Aga Rangemaster Group Pension Scheme (the “Scheme”)

Engagement Policy Implementation Statement for the year ended 31 December 2020

Background on the Disclosure Requirements

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 pension scheme trustees prepare an Engagement Policy Implementation Statement (“EPIS”) on how they ensured that the stewardship policies set out in their Statement of Investment Principles ("SIP") were adhered to over the course of the relevant year.

Introduction

This EPIS sets out the actions undertaken in the Scheme year under review by ARG Pensions (1974) Limited, as the Trustee of the Scheme, in conjunction with the Trustees of the Aga Rangemaster Commingled Fund (the “Fund”, the common investment fund in which the Scheme’s defined benefit assets are held and in which the Scheme is the sole participant), and the Scheme’s and the Fund’s service providers, including the Investment Advisor and the investment managers, to implement the policies as set out in the Scheme's SIP. This EPIS sets out how, and the extent to which, the Trustee's policy in relation to the exercise of rights (including voting rights) attaching to the Scheme's investments and undertaking engagement activities in respect of the investments (referred to in this EPIS as the Scheme's stewardship policy) has been followed, and describes the voting behaviour of the investment managers on behalf of the Trustee (including description of any proxy voting services used). It includes voting and engagement information that has been gathered from the investment managers.

This is the first EPIS that the Trustee has prepared. This EPIS has been prepared in consultation with the Trustees of the Fund, and it covers the Scheme and Fund year ending 31 December 2020.

This EPIS does not disclose stewardship information on the Scheme’s Liability Driven Investment (LDI) portfolio (including gilts, Network Rail bonds and derivatives) due to the limited financial materiality of stewardship to this asset class.

The identities of the Scheme's investment managers have been anonymised.

The Scheme's Stewardship Policy

The Trustee's stewardship policy was expanded in September 2020 and is set out in the Scheme’s SIP. The latest SIP can be found at this website: https://www.agarangemaster.com/group-pension-scheme

Within this EPIS, the Trustee reviews how the stewardship policy has been followed by considering whether and the extent to which the actions of its investment managers have aligned with its expectations and principles set out in the SIP. The Trustee sets out in this EPIS where it expects more information to be provided or engagement to be undertaken by its investment managers.

Scheme Activity over the Year in relation to the Stewardship Policy

Regulatory Updates

Over the year under review, the Trustee has been provided with updates from its Investment Advisor (Aon Solutions UK Limited) (“Aon”) on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of environmental, social and corporate governance (“ESG”) factors in investment decision-making.

Updating the Stewardship Policy

In line with regulatory requirements to expand the SIP for policies in several areas such as costs transparency and incentivising investment managers, the Trustee reviewed and expanded its stewardship policy in September 2020 (as included in the SIP). This was in order to add detail relating to its expectations of the investment managers' actions in relation to stewardship. Under the stewardship policy, the Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, ESG, the capital structure, and management of actual or potential conflicts of interest.

Ongoing Monitoring

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

Over the year under review, the Trustee continued to receive and review quarterly performance reports, including Aon's ESG ratings for a number of the investment funds. All investment managers with an ESG rating were rated 2 (out of 4). Simply put, this rating means that the applicable fund management team is aware of potential ESG risks in the fund's investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks. Aon's manager research team engages regularly on behalf of the Trustee (and all Aon's clients) with Aon's Buy-rated strategies on a variety of ESG issues. ("Buy-rated strategies" are those funds which may appear on Aon's recommended short-list of potential investments.)

Manager Engagement

The Trustee's Investment Sub-Committee (ISC) aims to meet with each of the Scheme's investment managers at least once a year on behalf of the Trustee. As part of these meetings the ISC has requested the managers to provide updates regarding their approach to stewardship and ESG integration.

In addition, over the year under review the Trustee has entered into an ESG Services contract with its segregated property portfolio manager, which focuses on carbon reduction, compliance and transparency.

Investment Strategy

During the year under review the Scheme transferred investments from three active equity managers to one passive global equity manager, and from one of the Diversified Growth Fund (DGF) managers to an additional fixed income fund. The ESG ratings of the new managers and the impact on the Scheme's stewardship policy of switching from an active manager to a passive manager were considered by the Trustee as part of these transfers.

