

Grant Pension Scheme

**Annual Implementation  
Statement – Scheme year  
ending 5 April 2022**

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## Section 1: Introduction

This document is the Annual Implementation Statement (“the Statement”) prepared by the Trustee of Grant Pension Scheme (“the Scheme”) covering the scheme year (“the year”) to 5<sup>th</sup> April 2022.

The purpose of this statement is to:

- Set out how, and the extent to which, in the opinion of the Trustee, the Scheme’s engagement policy within the SIP (required under regulations 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year.
- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the year.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

A copy of this implementation statement has been made available on the following website:  
<https://sites.google.com/view/grant-pension-scheme/home>

## Section 2: Adherence to the Scheme's engagement policies within the SIP

During the reporting year the Trustee was satisfied that they followed their policy on the exercise of rights and engagement activities as detailed in the Scheme's Statement of Investment Principles.

### Company/fund manager engagement

The Trustee has given the appointed investment manager full discretion when evaluating ESG issues, including climate change considerations. This includes the utilisation of engagement powers to investigate corporate/fund manager activity and behaviour with a view to influence change where required.

The Trustee receives quarterly reports on the Investment Manager's engagement activity. These reports provide specific detail in respect of the companies or funds to which the engagement activity relates as well as a summary of the areas discussed.

Appendix 1 to this statement contains details of the engagement activity undertaken by the investment manager during the calendar year 2021 (this is the most relevant 12 month period available in respect of the scheme year to which this statement relates).

## Section 3: Voting behaviours (including most significant votes)

The Trustee has given the appointed Investment Manager full discretion when evaluating ESG issues, including climate change considerations and exercising voting rights and stewardship obligations attached to the Scheme's investments.

The Scheme's voting rights are exercised by its investment manager in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

### Voting

Quilter Cheviot vote on their core UK equity and investment trust holdings as this represents a significant proportion (circa 75%) of the assets under management.

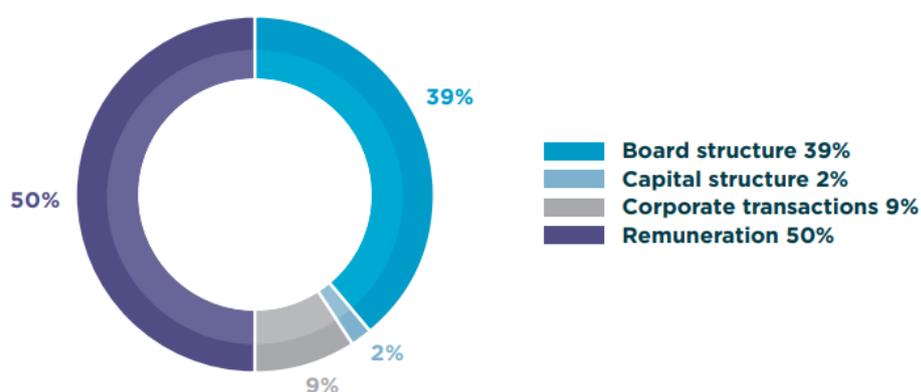
In order for Quilter Cheviot to act on a consistent basis, they do not remove a holding from the voting universe just because it is no longer on the list. The rationale behind this is when they engage with companies, they do so for the long-term and also because the holding often continues to represent a significant proportion of the assets under management.

This section details the voting activities reported by Quilter Cheviot that were undertaken on behalf of their discretionary clients, it includes detailed information provided directly from the investment manager on a range of significant votes cast.

<b><u>Voting activity</u></b>	
<b>Number of meetings where votes were cast during calendar year 2020</b>	323
<b>Percentage of resolutions voted with management</b>	91%
<b>Percentage of resolutions voted against management</b>	9%

**Breakdown of areas where voting against management occurred:**

### TOPICS WHERE WE HAVE VOTED AGAINST MANAGEMENT IN 2021



### **Most significant votes**

The attached appendix provides full details of the most significant votes exercised by Quilter Cheviot during 2021.



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# RESPONSIBLE INVESTMENT

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## VOTING AND ENGAGEMENT 2021 REPORT



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**QUILTER CHEVIOT**  
INVESTMENT MANAGEMENT

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# INTRODUCTION

## Welcome to our report of voting and engagement activity for 2021.

Overview of our activity across our discretionary holdings at Quilter Cheviot:

Activity	Universe
<b>Voting</b>	<p>Discretionary holdings within the UK, US and European equity monitored lists where we have voting rights including:</p> <ul style="list-style-type: none"> <li>• MPS (Managed Portfolio Service) Building Blocks</li> <li>• Climate Assets Fund</li> <li>• Quilter Cheviot Global Income and Growth Fund for Charities</li> <li>• Quilter Investors Ethical Fund</li> <li>• AIM Portfolio Service</li> </ul> <p>This includes our UK, US and European equity and investment trust monitored lists; as well as holdings in the AIM Portfolio Service and UK holdings where we own more than 0.2% or £2 million of the market cap.</p> <p><i>Additionally, clients are able to instruct voting on their behalf.</i></p>
<b>Engagement</b>	<ul style="list-style-type: none"> <li>• UK, US and European equities within the monitored list</li> <li>• Funds held on the centrally monitored list</li> <li>• AIM Portfolio Service holdings</li> <li>• UK holdings where we own more than 0.2% or £2 million of the market cap.</li> </ul>
<b>ESG integration</b>	All holdings within the centrally monitored universe of equities, funds and fixed income.

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst does so alongside the responsible investment team as we are committed to ensuring that responsible investment is integrated within our investment process rather than apart from it. As part of Quilter, we became one of the first wave of signatories to the 2020 Stewardship Code.



Where clients wish to vote their holdings in a specific way, we will do so on a reasonable endeavours basis; this applies whether the investment is in the core universe or not, and also to overseas holdings. We have ensured that 127 clients were able to instruct their votes in 2021.

For information regarding our approach to responsible investment, including our response to the UK Stewardship Code and our voting principles, as well as more granular detail on how we voted at each meeting please visit our website [Responsible Investment | Quilter Cheviot](#).

## RESPONSIBLE INVESTMENT AT QUILTER CHEVIOT



### Responsible investment and ESG integration – for discretionary clients

We vote and engage with companies and fund managers on environmental, social and governance (ESG) matters. Integrating ESG considerations into our investment process can have direct and indirect positive outcomes on the investments we make on behalf of our clients.

We take a more targeted approach for clients who want their portfolios to reflect their specific interests or preferences:



### Sustainable investment – the Climate Assets Fund and strategy

Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel-free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.



### A funds based approach - Positive Change

A pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading ESG practitioners. Meaningful engagement by fund houses with company management prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.



### Ethical and values-oriented investment (ESG screening) - client specific

This is incorporated on an individual client basis, informed by their specific ethical preferences. These will vary from client to client and will focus on sectors, industries or individual companies.

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## ENGAGEMENT IN 2021

Below we have outlined some examples of our engagement during each quarter of 2021. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations we have, in the majority of cases, included the name of the company or fund. In some cases we will not, as this would be unhelpful in the long-term to the ongoing engagement process.

### Alstom - (Q1)

**Objective:** to discuss ESG factors and to get an update after the Bombardier Transportation (BT) deal closed. Alstom's (ALO) participation in a light railway tender in Jerusalem that was routed through occupied territories in 2008 has caused some ethically-based investors to exclude it from investment. Although the rolling stock has been delivered, there is a continued maintenance relationship. This contract could be terminated early this year by the client even though it runs to 2027 as there is now another supplier providing maintenance. This would then end their relationship and if confirmed, could drive investors to look at ALO given its strong green mobility credentials and progress on a number of ESG risks since the power business was divested.

New risk-based order procurement: ALO has been managed by a new team since 2015, after the sale of the power business to GE. They have formulated a more detailed risk mapping for new orders that has been tightened since 2017 by a French corporate duty of vigilance law which asks companies to make assessments on the adverse impact of their activities on people and the planet. This was backed up by ALO signing the UN Global Compact in 2018, a voluntary sustainability initiative to align corporate policies with universal principles of human rights, labour, environment, and anti-corruption. We feel adequate risk controls are now in place for orders, especially if there are human rights concerns.

**Outcome:** In conclusion, we believe that risk controls and processes have improved around new order acceptance and the supply chain.

