# Givaudan UK Pension Plan
# Annual Implementation Statement for the year ended 31 March 2020
# October 2020

## 1. Background

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 Trustees outline how they have ensured that the policies and objectives set out in their Statement of Investment Principles ("SIP") have been adhered to over the course of each Plan year. This is the first Implementation Statement the Trustees have prepared and covers the year ended 31 March 2020.

## 2. Introduction

This document is the Annual Implementation Statement ("Implementation Statement") prepared by the Trustees of the Givaudan UK Pension Plan (the "Trustees" and "Plan" respectively) covering the Plan year to 31 March 2020. The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the Plan's Statements of Investment Principles ("SIPs") required under section 35 of the Pensions Act 1995, as amended, has been followed during the year;
- detail any reviews of the SIPs the Trustees have undertaken, and any changes made to the SIPs over the year as a result of the reviews; and
- describe the voting behaviour by, or on behalf of, the Trustees over the year.

A copy of this Implementation Statement will be made available on the following website alongside the Plan's SIPs: https://www.givaudan.com/media/corporate-publications

## 3. Review of, and changes to the SIPs

The Plan has two SIPs; one for the DB (and AVC) benefits and one for the DC Section. These SIPs were reviewed and updated during the Plan year, with revised versions being published as at September 2020. The changes reflected regulation with regards to the Trustees' policies in relation to:

- financially material considerations, including Environmental, Social and Governance (ESG) considerations, and the extent to which these are taken into account in the selection, retention and realisation of investments;
- the extent to which (if at all) non-financial factors, including members' views, are taken into account in the selection, retention and realisation of investments; and
- undertaking engagement activities in respect of the investments.

## 4. Relevant activity during the Plan year ended 31 March 2020

**June 2019**

| | |
|---|---|
| **Training** | New SIP requirements |
| **DB** | Reviewed asset transition to new fiduciary arrangement |
| **DC** | DC default investment strategy review principles and timings – (DC SIP; 4.4): |

| | |
|---|---|
| | • Considered the principles but paused any action, pending a proposal to the Company about the future of the Section |

**October 2019**

| | |
|---|---|
| **Training** | Investment objectives and Competition and Markets Authority review<br>Introduction to ESG approach |
| **DB** | New SIP agreed (between meetings)<br>AVCs – Considered and voted in favour of Equitable Life's guarantee exchange proposal for with-profit funds (DB SIP – AVC Arrangements) |
| **DC** | New SIP agreed (between meetings)<br>Further discussion on the future of the DC Section (DC SIP; 1.9, 2.1, 2.7, 4.1):<br>• Best interests of members considered |

**February 2020**

| | |
|---|---|
| **Training** | "Responsible Investment" and "Understanding your portfolio"<br>• Delegated portfolio – Setup and key objectives.<br>• Components of the portfolio – Hedging, Low-risk bonds strategy and Managed growth strategy.<br>• Performance of portfolio since strategy inception up to 31 December 2019.<br>• Responsible investment and ESG integration framework.<br>• ESG rating system and ratings of fund managers comprising the growth and low-risk strategies. |
| **DB** | See above (DB SIP – Environmental, Social and Governance Considerations)<br>Agreement to DB investment consultant objectives (between meetings)<br>Review of proposed RPI reform and the impact on the Plan (DB SIP – Investment Risk Measurement and Management) |
| **DC** | Agreement to DC investment consultant objectives (between meetings)<br>Further discussion on the future of the DC Section (DC SIP; 1.9, 2.1, 2.7, 4.1):<br>• Bulk transfer due diligence and legal advice reviewed |

## 5. Adherence to the SIPs

Overall the Trustees believe the policies outlined in the SIPs have been adhered to during the Plan year. The remaining parts of this Implementation Statement set out details of how this has been achieved for the DB and DC Sections. These details relate to those parts of the SIP which set out the Trustees' policies, and not those which are statements of fact.

## Defined Benefits ("DB") Section

### Objectives

The Trustees have an objective of maintaining full funding on a self-sufficiency basis. As a result, the investment policy is structured to support this objective.

During the Plan year the assets for the DB Section (excluding AVCs) have transitioned to a fiduciary management arrangement to reduce funding volatility including a significant component of Liability Driven Investment (LDI). The Trustees have therefore delegated the decisions regarding the composition of the portfolio of assets subject to the investment objective and regularly monitor the performance against this objective.

The Trustees have set an overall target investment return objective of 0.5% per annum in excess of liabilities measured on a Gilts + 0.15% basis. This is monitored on a quarterly basis.

