Your Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations amongst other things require that the Trustee outlines how it has ensured that the stewardship policies and objectives set out in its Statement of Investment Principles ("SIP") have been adhered to over the course of the year.

This is the first engagement policy implementation statement the Trustee of The K. Hartwall Pension Scheme has prepared and covers the year ending 31 December 2020.

This document sets out the actions undertaken by the Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles ("SIP"). The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

The Scheme stewardship policy

Over the year to 31 December 2020, the Scheme's stewardship policy was to delegate responsibility to the applicable asset managers in the exercising of voting rights and engagement activity as necessary. The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments was also delegated to the fiduciary manager and their corresponding appointed underlying managers.

The latest Scheme SIP was updated in September 2020, and can be found at this website: https://gateleyplc.com/resources/statement-investment-principle-k-hartwall-pension-scheme/

Through this report, the Trustee reviews how the actions of its asset managers and fiduciary manager have aligned with its expectations and principles set out in the SIP. The Trustee will set out where they expect more information or engagement to be undertaken by its managers.

Scheme activity over the year

Training

In 2019 and 2020, the Trustee received responsible investment ("RI") training which provided the Trustee with an introduction to RI. The training also covered regulatory requirements, a recap of the investment advisor's, Aon Solutions UK Limited ("Aon"), ESG ratings process, and a discussion of the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance ("ESG") factors in investment decisions.

This training supported the Trustee in its development of its SIP policies in 2019 and 2020 relating to ESG considerations.

Responsible investment policy development

Following on from initial training, in March 2019, the Trustee began to consider specific issues relating to responsible investment. Each member of the Trustee’s team took part in an exercise to provide their own personal input on RI issues. The Trustee reviewed the conclusions from this exercise alongside the features of the Scheme and its investment arrangements to help it formally establish its responsible investment views, beliefs and objectives. This exercise resulted in the establishment of a stand-alone responsible investment policy by the Trustee.

Updating the Stewardship Policy

During the training sessions and throughout the year, the Trustee has been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Ongoing Monitoring

The Trustee receives regular updates on RI matters from its investment advisor.

The Trustee is a member of Aon's Responsible Investment Network, which provides the Trustee with access to regular, interactive events focused on responsible investment and regular updates on responsible investment market innovations and developments.

Engagement – Fiduciary Manager

Under the Trustee's fiduciary mandate managed by Aon Investments Limited ("AIL"), AIL appoint underlying asset managers to achieve an overall target return. The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system.[1] This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustee has received and reviewed the AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward.

Aon also actively engage with asset managers and this is used to support AIL in their fiduciary services. For example, over 2020, Aon's Engagement Programme maintained a dialogue with one its leading global asset managers on behalf of many of their schemes which invest with the manager. This culminated towards the end of the year in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- Aon's analysis of the manager's voting actions over 2020 showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that they had markedly changed their voting policies in the second half of 2020, and reassured Aon that moving forward, vote decisions would better align with their stated positions on such ESG matters. Aon expect to see this reflected in voting actions by mid-2021.
- Aon expressed concern that given the level of potential influence the manager had, the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons

[1] More information on the Aon ESG Ratings Process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment -GuideESGRatings.aspx

for this are regulatory and concern its investor classification status. The manager acknowledged Aon's concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

Aon welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

Voting and Engagement – Equity

Over the year, the Scheme was invested in the AIL Managed Growth Strategy Fund. The material equity investments held in the Fund over the year were:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund
- Nikko – Japanese Equity (Invested in July 2020)

The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

LGIM Multi Factor Equity Fund ("LGIM")

Voting

	1 Jan 2020 – 31 Dec 2020
% resolutions voted	99.71%
% of resolutions voted against management	17.90%
% resolutions abstained	0.12%

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example if engagements with the company have provided additional information.

Olympus Corporation

Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM state that they have for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level they believe that every board should have at least one female director, and deem this a de minimis standard. Globally, they aspire to all boards comprising 30% women.

In February 2019 LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation.

In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100. As a result, LGIM voted against the election of a director for Olympus Corporation at the July 2020 board meeting.

While c. 95% of shareholders voted in favour of the election of the director, LGIM stated they will continue to engage with and require increased diversity on all Japanese company boards.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

An example of engagement over 2020 was with Proctor and Gamble (P&G). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

BlackRock Emerging Markets Equity Fund ("BlackRock")

Voting

	Year to 31/12/2020
% resolutions voted	97.1%
% of resolutions voted against management	8.7%
% resolutions abstained	3.0%

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions and manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock have increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

Voting Example: Evraz

In June 2020, BlackRock voted against the re-election of Karl Gruber as Director for the company's lack of progress on climate-related reporting. Evraz plc (Evraz) is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate own 57% of the company.