### Ares Management Corporation - (Q2)

**Objective:** To evaluate and understand the structure of a US company.

Ares Management Corporation qualifies as a controlled company within the rules of the NYSE because Ares Partners Holdco LLC beneficially owns more than 50% of the company's voting stock. The company has elected to be exempt from having a majority independent board and fully independent compensation, as well as nominating and governance committees pursuant to the exemptions afforded to controlled companies under these rules. We discussed this with the company and although the governance structure is not in line with publicly listed best practice, it is permitted under the rules of NYSE and is broadly in line with peers including KKR, Blackstone and other private equity managers. The company is relatively young and, in many ways, comparable to the dual listed share class structure at some tech companies. The founder controls 53% of the company and although listed, Ares,

shares many of the characteristics of a private company and we do not see that this structure will change for some time. There is not a formal remuneration committee as compensation is not structured through a salary/bonus type arrangement but through carried interest which is set by the Conflicts Committee (made up of independent board members). Additional independent board members have been added in recent years.

**Outcome:** This is an ongoing engagement. We believe our proxy adviser's concerns stem from applying a public listed governance framework without considering the underlying structure. We will encourage further governance improvements (such as improving the board's diversity) and will monitor developments moving forward. We also strongly encouraged further engagement with proxy advisers to better explain how the company's governance framework operates. We supported management.

### Ashtead - (Q3)

**Objective:** Open engagement to discuss concerns related to the proposed remuneration policy put forward at the 2021 AGM, as well as a proposed executive salary rises in the remuneration report.

Our conversation with the company focussed on majority US presence in terms of activities, retention efforts and peers. The company has grown significantly and performed well over the past five years, and we understood the rationale for bringing salary and LTIP in line with peers (particularly US ones) – as there has not been a significant re-assessment of pay since 2016. We are willing to support the CFO pay rise on these grounds and would be willing to support management on the remuneration report. In principle, we did not have concerns with the initial proposal to increase LTIP on the basis of the above rationale. However, a strategic equity award was proposed as part of the LTIP increase. This was a significant increase from the base level – with insufficient staging from our perspective. Separately, from concerns around total compensation, the complexity of splitting the LTIP into the two structures is also not considered best practice.

**Outcome:** We supported management on the remuneration report but voted against the proposed remuneration policy.

### Associated British Foods PLC - (Q4)

**Objective:** To raise concerns related to the use of board discretion to override performance targets under the LTIP (Long-term Incentive Plan), prior to the 2021 AGM.

We engaged with the company as the remuneration



committee had exercised discretion to override the anticipated formulaic outcomes of performance targets applicable to in-flight awards made under the LTIP (an upward revision). At the same time, the company has applied downward discretion to the STIP (Short-term Incentive Plan) and, following a reduction in the LTIP maximum, have exercised discretion within a framework, and allowed a portion of the LTIP to vest. This has resulted in a reduction in total pay for the executive directors.

**Outcome:** Based on the reduction in total pay we voted to support management.

#### Assura - (Q1)

**Objective:** Remuneration policy consultation.

A discussion with the Chair of the Remuneration Committee, as part of the shareholder consultation on the remuneration policy that will be put forward at the 2021 AGM. Main changes included an increase to CEO and CFO salaries as well as alignment of executive and wider workforce pension contributions. Our discussion centred on the appropriateness of the pay rise and the benchmarking used by the Remuneration Committee to arrive at the decision. One difficulty has been benchmarking salaries effectively as they do not have many direct peers in the health property sector. Based upon our discussion, we are broadly supportive of the proposal. This does appear to be a genuine effort to bring the CEO/CFO remuneration up to market. They have not used government assistance during the Covid-19 crisis and deferred 2020 proposed increases while taking short-term temporary salary cuts at the height of the crisis. The potential expense and salary of external recruitment is also an understandable concern. Moving forward, we would like to see more information on how they benchmark themselves against peers on ESG metrics. There was a high-level discussion on how ESG criteria are embedded into executive performance reviews (and therefore incentives), but greater detail on this would be welcome.

**Outcome:** Seek further information regarding the benchmarking around ESG performance as well as the development of ESG metrics.

#### Assura PLC - (Q2)

**Objective:** To evaluate the sustainability strategy.

Assura has a 'SixBySix' sustainability strategy which focuses on six million benefitting from improvements to and from its healthcare buildings. Additionally, it is looking to minimise its impact on the environment. We were keen to understand how their goals (attached to the UN Sustainable Development Goals) were being measured and progressed. This was a positive conversation and the company is clearly very thoughtful about executing net zero targets and progressing social impact measurements. Given the nature of activities (funding primary healthcare centres), alignment with positive social outcomes is perhaps more straightforward, but measurement of impact is still a nascent area. The company has made more progress on setting and achieving specific measures related to environmental targets. These include aiming to achieve an EPC rating of B across the portfolio in the next five years and recently completing a switch to 100% renewable energy sources, as well as finalising plans for a net zero carbon pilot project building. One of the key barriers to monitoring of environmental and social impact

is the reliance on tenants providing data, something Assura is looking to improve with increased engagement.

**Outcome:** Engagement for information. We are encouraged with the developments and the formalisation of an ambitious strategy and will monitor progress made towards these targets moving forward.

#### Assura - (Q4)

**Objective:** To provide shareholder feedback on the proposed draft of the company's new remuneration policy.

We received information from Assura regarding the proposed changes - in principle we are happy with the changes, although we would note that the combination of increasing the chief finance officer's (CFO) salary as well as the maximum bonus is significantly increasing the overall remuneration opportunity. In previous engagements, we have discussed the remuneration position for both the CFO and chief executive officer (CEO) and expected to see an increase in the CFO's overall package. We are pleased to see best practice being applied to the pension contributions and post-employment shareholding requirements.

**Outcome:** Influencing the construction of the latest remuneration policy.

#### AstraZeneca - (Q2)

**Objective:** We initiated an engagement with the company on executive remuneration levels in the context of Covid-19.

For the second consecutive year, variable pay is being significantly increased. While the company's recent strong run of performance is acknowledged, it is highlighted that the CEO's total variable pay opportunity will have increased from 650% of salary to 900% of salary over the course of two years. Specific to the 2021 AGM, a policy vote to increase the annual LTIP opportunity from 550% of salary to 650% of salary was proposed; the remuneration committee (RemCo) also determined to increase his bonus maximum from 200% of salary to 250% (this is possible within the current policy). The company explained the new policy was driven by the incoming chair of the RemCo. Despite a policy being presented at the last AGM, it was felt that total compensation needed to be brought in line with leading European peers and take into account the expanded scope of the role resulting from Covid-19 vaccination production and the Alexion acquisition.

**Outcome:** While we recognise that the scope of the role has expanded over the past two years, the rationale is not sufficiently compelling and we are not comfortable with a new Remuneration Chair changing a three year policy we voted to support last year. If a gap in pay needs to be closed, we would expect to see a managed, well communicated pathway. We voted against the remuneration policy.

#### B&M - (Q1)

**Objective:** Remuneration policy consultation.

We spoke to the Chair of the Remuneration Committee to discuss the proposed changes to the Director's Remuneration Policy being presented at the 2021 AGM.

**Outcome:** We have provided feedback on the proposed policy and will monitor the progress in regards ESG metrics.



**B&M – (Q3)**

**Objective:** To discuss the proposed increase to executive remuneration presented at the 2021 AGM.

We engaged with B&M during the consultation phase of the remuneration policy and have reviewed and encouraged multiple changes from the one originally proposed. The policy has accelerated the pathway for executive pension contribution alignment with the wider work force and scrapped a proposed rise in the long-term incentive plan. The rise in remuneration is driven by retention efforts and is an overall rebalancing of compensation – where the company has lagged peers for a number of years. This positions the CEO’s remuneration slightly below the median of the retail comparator group and companies of a similar size in the broader market. We are comfortable supporting management on these items.

**Outcome:** Through our early involvement in the consultation period of the executive remuneration policy we were able to encourage adjustments to the originally proposed changes, including better pension contribution alignment and removal of a proposed increase to the long-term variable pay.