Voting and Engagement

As set out above, the Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights. The following sections provide information on each of the Scheme's investment managers including the managers' policies, voting statistics (where relevant) and examples of "significant" votes, as well as where proxy voter services have been used. Each of the managers has its own criteria for determining whether a vote is significant, however the Trustee considers significant votes to be those that are material to the Scheme's fortunes.

Given the changes to the Scheme's strategy over the year under review, this EPIS focuses on the behaviour of the Scheme's current investment managers, although brief details regarding managers whose appointment has now terminated have been included for information. Voting statistics are included in the Appendix to this EPIS.

Voting and Engagement - Equity

Equity Manager A (appointed during the year)

The manager was appointed in September 2020. Following the appointment, the ISC met with the manager once before the year end.

Voting

The manager subscribes to research from third party proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, but does not follow any single proxy research firm's voting recommendations. In its voting and engagement analysis, the manager uses several other inputs, including a company's own disclosures, and the manager's record of past engagements. It uses ISS's electronic platform to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, it works with proxy research firms who apply the manager's proxy voting guidelines to filter out routine or non-contentious proposals and refer to the manager any meetings where additional research and possibly engagement might be required to inform the voting decision.

The manager votes in accordance with guidelines for each relevant market, which are reviewed regularly and changed in line with developments within those markets. Its voting decisions are informed by internally developed proxy voting guidelines, its 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.

The manager ordinarily refrains from abstaining from both company management and shareholder proposals unless:

- abstaining is the valid vote option (in accordance with company by-laws) to signal concern to company management;
- there is a lack of disclosure regarding the proposal voted; or
- an abstention is the only way to implement its voting.

Voting Example: Company A (May 2020)

An example of a significant vote is where the manager voted against the Board's recommendations in May 2020, by voting in support of a shareholder proposal requesting that Company A report on how the company's lobbying aligns with the goals of the Paris Agreement. The report was intended to address the risks presented by any misaligned lobbying and to understand the company's plans, if any, to mitigate these risks.

The manager acknowledged that Company A has been responsive to investors and transparent in its reporting which is aligned with the requirements of both the Task Force on Climate Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). It also considered Company A to be a leader amongst its US peers with regard to Board oversight of climate risk, strong corporate governance practices, and reporting in line with the TCFD and the SASB requirements. However, the manager felt that increased transparency around political spending and lobbying relating to climate risk and the low carbon transition would strengthen the company's disclosure. It also held the view that Company A could provide investors with a more detailed explanation of the alignment between its political activities and the goal of the Paris Agreement (to limit global warming to no more than two degrees Celsius), which the company supports.

Engagements with Company A leading up to its AGM gave the manager the impression that the company was aligned with the spirit of this proposal, as it had articulated a desire to provide more clarity for investors on its internal considerations on climate risk and associated political lobbying. However, the manager maintained its belief that enhanced disclosure would help investors better understand the company's political activities in the context of policy that supports the transition to a lower carbon economy and so voted in line with the shareholder proposal in order to request this reporting.

Engagement

The manager states that it aims to enhance the long-term value of client assets through proxy voting and engagement activities. It uses engagement as a tool to raise concerns regarding governance and sustainability issues that may affect the long-term performance of the company.

With regard to the mandates in which the Scheme is invested with this manager, around 3000 stocks are held and over the twelve-month period to 31 December 2020 the manager made 1,927 company engagements, of which 1,076 were with individual companies. 1,765 of the engagements were in relation to governance, 860 on social themes and 1,211 on environmental risk.

The manager is improving its engagement disclosures over 2021, with the aim to:

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

Equity Manager B (appointment terminated during the year)

Voting

The manager receives proxy voting research from ISS, which provides research recommendations and recommendations based on its internal voting policy, but the voting decision and execution of the vote remains with the manager.

Engagement

The manager's investment team initiates engagement based on its investment processes and priorities. Its ESG team provides engagement advice and targets material ESG themes and specific holdings that are significant to the manager and its clients.

Under its strategic engagement approach the manager builds professional relationships and explains concerns and opportunities to its investee companies through fundamental investment and voting analysis.

Equity Manager C (appointment terminated during the year)

Voting

The manager has entered into an agreement with Institutional Shareholder Services, Inc. ("ISS Inc.") to perform various proxy voting-related administrative services, such as vote processing and recordkeeping functions. While the manager also receives research reports and vote recommendations from ISS Inc. and Glass, Lewis & Co., Inc., the manager analyses all proxy voting issues within the context of its own proxy policies.