The Trustees have sought advice from the Plan's professional advisors, including the Scheme Actuary, the investment consultant and the fiduciary manager throughout the year including at Trustees' meetings. The Trustees have received reports from the investment consultant demonstrating the actions taken under the fiduciary management agreement. This includes views on investment outlook and how these have fed into the investment strategy, liquidity and LDI position.

### Changes to the SIP over the year to 31 March 2020

The SIP was updated in May 2019 to take account of new regulations which came into effect from October 2019, requiring the Trustees to include several policies relating to Responsible Investment and Stewardship. The Trustees consulted with the principal employer when making these changes and obtained written advice from their investment consultant.

The SIP has been reviewed and revised over the course of 2020 to take account of further regulatory changes. In particular, the Trustees have now set out policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies on cost transparency and their policies on voting and stewardship. The most recent SIP, including the changes outlined here, was agreed by the Trustees in September 2020 and is now available online.

### Actions

The Trustees outline several key objectives and policies in the SIP. The actions below provide an explanation of how these objectives have been met and policies adhered to over the course of the year.

The Plan's assets were transferred from Legal and General Investment Limited to Aon Investment Solutions in June 2019.

The Trustees received investment reports each quarter from the investment managers which detail information on performance, costs, stewardship and responsible investment. In addition, the Trustees met with the investment managers to review performance, process and to receive training.

The Trustees report on the risks associated with the Plan's investments annually in the investment risk disclosure report which accompanies the Report and Accounts. In this report, the Trustees monitor the risks associated with both the Defined Benefit section, focusing on market risk, credit risk, interest rate risk, inflation risk and other risks.

The Trustees' administration team at Aon monitor the cashflow requirements of the Plan on a regular basis and have authority to disinvest from assets when required to fulfil pension obligations. All the Plan's assets are invested in daily traded funds so that assets are readily accessible for cashflow purposes.

**The Trustees' stewardship policy**

The relevant extract of the SIP covering the Scheme's voting and engagement policies for the report period was as follows:

*"The Trustees recognise the importance of their role as a steward of capital, promoting corporate responsibility and ensuring the highest standards of governance. The Trustees recognise that ultimately this will help to protect the financial interests of the beneficiaries of the Plan.*

*The Trustees expect the investment managers to use their influence as institutional investors to carry out the Trustees' rights and duties as a shareholder including voting, engaging when appropriate with underlying companies to promote good corporate governance, accountability and positive change.*

*The Trustees expect that the investment managers will provide details of their stewardship policy and activities on an annual basis. The Trustees will engage with the investment managers where necessary for more information."*

**ESG and Engagement – Aon Investments Limited (AIL) – DB section fund manager**

In line with its ESG integration process, AIL have undertaken engagement activity during the first half of 2020, some examples of which have been outlined within this report. AIL held 22 ESG deep-dive meetings covering the equity and fixed income managers that are invested in across the delegated funds. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting where they require more information to meet client requirements.

This is in addition to many more engagements that the same managers will have had with Aon's Investment Manager Research team. Each of the fiduciary team's meetings has allowed the team to gain deeper insight into the Responsible Investment approaches of the underlying managers and to discuss portfolio positioning from an ESG perspective.

All equity managers meet AIL's minimum standards for ESG integration, achieving an ESG rating of 2 or higher.

AIL use their resources, influence and expertise to deliver positive outcomes that would otherwise be out of reach for most through their engagement with managers, which reduces the time clients must spend on ESG Governance. For example, AIL felt GQG and Longview lacked their peers in relation to engagement on ESG issues and reporting of contentious votes. These are important in understanding how effectively ESG risks and opportunities are being discussed with investee companies and the ways in which managers will use their voting power to influence ESG issues.

It is important that this information is relayed to clients and a stewardship report has been published illustrating actions with respect to investments over 2019. This provides an insight snapshot of key engagements that they have undertaken during the first half of the year focusing on the managers' responsible investment activities through 2019.

The ESG ratings for underlying managers are explained below:

- ESG Rating 4: The Fund Management Team demonstrates high awareness of all known and potentially financially material ESG risks in the investment strategy and, at present, has incorporated appropriate processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
- ESG Rating 3: The Fund Management Team demonstrates an above average awareness of potential ESG risks in the investment strategy and has taken essential steps to identify, evaluate and potentially mitigate these risks.
- ESG Rating 2: The Fund Management Team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.

- ESG Rating 1: The Fund Management Team appears unaware or unconcerned with ESG risks in the investment strategy and has not taken any material steps to address ESG considerations in the portfolio.

**Voting – Equity Managers**

Over the year, the Plan was invested in the Managed Growth Strategy Equity Fund, through the fiduciary arrangement with AIL.