**BAE Systems – (Q2)**

**Objective:** To discuss the remuneration plans.

The company proposed a significant remuneration increase for the CEO. The justification is around the work the Remuneration Committee and the Board has undertaken to assess the difficulties of hiring a new CEO (in regards succession planning rather than any concrete changes in personnel). Based on the findings the RemCo elected to exercise its discretion in increasing his salary (by 13%) and increasing the number of shares vesting in his 2018 Performance Share Plan.

**Outcome:** We understood the rationale behind the proposed increase in salary as a retention effort however we disagreed with combining this with the amendment to the LTIP vesting; therefore, we voted against the remuneration report. Around 23% of shareholders took the same stance as us.

**Baillie Gifford US Growth Trust – (Q3)**

**Objective:** This was a catch-up conversation with the chair to discuss engagement and voting disclosure, board composition and changes to the articles to allow virtual only meetings.

To address the changes to the articles and virtual only meetings, the chair explained the board will be providing shareholders the option to continue engaging virtually as the risk of disruption from the pandemic remains. Moreover, they do not plan to reduce contact time and prefer shareholders engaging at AGMs in person. The second discussion point was Baillie Gifford’s engagement and voting disclosures for the trust. This point was raised when we previously met the chair, so we wanted more information on what measures have taken place since. After last year’s meeting, an internal conversation took place with Baillie Gifford to encourage regular updates on voting and engagement on the company’s website. We will continue to monitor the company’s website to ensure these updates have taken place. The final discussion point was on board composition and succession planning. A key focus when hiring the next board member will be to find someone with a technical accounting background.

**Outcome:** There are no major concerns from our perspective, and we will continue to monitor all points raised in the meeting, including better disclosure at the fund level for stewardship activity.

**Barclays PLC – (Q2)**

**Objective:** To understand the company’s position against a shareholder climate change resolution.

The resolution required the company to improve climate commitments and reporting. This would also require the company to set more detailed interim targets to phase out financing of fossil fuels in line with the Paris Climate Agreement (by 2050). It also directed the company to report annually on progress and the methodology used to measure this. Barclays has set out a high-level strategy to be a net zero company (including Scope 3, which in the case of a bank is primarily focused on its what it is financing) by 2050 and has ambitions to bring that strategy in line with the Paris Agreement as soon as possible. Barclays has established several positive mechanisms, including a climate committee that reviews all fossil fuel financing deals. However, Barclays is still the biggest financer of fossil fuels in Europe and the fifth largest lender in the world to the coal industry over the past two years.

**Outcome:** We believe Barclays needs to accelerate its progress and therefore supported the shareholder resolution to encourage stronger commitments. 14% of shareholders agreed with our position, with a further 12% abstaining. We will continue to monitor Barclays’ progress.

**BB Healthcare – (Q4)**

**Objective:** To discuss a number of topics including holdings data, the board and reporting on ESG integration and stewardship.

We met with the chair, who we have met several times previously. Regarding the holdings data, this will be available shortly as this coincides with the launch of an open-end fund. We discussed the position regarding one of the non-executive directors who is subject to a tribunal by the Medical Practitioner Tribunal Service. This is a complex process with various potential outcomes and the board has determined that it will not make any decision on the NED’s board position until the outcome is known. We are supportive of this, given the complexity of the situation and explained that our primary concern had to be the interests of shareholders and any reputational risk issue to the trust which might impact returns. Regarding the trust’s reporting on its stewardship and ESG integration activity, the chair acknowledged that the disclosure and reporting needed to be improved and the new website which should launch imminently will help in this regard. We stressed the importance of reporting on the trust’s activities rather than the investment manager’s wider work.

**Outcome:** We will revisit the issue of the NED’s position once the tribunal process is complete and will monitor the development of the trust’s reporting.

**Belvoir – (Q2)**

**Objective:** Seeking clarity regarding the market purchase authority.

Concerns had been raised by our proxy voting adviser – as in its view, insufficient disclosure has been given regarding the maximum purchase price for the share repurchase. We contacted the company and were assured the AIM



listing rules are being adhered to (as is common in these disclosures), with purchases trading at no higher than 5% above the trailing 5-day average price.

**Outcome:** This appeared to be more of a communication issue, and we supported management on this item at the 2021 AGM.

#### **BH Global and BH Macro - (Q2)**

**Objective:** To discuss the future of the funds with the new Chair.

Following several meetings with the chair of BH Global, we met with the new chair of BH Macro, Richard Horlick. Richard gave us his synopsis of the events of recent months regarding discussions between Brevan Howard and the BH Macro / BH Global boards, as well as commenting on the future combined vehicle and the board's focus going forward. Our discussion included the diversity of the board as well as Richard's consideration of ESG in this and his other board positions.

**Outcome:** We continue to evaluate and monitor the ongoing governance.

#### **BlackRock Throgmorton - (Q1)**

**Objective:** Follow up to meeting held in May 2019 to discuss progress.

This was a general catch-up with the board. Topics discussed included board composition. The trust may enter the FTSE 250 soon, in which case they would be subject to disclosures related to the Parker Review on ethnic diversity. They currently have 50% women representation on the board. We also discussed improving disclosure of stewardship activities specific to the investment trust.

**Outcome:** All long positions are now disclosed (2019 engagement); monitor the development of the ESG and stewardship disclosure; monitor the level of NED shareholdings.

#### **Brickability - (Q3)**

**Objective:** To discuss independence concerns related to the composition of the audit and remuneration committee. Our proxy advisor recommended voting to abstain on the re-election of a NED, given that he has been identified as non-independent (as he had previously held a relationship with a supplier) but sits on the audit and remuneration committee. We have engaged with the company on this issue and are comfortable with the rationale provided by the board to support the item. This is a small board, and the categorisation comes from the board itself (not our proxy advisor) they have used a relatively strict definition of independence and aimed to be as transparent as possible. They are also looking to hire an additional NED to improve composition.

**Outcome:** On the basis of our conversation, we are comfortable with the rationale provided and voted to support the re-election of the NED in question.

#### **British American Tobacco - (Q2)**

**Objective:** To discuss the remuneration report.

We raised concerns with the board over further salary raises for the CEO and CFO (this is in addition to material increases in the total compensation at the 2020 AGM). This additional salary increase should be set in the context of a significant protest vote against executive pay at the 2020 AGM (38% against).

**Outcome:** We did not believe shareholder concerns have

been appropriately addressed and voted against the remuneration report. Over 38% of votes cast were against the report and the company has said it will consult further with shareholders on the matter.

#### **Cairn Energy - (Q2)**

**Objective:** We raised concerns related to remuneration and the transparency of disclosures.

Disclosures around company Key Performance Indicators (KPIs) continue to be behind the market's norms despite commentary from the company in its previous annual report that it would disclose specific target ranges and payment scales against each KPI retrospectively. There were also question marks surrounding the stretch of the targets set and the alignment of bonus outcomes with company performance.

**Outcome:** We did not feel that the company's rhetoric was being matched by disclosure or actions. Therefore, we voted against the remuneration report. Nearly 35% of shareholders voted against the resolution.

#### **Cisco Inc. - (Q4)**

**Objective:** To raise concerns over management opposition to a shareholder resolution on 'Amending Proxy Right Access'. The proponent seeks to remove the current 20-shareholder aggregation limit.

We spoke to the company who are one of the few US names to provide proxy access rights for shareholders to directly nominate board directors (albeit with the above limit). The main concern which the company had, in relation to this shareholder resolution, was the resource and administration that would be needed for a large number of shareholders to have holdings verified as part of a director nomination proposal. We recognise this as a challenge and that Cisco has better proxy right access relative to many other US companies - but we agree with the above rationale that removing the limit on the number of shareholders that can aggregate holdings does represent best practice and enhances the shareholder voice. The company still has reasonable limits in place related to minimum combined shareholding and three-year minimum holding period prior to aggregation.

**Outcome:** We voted to support the shareholder resolution.

#### **Close Brothers Group - (Q4)**

**Objective:** To discuss concerns over the remuneration policy being presented at the 2021 AGM.

The amendments to the remuneration policy facilitate a significant increase in fixed pay opportunity which, although accompanied by a material reduction in the quantum of maximum opportunity available, will pay out significantly higher guaranteed cash amounts compared to the current policy. We understand that the remuneration policy adjustment given the implementation of the Capital Requirements Directive (CRD V) which requires a maximum 2:1 variable to fixed pay cap. However, we believe the quantum of the fixed pay increase is excessive.