BlackRock began their multi-year engagement in November 2017, they wrote a letter to Evraz CEO and chairman of the board, asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Since sending their letter, Evraz have taken positive steps, for example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO2e per ton of crude steel cast, which, while meeting the company's target, remains above the average in the steel industry (average of 1.83 tons of CO2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting that fell short of their expectations of large carbon emitters with a previous history of engagement with BlackRock on this topic.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-evraz-jun-2020.pdf

Engagement

The BlackRock Investment Stewardship Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism

5. Human capital management.

BlackRock has increased its engagement activity year on year significantly on a variety of key issues, including having over 400 engagements with companies where they discussed the impact of COVID-19. More information can be found in the BlackRock Investment Stewardship Annual Report 2020:

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf

Nikko – Japanese Equity

Voting

Nikko use their own research and voting team based on their own voting policy to make voting decisions without the use of service providers. More detail on their guidelines for exercising voting rights can be found here: https://en.nikkoam.com/voting-rights

At the shareholder meetings of 2,306 Japanese companies in which Nikko Asset Management Co., Ltd. (Nikko AM) held voting rights between July 2019 and June 2020, the firm cast 2,758 negative votes against 23,012 company generated proposals. This translates to 12.0% of the total.

Voting and Engagement example

An example of an engagement within the period was on a proposed appointment of an outside director prior to a general meeting of shareholders for a Nikko investee company. Before the company's 2020 annual general meeting (AGM) of shareholders, Nikko discussed with management its proposal to appoint an outside director. Given that the candidate was from the top management of a major lender to the company, Nikko expressed their concern about the independence of the candidate. The company's management responded that they intended to bring an experienced director with financial and accounting knowledge onto the board of directors and they wanted a candidate who currently held an active management position. In light of this explanation, Nikko comprehensively considered matters including the following: (1) the candidate was currently not an executive officer, (2) the investee company's finances were sound and it was not at a high risk of having to be highly dependent on its lenders, and (3) the possibility for the candidate to bring significant knowledge and experience to the role given their position as a member of a bank's top management. Based on those considerations, Nikko voted in favor of the proposal.

Engagement – Fixed Income

The Scheme invest in Fixed Income securities through their arrangement with AIL through the Managed Growth Fund and also the Low Risk Bond Strategy.

The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL, and AIL have confirmed that all managers received at least a 2 or above on AIL's four-tier ESG ratings system. This means that all the fund management teams are aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.

While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in their ability to encourage positive change. A high-profile example of this is from Robeco, a Multi Asset Credit fund within the AIL strategy, that have ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Whilst Robeco was supportive of this step, they were not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a two-year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.

Another example is in relation to BlackRock fixed income. BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship (BIS) is positioned as an investment function, which allows for the mutual exchange of views with active portfolio

management teams across equity and credit. In addition, BlackRock's Global Fixed Income (GFI) Responsible Investing (GFI-RI) team may partner with the BIS team both to reflect ESG related topics from GFI investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in GFI portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by the GFI-RI team was that with Exxon. In their discussion with Exxon, they discussed several engagement topics such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the GFI-RI team including the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

The Trustee believes that engagements of this nature are key to managing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

Engagement – Alternatives

The Scheme invests in a number of alternative strategies. These include asset classes such as managed futures, insurance linked securities, risk parity and gold.

The Trustee recognises that the respective investment processes and potentially illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustee and AIL still expect that all the investment managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material.

The following practices from Leadenhall Capital Partners, who manage an Insurance Linked Securities Fund within the AIL strategy, illustrates this. Leadenhall assesses adherence to ESG principles by considering specific factors, examples may include

1. Environmental impact including pollution prevention (via underwriting standards) and remediation (via providing capital for protection), reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards.
2. Social impact including human rights, welfare and community impact issues.
3. Governance issues including board structure, remuneration, accounting quality and corporate culture.

In particular, pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group (MS&AD Insurance Group) and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. They are a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall perform a detailed review of their investment counterparties policies and controls including those concerning their explicit ESG and Corporate Social Responsibility ("CSR") frameworks. Where appropriate they will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

Summary

Overall, the Trustee is of the opinion the stewardship carried out on behalf of the Scheme is adequate and in line with the stewardship policy as stated in the SIP.

The Trustee notes examples of the willingness and ability of LGIM and BlackRock to take proactive votes against management where appropriate. The Trustee also notes the efforts from their fiduciary manager in monitoring the appointed underlying managers and encouraging better practices where appropriate. Having said that, the Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

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