Engagement

Proxy-led engagement activity is conducted on a firm-wide level. The manager's proxy voting team engages in a dialogue or written communication with a company or other stakeholders, when it believes that the discussion will enhance the manager's understanding of certain matters in the company's proxy statement that are of concern to shareholders. The manager may also engage in such dialogue regarding certain thematic topics of focus for its proxy voting committee.

Equity Manager D (appointment terminated during the year)

Voting

The manager uses ISS for voting research and places its electronic votes through ISS ProxyExchange.

In terms of reaching a voting decision, where company management and ISS' recommendations are aligned, the manager will be minded to vote in favour, except where items concern approval of political donations and expenditure, when it will be minded to vote against. Where company management and ISS are not aligned, the manager will make a decision on how to vote. The manager scrutinises the recommendations of company management and ISS in the UK smaller capitalised company category in particular.

Engagement

The manager engaged with at least 267 different companies over the twelve-month period to 31 October 2020. On average over this period the manager was investing in 271 companies at any one time. The manager was unable to provide a split of the focus of these engagements, but the majority of the engagements were corporate-related.

Engagement – Property

<u>Property Manager A</u>

The ISC, on behalf of the Trustee, met with the manager twice over 2020.

The manager does not invest in companies directly, however it engages with the tenants of the properties held in the Scheme's segregated portfolio. As at 31 December 2020 there were 51 tenants in the portfolio (across the 11 directly held assets), with each of whom the manager engaged over the year.

Engagement Example: Strategy: Financial and Reporting – green leases from 2018

One of the manager's objectives is to increase the proportion of leases that contain green lease clauses. This is because green leases help protect assets from future environmental risks. They also reflect growing market practice and improve the sustainability credentials of the managed assets. Therefore, the portfolio management team leads engagement with tenants and prospective tenants in relation to these clauses. The clauses can fall into three categories:

(i) EPC compliance – clauses that support the manager's compliance requirements with regard to Energy Performance Certificates (EPCs),
(ii) Data sharing – clauses which support sharing of ESG data for reporting and performance updates, and
(iii) Collaboration – clauses in which it is agreed with the tenant to collaborate to improve a building's ESG performance.

For the Scheme's portfolio, as at 31 December 2020, 24% of leases incorporated an EPC compliance clause and 19% featured a data sharing clause. The manager continues to introduce green lease clauses when leases are being negotiated or renegotiated. The Scheme's portfolio has a target for 100% green lease clause coverage for EPC compliance and 50% green lease clause / memorandum of understanding coverage for data sharing and collaboration. The target only applies to new leases completed after January 2018.

Engagement – Funds of Hedge Funds

The ISC, on behalf of the Trustee, met with both Fund of Hedge Funds managers twice over 2020.

<u>Fund of Hedge Funds Manager A</u>

The manager has not shared any information in relation to engagement and voting activity, on the grounds that the fund does not have direct exposure to companies.

However, the manager has confirmed that it recognises the importance of identifying, analysing, and monitoring a wide array of risks, including ESG factors, associated with its investments. This means that it has embedded an ESG framework within its investment process when identifying and evaluating investments alongside wider investment criteria. The manager has committed to engaging with applicable investment professionals both within the organisation, and across the alternatives industry.

The Trustee intends to discuss the manager’s engagement activities with it in more detail over coming months.

<u>Fund of Hedge Funds Manager B</u>

The manager engaged with 149 entities over the twelve-month period to 31 December 2020. The majority of assets under management are invested with third-party hedge funds. The manager seeks to engage with the underlying funds to make sure they are aware of the value of ESG integration in its portfolios, and the importance of ESG integration to investors. The manager has also made significant investments at the corporate level to effect real change for stakeholders. For example, as a founding member of the American Investment Council (formerly the Private Equity Growth Capital Council), the manager helped craft a set of Guidelines for Responsible Investment for its members that incorporate environmental, health, safety, labour, social and governance issues into investment decision-making and ownership activities.

Engagement Example:

The fund is invested in around 50 underlying funds on a "full look through basis" and the manager has conducted over 100 conversations with third party funds to educate them on ESG integration and to encourage them to adopt an authentic ESG policy. The manager has helped and continues to help numerous underlying funds' managers in this regard, by hosting ESG roundtable events and by providing ESG resources, including guides, templates, and information around third-party rating providers. The manager tracks the effectiveness of these engagement efforts through underlying funds' managers' adoptions of ESG policies and enhancements of ESG programs, with monthly reports provided to senior management. In 2020, the manager saw an 80% increase in underlying funds' managers with an ESG policy compared to 2019.