**Outcome:** We voted against the remuneration policy.

#### **Compass Group - (Q1)**

**Objective:** To gain further information regarding the food parcels Compass had supplied to school children.

Compass' Chartwells subsidiary was implicated in a controversy relating to supplying inadequate food parcels to school children. We engaged with the company to



understand what happened. We were reassured by their quick actions and believe they are behaving in the right way. Compass' shortcomings (2% of all parcels) came from limited time to prepare (less than 12 hours' notice of school closures), supply chain shortages and lack of quality checks. They have resolved the supply chain issues and seem to have the right quality controls in place. They have committed that they will not charge the schools affected by any shortage and created extra quality assurance checks at the supplier level and within each individual school – including photographing every batch of parcels when it goes out. In addition to this, they have set up a free helpline for concerned schools and parents. This is a difficult time for households, particularly those on free school meals and we believe the measures the company have now put in place will work well to resolve current shortcomings and mitigate future ones.

**Outcome:** We gained a greater understanding of the challenges facing the company as well as the remedial action. This is an ongoing engagement.

#### **Ediston Property Investment Co. PLC – (Q1)**

**Objective:** To understand the proposed increase in remuneration to one Non-Executive Director.

We held several conversations with the property company in the run up to the 2021 AGM, particularly related to concerns around an increase in salary for a Non-Executive Director (NED). The raise in salary was put forward to compensate the number of hours and additional responsibilities carried out. We initiated the meeting to seek clarification on the NED role and to understand the measures in place to mitigate any potential loss of independence. We were keen to ensure that the additional activities, being compensated for, didn't stray into executive responsibilities. Shareholders are protected from the financial impact of remuneration increase by a commensurate reduction in the investment manager's fee. The total board remuneration remains within the approved limits under the articles of the company.

**Outcome:** Given the small board and annual review of role by the Chair we are comfortable with the arrangement at present, however, we will continue to monitor the situation moving forward.

#### **Electronic Arts – (Q3)**

**Objective:** To raise concerns over several agenda items at the 2021 AGM, including the proposed remuneration package.

We held dialogue with the company regarding the proposed executive remuneration package, specifically the measures to award special grants as part of the long-term incentive plan. Our proxy advisor also recommended voting against members of the board involved in the formulation of the package. Based on the information provided by the company we were pleased with how they had addressed shareholder concerns. They had made a number of changes including putting in place a new Remuneration Committee chair and replacing their compensation consultants. They have also committed to forgoing the award of any special grants until 2026.

**Outcome:** The company has listened to the concerns raised by shareholders, demonstrated in the above changes. This is the first time we have spoken to the company and have supported management on items related to remuneration. We will monitor the situation moving forward.

#### **Glencore – (Q2)**

**Objective:** To discuss the new remuneration policy proposal.

The LTIP will be switching from a variable performance-based plan to restricted share units. We are concerned that the total quantum (and particularly the guaranteed element) is too high relative to peers.

**Outcome:** We voted against the remuneration policy as well as the resolution relating to the change in the long-term incentive plan structure. Just under 20% of shareholders voted against the LTIP and just under 26% voted against the policy. The company has stated it will undertake further consultations with shareholders.

#### **Halma – (Q1)**

**Objective:** Discuss proposed changes to the remuneration policy.

We spoke to the Remuneration Committee Chair to discuss the proposed changes to the remuneration policy being presented at the 2021 AGM. They are aware that there is a sensitivity around proposed executive pay increases and see this as a resetting of compensation away from FTSE 250 levels towards FTSE 100, which the company is now a constituent member of. No government funded furlough schemes have been used during the Covid-19 crisis. Company performance has been strong, and we understand the retention/succession planning concerns. We are supportive of the changes but would like to see more information on how future remuneration could be better benchmarked against a more specific peer group as the FTSE is relatively diverse. More information on how Halma benchmarks ESG performance versus peers has also been requested. We will monitor progress on inclusion of ESG metrics in executive pay and have encouraged an acceleration of this process. We discussed efforts to improve diversity with the organisation. Halma has been relatively successful in achieving 60% of women holding leadership positions within the organisation. They put this down to a top-level focus on working closely with recruiters to produce balanced shortlists and an enhanced parental leave policy.

**Outcome:** Seek further information regarding the benchmarking around ESG performance as well as the development of ESG metrics.

#### **HICL Infrastructure – (Q1)**

**Objective:** General discussion regarding the investment trust.

This was an initial meeting with the Chair of HICL Infrastructure. Topics discussed included board succession, along with the fund's Net Zero carbon aspirations. Plans are by no means concrete but it is a topic they are exploring – the main hurdle will be working out how to decarbonise assets where they do not hold a majority stake and are largely reliant on operators and clients to reduce the carbon footprint. They have embedded ESG criteria into the incentives of staff members at the underlying investment manager. We have requested more information to better understand specific performance criteria and thresholds. Sustainability issues and how these can be embedded into board processes are on the radar, but it will be helpful to hear more on specific developments moving forward. Given the board rotation taking place – improving the ESG skillset on the board should be an area of focus for future engagement.



**Outcome:** Continue to monitor the developments regarding disclosure and sustainability.

#### **ImageScan - (Q1)**

**Objective:** Board composition.

We have held multiple conversations with the company relating to concerns around the combined CEO and Chair position as well as the general independent representation on the board. We held a catch-up discussion with the Chair/CEO in the run up to the 2021 AGM and are comfortable that progress is being made on the above issues so will vote to support management at the upcoming AGM. The Chair has outlined plans to split the CEO/Chair role and is looking to improve independent board composition as well as bring committee independence membership in line with the UK Corporate Governance Code standards. Both these measures will improve independence criteria.

**Outcome:** We will continue to monitor the situation but if these changes are made, they will represent good engagement outcomes.

#### **Informa PLC - (Q2)**

**Objective:** This was an escalation based on previous engagement.

We engaged with Informa on remuneration, prior to last year's AGM, there has continued to be a significant delay to the appointment of a new board Chair (exacerbated by Covid-19). The initial timeline for the appointment was the end of 2020, however this has not happened and therefore the remuneration policy has also been delayed as the new Chair is to lead this work.

**Outcome:** We voted against the re-election of the Chair of the Remuneration Committee and against accepting the remuneration report, given concerns around the lack of company response to three consecutive large votes against the remuneration reports/policies (c.40% dissent at the 2021 AGM). The board also used discretion to adjust in-flight performance conditions attached to the FY2018 LTIP awards, resulting in a significant vesting event where awards would have otherwise lapsed.

#### **Intertek PLC - (Q2)**

**Objective:** Engagement escalation.

We voted against the latest remuneration policy at the 2020 AGM, on the basis that CEO pension contributions were not aligned with the wider workforce and there did not appear to be a plan in place to create alignment moving forward.

**Outcome:** As there is no change proposed, we voted against the resolution for the second year in a row.

#### **Investment Trust - (Q2)**

**Objective:** For the manager to become a PRI signatory.

As a long-standing investor within the trust, we believe that a manager of their size - operating within the public equity, private equity and private credit/royalty markets should be able to evidence its responsible investment credentials through the PRI signatory status. Furthermore, as the manager of an investment trust listed on the London Stock Exchange we believe that not having PRI signatory status is in the long-term likely to be detrimental to the trust given that investors in the UK are becoming increasingly focussed on investing in funds which clearly disclose their approach to responsible investment. As investors in the trust, we expect a Responsible Investing

Policy as well as a voting policy and outcomes to be publicly disclosed.

**Outcome:** Ongoing engagement, the first phase being a letter to the board and the broker.

#### **Jersey Oil & Gas PLC - (Q2)**

**Objective:** We spoke to the company regarding an ongoing independence issue related to the re-election of the non-independent Chair at the 2021 AGM.

The chair currently sits on the Audit and Remuneration Committees. This does not adhere to best practice as these committees should be fully independent, the chair is deemed to be non-independent owing to the grant of share options in 2019. We discussed this with the company and are aware that this is an AIM market early stage growth company (this is a segment of the market where granting of share options to NEDs is not unusual - although we are not generally supportive of this). Additionally, the company has appointed a new independent NED to add to the relatively small board.

**Outcome:** This is an ongoing engagement. We have expressed our strong preference for fixed salaries for NEDs moving forward and voted to support the re-election of the Chair at the 2021 AGM.