The Trustees acknowledge that several managers were unable to provide data on significant votes. The Trustees consider a significant vote broadly as a vote which the respective manager deems to be significant to the Plan or a vote where more than 15% of votes were cast against management. The Trustees note that AIL will be asking these managers to track and provide such information moving forward. In addition, AIL will continue to work with managers to encourage disclosure of more detailed rationale when providing voting and engagement examples where necessary.

**LGIM Multi Factor Fund (LGIM)**

Summary Voting Statistics

| | 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|
| Percentage of companies engaged with | 21% | N/A | N/A |
| % resolutions voted | 98.5% | 99.1% | 100% |
| % of resolutions voted against management | 14.9% | 14.5% | 18.5% |
| % resolutions abstained | 1.5% | 0.8% | 0.0% |

Voting Policy

LGIM use ISS as a proxy advisor for voting on this fund. LGIM regularly monitor the proxy voting services through quarterly due diligence meetings to ensure execution is in line with their voting policy. LGIM receive an electronic alert for rejected votes which require further action. LGIM are audited annually and receive an assessment report on their voting activities.

LGIM are currently in the process of building a tool to pool specific engagement and voting data at a strategy level and will align this and their definition of a significant vote with PLSA guidelines. LGIM strengthened its voting policy in 2020 to state that they will no longer vote against misaligned pensions for directors. Weekly voting meetings are recorded and audited annually within the team, with all votes having a rationale behind them.

LGIM provided several examples of significant votes. LGIM voted against a shareholder proposal for Rio Tinto, a mining company, where the proposal was to set out a transition plan and publish targets aligned with the Paris agreement. LGIM considered the resolution to be too prescriptive under current technology limitations for the sector and has been pushing the company to tackle this issue through further engagement.

LGIM supported and was a co-filer in the shareholder proposal put forward by Climate Action 100+ for BP to publish a strategy consistent with the Paris Agreement, including capital expenditure and targets. This was supported by over 99% of shareholders at the company's AGM, and support from the board was achieved.

**BlackRock Emerging Markets Passive Equity Fund (BlackRock)**

<u>Summary Voting Statistics</u>

| | 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|
| % resolutions voted | 95.4% | 98.6% | 96.5% |
| % of resolutions voted against management | 8.5% | 9.2% | 8.3% |
| % resolutions abstained | 4.0% | 4.8% | 2.3% |

<u>Voting Policy</u>

BlackRock state that it "votes (or refrains from voting) proxies for each Fund for which we have voting authority based on our evaluation of the best long-term economic interests of shareholders, in the exercise of our independent business judgment, and without regard to the relationship of the issuer of the proxy (or any shareholder proponent or dissident shareholder) to the Fund, the Fund's affiliates (if any), BlackRock or BlackRock's affiliates, or BlackRock employees". Blackrock votes in accordance with guidelines for each relevant market, which are reviewed regularly and changed in line with developments within those markets.

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.

BlackRock ordinarily refrain from abstaining from both management and shareholder proposals, unless abstaining is the valid vote option (in accordance with company by-laws) to signal concern to management, there is a lack of disclosure regarding the proposal voted, or an abstention is the only way to implement their voting.

One example of a situation where BlackRock voted against management was with regards to the Airport of Thailand Public Co. Ld in January 2020. BlackRock voted against the election of Manu Mekmok and Sarawut Benjakul as directors under the rationale that they are "non-independent directors on inadequately independent boards".

In another instance in March 2020, BlackRock voted against the management of Akbank TAS in the election of directors and approval of director remuneration due to a lack of information being disclosed.

**Engagement – Equity Managers**

**LGIM**

A common misconception within the investment industry is that passive management removes an investor's ability to influence the companies held within the portfolio, compared to an active manager with a more concentrated portfolio of companies they know very well. Despite this, the passive manager Legal & General Investment Management (LGIM), held in the Managed Growth Strategy, has become an industry leader in stewardship activities for index tracking funds and is arguably setting best practice for other managers to follow.

Passive managers' difficulties lie in the fact that their funds invest in hundreds and sometimes thousands of companies across the world, meaning that they do not necessarily have the resource to engage on granular, company specific issues with each investment they hold. This could therefore result in less effective forms of stewardship for this style of investing.

LGIM began working on a solution to this issue by deciding to focus on key engagement themes that they thought would drive the greatest levels of progress and client value. Holding client forums in 2017 provided LGIM with broad engagement themes to focus and prioritise their engagement activity.

As part of their Climate Impact Pledge, LGIM publish a list each year comprising of companies that are deemed candidates for exclusion as a result of them not reaching LGIM's sustainability expectations. If engagements with these companies are unsuccessful, LGIM may divest from the company.

