Pearson issued a series of profit warnings under its previous CEO. Yet 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. LGIM spoke with the chair of the board earlier this year, on the board’s succession plans and progress for the new CEO. We also discussed the shortcomings of the company’s current remuneration policy. LGIM also spoke with the chair directly before the EGM, and relayed their concerns that the performance conditions were weak and should be revisited, to strengthen the financial underpinning of the new CEO’s award. LGIM also asked that the post-exit shareholding requirements were reviewed to be</p>

						<p>brought into line with LGIM’s expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.</p> <p><b>Outcome:</b> At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO.</p> <p><b>Implications of outcome:</b> LGIM will continue to monitor the company</p>
<b>LGIM World (ex UK) Developed Equity Index</b>	<b>Institutional Shareholder Services (ISS) –</b> recommendations only. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	27,517 eligible for (99.5% cast)	20.23% of votes cast	0.14% of eligible votes	Same as above	<p><b>Exxonmobil</b> - a vote ‘against’ was cast electing Director Darren W. Woods</p> <p><b>Rational for vote:</b> In June 2019, under LGIM’s annual ‘Climate Impact Pledge’ ranking of corporate climate leaders and laggards, LGIM announced that they will be removing ExxonMobil from their Future World fund range, and will be voting against the chair of the board. Ahead of the company’s annual general meeting in May 2020, LGIM also announced they will be supporting shareholder proposals for an independent chair and a report on the company’s political lobbying. Due to recurring shareholder concerns, LGIM’s voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.</p> <p><b>Outcome:</b> 93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. Approximately 30% of shareholders supported the proposals for independence and lobbying.</p> <p><b>Implications of Outcome:</b> LGIM believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company. LGIM’s voting intentions were the subject of over 40 articles in major news outlets across the world, including Reuters, Bloomberg, Les Échos and Nikkei, with a number of asset owners in Europe and North</p>

						America also declaring their intentions to vote against the company.
<b>LGIM World Emerging Markets Equity Index</b>	<b>Institutional Shareholder Services (ISS)</b> – recommendations only. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	13, 479 eligible for (98.03% cast)	16.09% of votes cast	1.07% of eligible votes	Same as above	<b>There were no significant votes made in relation to the securities held by this fund during the reporting period.</b>
<b>LGIM Global Real Estate Equity Index</b>	<b>Institutional Shareholder Services (ISS)</b> – recommendations only. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	2,648 eligible for (99.09% cast)	10.75% of votes cast	0.08% of eligible votes	Same as above	<b>There were no significant votes made in relation to the securities held by this fund during the reporting period.</b>
<b>LGIM FTSE Developed Core Infrastructure Index Fund</b>	<b>Institutional Shareholder Services (ISS)</b> – recommendations only. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	1,914 eligible for (98.54% cast)	17.92% of votes cast	0.05% of eligible votes	Same as above	<b>There were no significant votes made in relation to the securities held by this fund during the reporting period.</b>