#### **Jet2 - (Q3)**

**Objective:** To discuss independence concerns related to the composition of the audit committee.

We spoke to the company prior to the 2021 AGM in order to raise concerns around the re-election of a non-executive director who is a member of the audit committee but could be considered as non-independent (given that he had previously provided paid consultancy work to the board). The audit committee should be composed of 100% independent directors. Our proxy advisor also raised concerns regarding the use of a cashbox related to equity issuance.

**Outcome:** Based on our conversation, we were comfortable to support the use of a cashbox placing in issuing equity, given the sector in question and the effects of the Covid-19 crisis. We did not find the rationale for re-electing the director in question sufficiently compelling and voted against re-election. We also advocated for greater diversity on the board and will monitor progress on this issue.

#### **JPMorgan Global Core Real Assets - (Q3)**

**Objective:** This was a follow up conversation with the board chair where we covered a number of topics including encouraging enhanced voting and engagement disclosures.

Topics raised included board member shareholdings, stewardship & carbon disclosures. Overall, a relatively positive conversation with what is a new trust. We have encouraged better disclosures on voting and engagement - this seems to be taking place and there are significant holdings in listed equities, but a break down at trust level would be very welcome. The investment manager is planning to launch an ESG report for the trust - we encouraged them to include engagement and voting details either in this report or separately.

**Outcome:** Overall this was a positive follow up conversation where we gained further insight into board level operations and philosophy. We will continue to monitor progress on stewardship disclosures at trust level.



**Lancashire Holdings - (Q2)**

**Objective:** Engagement regarding the upcoming AGM.

Prior to the 2021 AGM we discussed with the company our view that the bonus outcomes were primarily driven by the June 2020 share placing, which materially increased the fully converted book value per share (FCBVS) which is a key metric within the bonus determination. Notably, the FCBVS measure is adjusted for dividends but not for capital raises, therefore, we believe this is inconsistent and could create a cynical environment where further capital raises are pursued with the intention to 'game' this metric. In our view the company was unable to justify the position. Our proxy adviser also held concerns with the issuance of equity, and the circumvention of shareholders' pre-emption rights at the same time as an equity placing. After discussions with our financials' analyst we supported management on the equity issuance item.

**Outcome:** Regarding the bonus outcomes, we raised these concerns with the company, but no compelling rationale has been provided to support the design. We, therefore, voted against the remuneration report, alongside c.38% of shareholders who voted. We voted to support management on equity issuance items.

**London Stock Exchange - (Q2)**

**Objective:** To assess the proposed remuneration policy.

The new remuneration policy being proposed at the 2021 AGM caused us some concern given the 25% proposed salary rise for the current CEO considering the Refinitiv acquisition. Our external proxy voting adviser (ISS) raised concerns around whether the pay rise was merited (given the additional costs of the acquisition) and that the resulting salary would mean that the CEO's compensation would be materially above the median of the company's peer group. We undertook our own analysis with input from our financials' analyst, from this we concluded that the peer group referenced by ISS was not in our view a true reflection of the company's closest comparators and that relative to FTSE 30 (and FTSE 100) the proposed salary is more in line with median.

**Outcome:** Given the Refinitiv acquisition, the size and complexity of the company has increased, and although the raise is material, we voted to support management. Around 24% of shareholders voted against the resolution therefore the company has announced it will undertake a further consultation.

**LondonMetric Property PLC - (Q1)**

**Objective:** Engagement in 2017 regarding diversity.

We began an engagement with the company in 2017 regarding the composition of the board - as a collaborative engagement organised by the 30% Investor Club. The company had no women on the executive committee and only one woman on its board (9% representation).

**Outcome:** As of 29 January 2021, representation of women on board has now reached 33%.

**Meggitt PLC - (Q2)**

**Objective:** To discuss the new remuneration policy.

We opened a dialogue with the company regarding the new remuneration policy being put forward at the 2021 AGM. The revised policy introduces non-performance based restricted shares within the compensation mix, in addition to a proposed increase in the normal maximum LTIP opportunity. We raised concerns that the proposed

design of the policy would include an additional element which has no performance parameters attached. We felt that the company was unable to put forward a compelling rationale to support this proposal.

**Outcome:** We voted against the remuneration policy as did c.24% of the company's shareholders. The board has stated that it will consider the wide range of feedback it received.

**Melrose Industries PLC - (Q1)**

**Objective:** Discuss the new remuneration policy.

Prior to the 2021 general meeting, we spoke with the board regarding the new remuneration policy being put forward. This policy was delayed owing to the Covid-19 crisis. Our proxy adviser held concerns over the potentially high quantum of the Long-Term Incentive Plan (LTIP) which is linked to one metric. Based on our conversation with the company, the single performance metric reflects the business model and we understand why this is an appropriate measure. We did ask about how they consider sustainability and whether this would be considered within the LTIP. This is part of the annual bonus and Melrose feels strongly that the LTIP has to reflect the business model. The company published its first ESG report last year and is publishing a sustainability report this year which we will follow up on. Regarding pay - the non-discretionary pay is at the bottom end of the scale for the FTSE 100 and the LTIP element is constructed to reflect the value added. This has been highly variable over the previous period, and therefore links performance to pay effectively. We decided to support management on this basis but will monitor the situation moving forward.

**Outcome:** Support the new policy and review the sustainability report once it is published.

**Microsoft Inc. - (Q4)**

**Objective:** To raise concerns related to several shareholder resolutions being opposed by management at the 2021 AGM.

The company opposed shareholder resolutions related to further reporting on gender/race pay gap, effectiveness of sexual harassment policies and lobbying activities. The second resolution was prompted by a series of recent sexual harassment allegations. We reached out to the company expressing our concerns at management opposition to further transparency on these topics. The company registered these concerns but declined to provide further information.

**Outcome:** Generally speaking, these measures increase transparency and are aligned with ESG reporting best practice. We therefore supported the above shareholder resolutions.

**Mitchells & Butler PLC - (Q1)**

**Objective:** To discuss the remuneration policy and board composition.

Our proxy voting adviser recommended voting against multiple items at the upcoming AGM. The first two items related to implementing a restricted share plan. There is concern whether sufficient explanation of why a switch from variable awards to fixed is relevant to the company's operations and strategy. We spoke to the board who stated that the implementation of a restricted share plan is owing to the difficulty in setting meaningful targets given the uncertainty created by the Covid-19 crisis. The board has



followed the Investment Association and UK Corporate Governance Code recommendations in reducing any fixed incentive to 50% of the previous variable award. We were comfortable with the rationale given. Our proxy voting adviser also recommended voting against approval of Director re-elections given independence concerns. The board has four fixed shareholder positions on the board. Many of these are members of the audit and remuneration committees. We would expect these committees to be entirely made up of independent members and have voted against non-independent NEDs who are members of the committees as well as the Chair – who is ultimately responsible for board composition.

**Outcome:** Voted against the non-independent board members.

#### Montanaro Smaller Cos Investment Trust – (Q3)

**Objective:** To discuss the proposed equity issuance.

Our proxy voting advisor recommended voting against equity issuance at the 2021 AGM. This was owing to the fact that no commitment had been made by management to issue shares at a premium to NAV. We spoke to the company who have in fact committed to issuing shares at a premium to NAV, and there was an issue with communication to the market.

**Outcome:** In initiating a conversation we were able to get a better understanding of the company's position in issuing equity, and we voted to support management on this item.

#### National Express – (Q2)

**Objective:** To understand the proposed salary increase for the CFO at the 2021 AGM.

Our concern was that such an increase did not reflect the business performance and stakeholder experience recorded during the year. Furthermore, within the new remuneration policy the maximum long-term incentive plan opportunity for executive directors would increase from 150% of salary to 200% of salary. Over the past 12 months, the company furloughed or temporarily laid off 80% of its workforce and took £54.9 million Covid-19 related government assistance funds. The rationale given was around the retention of the CFO.

**Outcome:** While we recognise efforts to retain executive talent, we did not feel we can support the increase in remuneration in the current environment where government support or furloughing schemes have been utilised. We voted against the remuneration report and the policy.