**BlackRock**

BlackRock state that they aim to enhance the long-term value of client assets through their proxy voting and engagement activities. BlackRock's Investment Stewardship team engage with companies in both active and indexed investment strategies, noting the importance of engagement within index-based strategies where divestment is not an option. BlackRock use engagement as a tool to raise concerns regarding governance and sustainability issues that may affect the long-term performance of the company.

BlackRock are improving their engagement disclosures this year, with the aim to:

- Move from annual to quarterly voting data
- Give prompt explanations of key voting decisions
- Enhance disclosure of company engagement

**Engagement – Fixed Income**

The Trustees invest a proportion of the Plan's invests in fixed income securities through their arrangement with Aon Investments Limited in their fund of fund approach.

The Trustees delegate the monitoring of ESG integration and stewardship quality to Aon Investments, and Aon have confirmed that all managers received at least a 2 out of 4 ESG Ratings which 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.

An example of an engagement carried out during the reporting year by AIL was with a US based fixed income manager that lacked a Responsible Investment policy, a metric for scoring securities on ESG criteria nor public commitments to invest responsibly. Following AIL engagement with the manager on these issues, they quickly took action by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities. Tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to Responsible Investment by becoming a signatory to the Principles for Responsible Investment - the world's leading proponent of ESG and a global standard setter for better practice.

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, (one of the Low Risk Bond Strategy managers the Plan invests in) and 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.

The Trustees believe that engagements of this nature are key to reducing ESG risks within the Plan's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

**Engagement-Alternatives**

The Plan's assets are invested in several alternative strategies through AIL's Managed Growth Strategy.

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

The Trustees believe that engagements of this nature are key to reducing ESG risks within the Plan's portfolio, as well as contributing to the transition towards a low carbon economy.

**DB Summary**

The Trustees believe that all the Plan's fund managers appear to be exercising their respective voting and engagement abilities in a thoughtful, responsible manner and that the Trustees' stewardship policy is being appropriately implemented on their behalf to a large extent.

The Trustees recognise that they have responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Plan invests in.

The Trustees will continue to use their influence to drive positive behaviour and change among the managers they have employed to invest the assets of the Plan, and with other third parties that the Trustees rely on such as their investment advisor. The Trustees will set increasingly higher standards for these parties in future, and will monitor, assess and ultimately hold them to account to ensure that the assets of the Plan are appropriately invested.

**AVCs**

Certain members have AVCs invested alongside their DB benefits. These are no longer contributed to but are deferred until the member's retirement. The extent to which environmental, social and governance considerations are considered in these policies is left to the discretion of the investment managers.

## Defined Contribution ("DC") Section

The DC Section is closed to both new members and contributions. Members of this Section have deferred benefits. The Section invests in several passively managed funds.

### Investment Objectives and Options

The Trustees seek to provide members with a range of investment options of appropriate liquidity which will generate income and capital growth which will provide a fund at retirement with which retirement income can be secured.

There are four passive funds for a member to select from (one equity fund, two bonds funds and a cash fund). The default is a lifestyle strategy that includes all four funds with changing proportions as retirement approaches.

The Trustees have sought advice from the Plan's investment consultant throughout the year including at Trustees' meetings.

### Strategy review

The Trustees have been reviewing the high-level objectives of the DC Section. This includes more fundamental questions as to whether members would now be best served by transferring the entire DC Section to another provider to provide better value for members. Work on this review will conclude in the next Plan year.

### Environmental, Social and Governance (ESG) factors

The Trustees do not consider it appropriate for a passive investment manager to take account of environmental, social and governance considerations in the selection, retention and realisation of investments. However, it is the Trustees' policy to give discretion to the passive investment manager to pursue a policy of engagement with companies. The extent to which environmental, social and governance considerations are considered in this engagement policy is left to the discretion of the passive investment manager.

As part of the strategy review mentioned above, consideration has been given to the size of the DC Section and whether monitoring investment managers at this scale would be best served by consolidating the DC funds into a larger vehicle such as a master trust where such monitoring, including ESG, can be done at a much stronger economy of scale.

### Monitoring

The Trustees monitor the performance of all the investment funds at each Trustees' meeting via their DC investment consultant.

### Voting and engagement

The Trustees have delegated the day to day voting and engagement activity to its investment manager subject to review of their engagement credentials.

The manager's reporting includes information on voting activity carried out. We understand that LGIM is active in exercising its voting rights. The top two topics on which they voted against or abstained were:

- board structure; and
- remuneration policies.

More information on LGIM's voting details and policy focuses (including ESG), which we have considered, is available in their Active Ownership report: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/corporate-governance-long.pdf

In the current Plan year, the Trustees will seek to develop their monitoring of investment manager’s voting activities if it is decided the Plan will retain the DC Section.