#### Ocado Group PLC – (Q2)

**Objective:** To better understand their approach to diversity at board and company level.

We held some concerns over the level of women on the board which was only 17% prior to the 2021 AGM (the lowest percentage in the FTSE 100). The company provided some context on this figure, which was heavily influenced by the recent resignation of a female NED from the board. The process to find her successor was already in place with a commitment to all short-listed candidates being women. On a firm-wide level, Ocado's approach to diversity includes an internal bespoke mentoring programme, participation in the 30% club for diversity and graduate hiring with a focus on diversity and inclusion. To contribute to a more diverse talent pool, Ocado has

created a coding tool called 'code for life', which is geared towards teaching children and particularly girls. This is important because 80% of graduate engineers are male, which limits the talent pool for the sector.

**Outcome:** We recognise the unfortunate timing which has led to the sudden fall in the percentage of women on the board and felt reassured that there will be a new appointment to improve gender diversity. We will continue to monitor the situation moving forward.

#### Pernod Ricard – (Q4)

**Objective:** To raise concerns over a proposed increase to executive remuneration.

We held dialogue with the company regarding the proposed increase to the CEO remuneration package at the 2021 AGM, specifically measures to double the pension contribution amend the Long-term Incentive Plan (LTIP) structure and increase base salary. The continued absence of a cap in circumstances of exceptional payments is also a concern. The company explained that the new package would better align compensation with peers. We agree with some of the rationale for better peer alignment but were not comfortable with the poorly constructed LTIP metrics – an example being the Total Shareholder Return (TSR) criteria which pays out at 66% if the company ranks seven out of 14 relative to peers. We also generally do not support an increase to pension contribution.

**Outcome:** We raised our concerns and voted against the remuneration report.

#### Persimmon PLC – (Q2)

**Objective:** Introductory meeting to the company's new remuneration committee chair.

This was a general discussion and included an update on the remuneration policy and ESG metrics, in advance of the 2021 AGM. The main topics discussed in the meeting were net zero ambitions, ESG targets in executive compensation and diversity and inclusion (D&I).

**Outcome:** Continue to monitor progress on integration of ESG metrics into pay and progression towards net zero targets.

#### Polar Capital Technology Trust – (Q3)

**Objective:** This was a follow up conversation with the chair and a chance to encourage better disclosure from the trust on voting & engagement.

We discussed the progress the manager is making on ESG analysis and the improvements driven from the Chief Investment Officer. Having top level buy-in is essential to progress. We encouraged more granular reporting on voting and engagement disclosures at fund level. The board has also requested carbon-foot-printing of the portfolio. Better disclosures in these areas are something the chair has prioritised. We also raised a low-level concern raised by our proxy advisor related to the overboarding of one NED. The chair is extremely pleased with their contribution to the board to date and as the other positions held are all on investment trusts, the board has no material concerns, we tend to agree. This conversation was also a chance to hear from a board that has been relatively successful in recruiting female NEDs and the chair was able to share some insights into the hiring process which was helpful for future engagements on the topic.

**Outcome:** Overall this was a positive catch-up



conversation where we gained further insight into board level operations and philosophy. We will continue to monitor progress on stewardship disclosures at trust level.

#### Rio Tinto – (Q2)

**Objective:** To discuss executive remuneration and the Juukan Gorge incident.

We spoke with the Chair of the board to discuss how the company was improving procedures and managing the negative impacts of the recent destruction of two culturally significant sites at the Juukan Gorge mine. We raised concerns around an appropriate level of malus and clawback being applied to the previous CEO's remuneration in the wake of the Juukan Gorge incident. From the perspective of the board, Juukan Gorge reflected inadequate risk management, which is why all three executives responsible for implementing the company's risk framework had their employment terminated. Prior to the Juukan Gorge event there was clearly a gap in policy and implementation. To close this gap, the firm introduced an integrated heritage management plan and has systematically worked to increase all front-line managers' cultural awareness of aboriginal sites.

**Outcome:** Based on our conversation, we were comforted by the comprehensiveness of the review into the incident and the processes being established to mitigate the risk of future controversies. However, we did not believe there was an appropriate adjustment to the outgoing CEO's 2020 remuneration and voted against the remuneration report in 2021 as well as the re-election of the non-executive director (NED) who chairs the sustainability committee. Less than 40% of voting shareholders supported the report and over 25% voted against the re-election of the NED.

#### Royal Dutch Shell – (Q1)

**Objective:** Discuss Net Zero ambitions.

We joined a small investor roundtable with the Chair of the board to discuss a number of topics including the company's pathway to Net Zero emissions, this was updated in February. We raised concerns around the November departures of multiple Directors in the renewables department. There was a suggestion that some (but obviously not all) were to be influenced by the sentiment that Shell is not moving fast enough in terms of reducing the company's dependence on Oil & Gas revenues. The Chair dismissed the idea that recent Director departures represented a material loss of expertise and pointed to the company's 'deep bench' of talent as well their strong rotation and training programmes. The other main topic discussed was the company's commitment to provide an advisory shareholder vote on the decarbonisation plan. The Chair outlined that they would like strong confirmation on what they see as an ambitious plan. It is not yet clear to shareholders what would be the implications of strong dissent.

**Outcome:** This was a useful strategic conversation. Like with most 2050 Net Zero commitments, it is still relatively unclear how these goals will be achieved and at what point major company investment flows will transition away from fossil fuels (renewables is still a very small part of the business). We will monitor developments moving forward.

#### Ryanair – (Q3)

**Objective:** To raise concerns related to the two independent board members, prior to re-election at the 2021 AGM.

We engaged with the company regarding the re-election of two board members categorised as non-independent by our proxy voting advisor. Independence concerns related to two factors – firstly, both were granted share options as NEDs which is not in line with governance best practice – and secondly, both previously held managerial positions at the company. The company regard both NEDs as independent and highlight their significant aviation industry experience. We did not disagree with the second point but felt that independence concerns were not addressed, and the rationale was not sufficiently compelling.

**Outcome:** We voted against the re-election of both NEDs at the 2021 AGM.

#### Templeton Emerging Markets – (Q2)

**Objective:** General update on the investment trust.

A broad range of topics were covered including the investment policy and board composition. One of the NEDs has had to stand down owing to a new paid role, however the board is hiring and remains mindful of maintaining the right balance of diversity on the board. Ahead of the 2021 annual report being published we asked how the board is looking to develop the disclosure around the investment team's stewardship, engagement and ESG integration. The Chair agrees that this is an important area and that this will continue to develop - he noted that there are different norms in emerging markets and investors need to be cognisant of this, additionally it is not always helpful to fully disclose all the details of engagements.

**Outcome:** Continue to monitor progress regarding ESG disclosure that is specific to the investment trust.

#### Tesla – (Q4)

**Objective:** To raise concerns related to board remuneration and a number of shareholder resolutions being opposed by management, as well as climate-related disclosure.

We spoke to the company surrounding the 2021 AGM. There was a long list of items to cover including four shareholder resolutions. Our discussion focused on shareholder efforts to declassify the board, significant discretionary remuneration for board members, emissions reporting and conflict mineral sourcing audit and verification. Tesla also does not currently report company level scope 1, 2 and 3 emissions – something we raised. The company reports several product-based carbon emissions statistics; however, a commitment has been given to disclosure company level emissions in the next 12 months. This was a constructive conversation with further detailed provided on cobalt sourcing audits and initiatives to improve diversity and inclusion. The company is relatively unusual in that directors are paid solely in equity grants – given share price performance over the past few years, remuneration has been significant. We registered this concern and encouraged the implementation of a structured performance-based policy to add transparency to the equity grant process.

**Outcome:** We voted to support all shareholder resolutions on diversity and inclusion efforts, employee arbitration and creating an independent board level committee



to oversee human capital management. We also voted against two directors on the board mainly in relation to remuneration concerns.

#### **The Renewables Infrastructure Group - (Q4)**

**Objective:** This was a general catch-up conversation to follow-up on points raised at last year's meeting with the board related to succession planning.

The conversation focused on the upcoming departure of the chair. We wanted to understand what plans are in place for maintaining ESG expertise and achieving diversity targets set by the Parker Review. The incoming Chair will be joining the board early next year and will shadow the incumbent until the release of the Q2 results in August. In regards the Parker Review, the board has a strong track record of female representation and currently has 50% women on the board. Work on improving the ethnic diversity of the board has been challenging and is an ongoing process with future board rotation.

**Outcome:** This was a standard catch-up with a Chair who is engaged on ESG topics, but succession planning remains critical, and we will continue to monitor this moving forward.

#### **Venture Life Group - (Q2)**

**Objective:** Initial conversation with a small company.

We opened a dialogue with the company prior to the 2021 AGM and raised concerns over the vesting period for the LTIP awarded. Contrary to best practice, the vesting period is under three years and the options granted do not have formal performance hurdles for vesting (however like all traditional options, their valuation and, hence, incentive is based on share price appreciation). The company assured us that the sub-three year vesting period for the LTIP award was exceptional and owing to the company being in a closed period in March 2019 as it was progressing significant due diligence activities associated with prospective M&A transactions, the issuance was therefore delayed.

**Outcome:** This is a small holding and the first time we have spoken to the company. We have strongly encouraged the introduction of a base level underpin (preferably related to TSR) into the LTIP and have been assured that vesting of the LTIP will return to a three-year cycle. We will monitor the situation moving forward by supporting management at the 2021 AGM.

#### **Whitbread PLC - (Q2)**

**Objective:** To understand the bonus deferral for 2020/21. Our proxy voting adviser recommended voting to abstain at the upcoming AGM on the remuneration report as there are concerns over a potentially deferred annual bonus to be awarded for FY2020/21 in the following financial year. We engaged to better understand the issue. There are questions over the appropriateness of bonus payments to executives where Covid-19 related government support has been used and redundancy schemes implemented. The abstention vote recommendation acknowledged that no bonus payments have been made in FY2020/21, as the company has carried over the achieved bonus awards until FY2021/22, which may pay out subject to the achievement of additional performance metrics. We understand the concern regarding the concept of the deferred annual bonus, but we do not agree with the rationale of abstaining at this point as this is a forward

looking issue and, therefore, we will have the opportunity to vote against the remuneration report next year, if we are not happy with the outcome of the deferral and achievement of any performance targets.

**Outcome:** We spoke with the company and voted to support management on the remuneration report and reassess the outcome at next year's AGM. Over 35% of votes were placed against the resolution. We will review our position next year based on concrete information and metrics.

#### **WM Morrison Supermarkets PLC - (Q2)**

**Objective:** To understand the rationale for discretionary awards.

We spoke to the Chair of the Remuneration Committee to raise concerns over the upward adjustment to the annual bonus award. The board explained the upward adjustment as a reward for exceptional stakeholder performance (early payment of suppliers, triple bonuses for workers, no government support) and gaining of market share. We noted that support for workers and suppliers is not atypical (and to be expected) among other large supermarkets, most of which have not applied upward discretion to compensation, as a result bonus awards have not been paid in FY 2020/21. We also believed the upward revision to the bonus maximum is also very generous.

**Outcome:** We voted against the remuneration report as did an overwhelming 70% of votes that were placed.



**2021/2022 THEMATIC ENGAGEMENT – TRANSITION PLANS & CLIMATE DISCLOSURE****CRH – (Q4)**

**Objective:** We continued our thematic engagement on climate transition plans and disclosures with the largest emitters in the voting universe (scope 1 and 2 emissions). The first phase is very much engagement for information to get a better understanding of the quality of transitions plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy.

CRH has set ambitious, detailed plans for reducing scope 1 and 2 emissions within cementitious products. The plan does not include reduction plans for scope 3 emissions, but the company has headline ambitions to be a net zero emissions company by 2050. The lack of detail on scope 3 is disappointing but understandable given the majority of emissions sits in the scope 1 and 2 categories – and most of these emissions are related to the manufacture of cement. If the company can significantly reduce emissions from cement (which it is currently ahead of schedule to do) it will be a much lower carbon company. Overall CRH has outlined a robust targets and engagement in environmental risk mitigation outside of climate change (biodiversity).

**Outcome:** Ongoing dialogue will be required to monitor progress towards interim targets and more detail on scope 3 plans.

**Rio Tinto – (Q4)**

**Objective:** We continued our thematic engagement on climate transition plans and disclosures with the largest emitters in the voting universe (scope 1 and 2 emissions). The first phase is very much engagement for information to get a better understanding of the quality of transitions plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy.

Rio Tinto has set ambitious, detailed plans for reducing scope 1 and 2 emissions. The company reports scope 3 emissions and the transparency on disclosures and difficulties faced on setting meaningful reductions targets in this area is noted. Much of the scope 3 emissions comes from steelmaking practices, particularly in China. The company has relatively little control over the practices of these clients or the energy mix in the grid providing power to these sites. Even with these limitations, it is encouraging to see the efforts the company is putting into working with clients to optimise processes and introducing new technology to bring scope 3 emissions down. It is difficult to assess the impact of such projects at this stage, but relative to other high emitting companies it shows action can be taken on scope 3 if there is willingness. That said, we encouraged formal target setting to be put in place for scope 3 emission.

**Outcome:** This was an initial engagement to establish an opinion on transition plans. We would like to see further information on how these targets will be integrated in executive remuneration and believe there could be a case to further integrate metrics into the longer-term incentive, not just the annual bonus. Ongoing dialogue will be required.

**Shell PLC – (Q4)**

**Objective:** This was the first meeting to start our thematic engagement on climate transition plans and disclosures with the largest emitters in Quilter Cheviot's investment universe (scope 1 and 2 emissions). The first phase is very much engagement for information. We are speaking to these companies to get a better understanding of the quality of transitions plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy. Shell has a detailed plan for reducing scope 1 and 2 emissions. The company reports scope 3 emissions and the transparency on disclosures and difficulties faced is good. There are concerns that scope 1 and 2 emissions only represent 10% of overall emissions. While scope 3 emissions are included in 2050 net zero targets, it is not clear how these will be achieved. Shell is placing significant of emphasis on carbon abatements as a means to allow customers to choose to offset scope 3 emissions. Although this discussion provided greater detail in the scope of carbon capture projects, questions remain over CCS (Carbon Capture and Storage) technology developments needed to meet targets. Shell is walking the middle path. The company does not want to move ahead of society in terms of demands for products but there are questions over whether this prepares Shell for any acceleration of transition.

**Outcome:** This was a useful conversation to further establish opinion on transition risk. Ongoing dialogue will be required, and we will continue to monitor interim targets, CCS development and development of more concrete plans on scope 3.





## FUND ENGAGEMENT

Our fund research team undertakes engagements with our third-party managers which aim, primarily, to encourage improvements in their responsible investment process (including stewardship and ESG integration). To do this, the team use their discussions with fund managers about process, alongside stock examples, to assess their analysis and understanding of the companies' sustainability as well as broader ESG risks and opportunities. The team then provide the fund managers with feedback as to any steps they would like to see taken. These engagements are ongoing and given the nature of the discussions we have determined to anonymise the following funds.

### Asian Equity Fund - (Q4)

**Objective:** Follow up on feedback given at a previous meeting.

We had given feedback previously that we want to see the fund manager build up their ESG expertise and consider environmental and social issues within their own investment decision making, even if the firm's research analysts integrate ESG factors within their analysis. There are some enhancements being made to the firm's analyst ratings which may help to communicate environmental and social risks and opportunities alongside governance factors. It was also noted that there is ESG training that the manager will be doing. Nonetheless, we still see the fund manager's consideration of environmental and social factors to be lacking and have again given feedback on this.

**Outcome:** We have a follow up meeting scheduled with the firm's head of sustainability and will meet again with the fund manager in three to six months' time to assess progress made.

### Hedge Fund - (Q4)

**Objective:** Principles for Responsible Investment (PRI) signatory status.

We met with a hedge fund manager to talk about why they have not yet signed up to the PRI and to make clear the growing importance of ESG integration and engagement in our fund selection process. The reasons given by the manager for not signing up to the PRI may be valid for a small, boutique investment manager, however we feel not in the case of this manager.

**Outcome:** We agreed to continue the conversation by providing feedback on the ESG policies they are currently working on and will continue to press the matter.

### Asian Equity Fund - (Q4)

**Objective:** ESG integration progress update.

We met with an equity fund manager where ESG factors are not yet formally considered across the investment process. The fund has a high carbon footprint and there is no apparent consideration of the impact of a higher carbon price on their exposures or climate risks in the portfolio more generally. We were told about progress made to date on ESG at the firm and about the new sustainable investment hire who will be managing their own fund but will also bring ESG expertise to what is a small investment team.

**Outcome:** We asked for another meeting in six months to follow up on further progress made.

### UK Equity Fund - (Q4)

**Objective:** ESG integration progress update.

We had a follow up meeting with the fund managers of an equity fund where significant progress has been made over the past 12 months after our initial ESG focused meeting, in December 2020, when we gave feedback as to steps we would like to see taken. The fund managers have gone from having very limited consideration of ESG factors to them being included as an additional formal risk consideration as part of the portfolio construction scoring process. Engagement on ESG issues has also increased, with the team working alongside one of the firm's sustainability specialists.

**Outcome:** There is still a reliance on third-party ESG data and further improvements to be made but we have been pleased to see the progress made to date.





## ANNUAL VOTING STATISTICS

Over 2021 we voted at:



vote against remuneration policy



vote against incentive plan



vote abstain on re-election of NED



vote abstain remuneration policy



vote abstain incentive plan



vote against approval of scheme of arrangement



vote against remuneration report



vote abstain on approval of ten-year equity plan



vote against amend articles of association



vote against amendment of performance share plan



vote against re-election of NED



voted against management on shareholder proposal

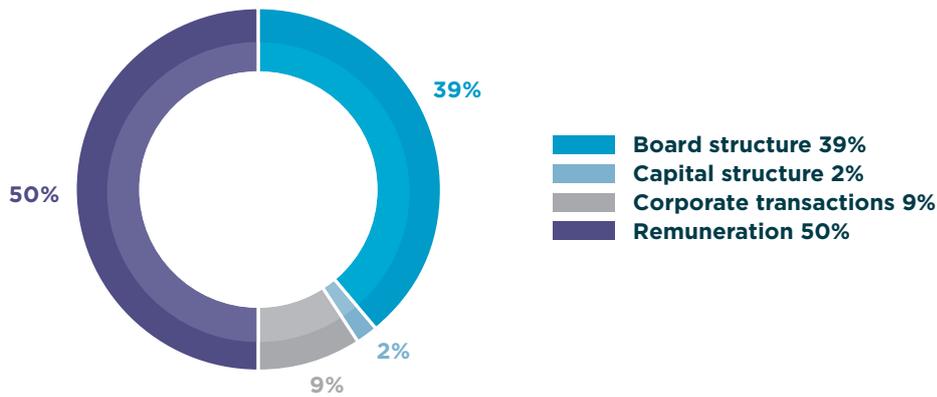
It is important to note that on a number of occasions having engaged with the relevant company we did not follow ISS' recommendations.



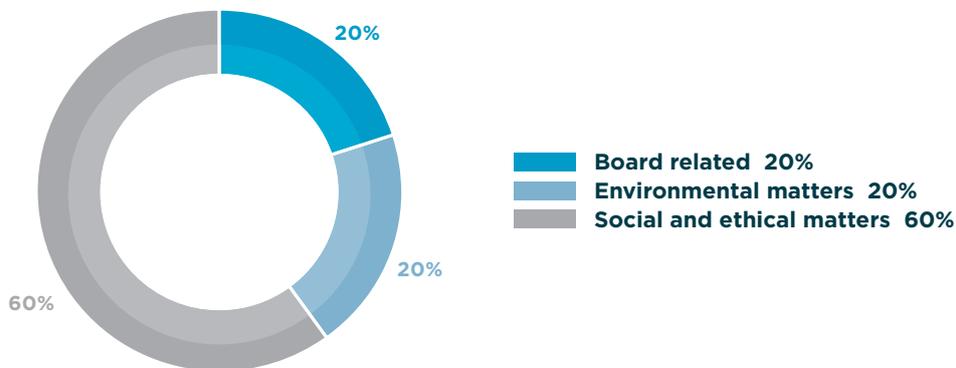
### MANAGEMENT RESOLUTIONS VOTED IN 2021



### TOPICS WHERE WE HAVE VOTED AGAINST MANAGEMENT IN 2021



### SHAREHOLDER PROPOSALS SUPPORTED IN 2021





## GLOSSARY

**Active Ownership:** Where shareholders use voting and engagement to influence the management of companies with respect to environmental, social or governance factors. Similar principles are also used by investors in other assets classes such as fixed income, private equity, or real estate.

**Clawback (and malus):** Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called ‘malus’ and/or
- pays back sums already paid – this is called ‘clawback’.

**Disapplication of pre-emption rights:** Existing shareholders do not have first refusal on new shares and therefore their holdings will be diluted.

**Engagement:** Shareholders enter into purposeful dialog with the management or Board of a company with the intention of influencing corporate behaviour. The issues covered can be wide ranging, from corporate strategy, capital discipline, but also environmental, social, or corporate governance matters. Engagement is tool used in active ownership and can be conducted by one investor or a group of investors.

**Environmental Factors:** Issues related to the environment such as resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, waste. This is the ‘E’ in ESG.

**Governance Factors:** Issues relating to the governance of an organisation, also referred to as corporate governance, examples include board composition, executive remuneration, internal controls, balancing the interests of all stakeholders. This is the G in ESG.



**Long-term incentive plan (LTIP):** A type of executive compensation that pays out usually in the form of shares company. The reward is linked to performance metrics and the pay-out will be calibrated in line with the achievement of these. The quantum of the pay-out is linked to multiples of salary.

**Net Zero:** A term that describes an activity, process or organisation which creates no net emissions of carbon dioxide. This can be achieved through use of renewable energy, process changes or offsetting carbon – or a combination of all these. Also referred to as carbon neutral.

**NEDs (Non-Executive Directors):** These are directors who act in advisory capacity only, however they should hold the executive directors to account. They are not employees of the company, however they are paid a fee for their services.

**Over-boarded:** Where non-executive directors are deemed to have a potentially excessive number of non-executive positions and the concern is whether they have sufficient time to contribute to the board of the company.

**Pre-emption right:** These give shareholders first refusal when a company is issuing shares. Premium listing: This was previously known as a primary listing for the London Stock Exchange. A company with a premium listing is expected to meet the UK’s highest standards of regulation and corporate governance.



**Principles of Responsible Investment (PRI):** The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led the PRI is supported by the United Nations.

**Proxy Voting:** Where a shareholder delegates their voting rights to be exercised on their behalf. Often voting rights are delegated to investment managers who exercise votes on investors' behalf. Votes are used to express shareholder opinions to company management.

**Responsible Investment:** Responsible investment is a strategy or practice that incorporates environmental, social and governance (ESG) factors into investment decisions and ownership activity.

**Restricted share plan:** Some companies (and indeed investors) prefer the use of these plans as opposed to LTIPs (see above). The idea is that this type of plan encourages long-term behaviours and does not have the same use of targets that you would see within an LTIP. Therefore, it is expected that companies which adopt such an approach award a lower amount than would be seen under an LTIP which has a variable structure dependent on performance outcomes.

**SID (Senior Independent Director):** The SID position is taken by an independent NED. The SID often plays a critical role in ensuring communication channels are open between the board and shareholders.

**Social Factors:** Issues relating to the relationship between companies and people, such as their employees, suppliers, customers or communities. Examples of social issues of interest to investors include health and safety, labour standards, supply chain management and consumer protection. This is the S in ESG.

**Stewardship:** Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. When investing in equities it involves proxy voting and active shareholder engagement with company management.

**TCFD:** Acronym that stands for the Task Force on Climate-related Financial Disclosures. The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information. Regulators are adopting TCFD and, in particular, the UK regulator (FCA) is requiring firms to apply these disclosure rules.

**Tender – bid waiver:** This is the right to waive the requirement to make a general offer under Rule 9 of the Takeover Code.

**Total shareholder return (TSR):** Is a measure of the performance of a company's shares; it combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

**UN Sustainable Development Goals:** The SDGs, or the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. There are 17 goals reflecting the most significant challenges facing the world.

**Voting Rights:** When an investor buys a share in a listed company, that typically comes with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings as a means of expressing the opinion of the shareholder about how the company is being managed. Typical issues upon which votes are cast include executive pay, board appointments, mergers or acquisitions, or sale of parts of the business and company annual report and accounts. Also referred to a proxy voting when voting rights are delegated.





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