Engagement – Multi Asset

<u>Multi Asset Manager A</u>

The ISC, on behalf of the Trustee, met with the manager once over 2020.

A key element of the manager's stewardship practices is proactive engagement with companies to ensure accurate analysis and to influence them to improve their practices. This engagement with issuers is a key part of the manager's credit analysis and monitoring and complements the approach to responsible investment. One of the key inputs into the ESG analysis is the direct information which the manager receives from companies via engagements that take place with them.

As a global asset manager, the manager believes that it must take a proactive role in ensuring the long-term sustainability of the markets. Long-term initiatives include:

- Active engagement with other industry members to ensure clients' rights and considerations are fully represented.
- Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.
- Challenging the pressure on derivatives users, including pension funds.
- Supporting the transition to a low carbon economy by investing in 43 green bonds, by encouraging banks to consider green bond issuance, and through its Advisory Council role with the Green and Social Bond Principles.

Engagement Example: Company B (2020)

The manager engaged with Company B on the topic of Public Health. The half-year report disclosed that a serious health and safety incident had occurred at a renewable energy generation site. The manager engaged with Company B to discuss the details of the incident and what remedial actions were planned, including preventative actions to minimise the chance of a recurrence. The manager engaged with Company B four times during 2020, twice where ESG was a topic of discussion. The outcome of the engagement was that Company B has reviewed relevant systems and procedures to ensure that relevant enhancements are actioned. Company B subsequently shared relevant learnings from the incident across its portfolio and at appropriate industry forums, thus helping to minimise the potential for similar incidents elsewhere. The manager has also engaged with other portfolio holdings within renewable energy to encourage adoption of relevant learnings from the incident.

Multi Asset Manager B (appointment terminated during the year)

The manager's voting and engagement polices were previously stated in an earlier section in this EPIS (Equity Manager A).

Engagement – Fixed Income

Fixed Income Manager A

The ISC, on behalf of the Trustee, met with the Scheme's Fixed Income manager once over 2020.

The Scheme's Fixed Income portfolio consists of holdings in two credit funds with the same Fixed Income manager: one consisting of liquid assets, the other illiquid. The manager believes that the long-term success of companies is supported by effective investor stewardship, high standards of corporate governance and transparent engagement policies. The manager believes that if a company is run well, it is more likely to be successful in the long run. The manager undertakes all investment stewardship engagements and proxy voting with the goal of protecting and enhancing the long-term value of client's assets. The manager is committed to being transparent about how it conducts investment stewardship activities in support of long-term sustainable performance for clients. The manager follows and is supportive of the UK Stewardship Code (the benchmark in the UK for institutional investors to meet ownership responsibilities in respect of their holdings).

Engagement Example (Liquid Credit): Company C (September 2020)

In September 2020 the manager engaged with Company C on the topic of modern slavery. The objective of the engagement was to encourage further disclosure and policies relating to human rights and modern slavery from automation and communications specialist Company C, in order to recognise the importance of these issues given the nature of the supply chain. The engagement with Company C allowed the company to explain its full ESG strategy and allowed the manager to look in greater depth at the company's approach to supply chain management, especially relating to conflict minerals and human rights. The manager asked Company C to publish full public policy documents on human rights, supplier practices, business ethics and data privacy. Company C was extremely receptive to both the questioning and the suggestions for releasing public-facing policy documents. Company C has provided assurance that it intends to publish these, and supplementary information, on its website in the near future. The manager will continue to monitor and follow up as appropriate.

Engagement Example (Illiquid Credit): Company D

The manager engaged with Company D on the theme of Strategy: Financial and Reporting. The objective of the engagement was to improve the level of reporting in order to monitor the ongoing performance of the company's plants. Company D was granted sufficient time to rectify the situation; however, the poor quality of the reporting continued to hinder the manager's ability to monitor the investment. The inability to manage such issues meant that the manager was uncomfortable with the governance at Company D. The manager ultimately sought early repayment, which was achieved ahead of legal maturity, and with no loss to investors. The manager also declined to engage in discussions with Company D on a long-term refinancing of those same assets.

Summary

Based on the activity over the year under review by the Trustee and its service providers, the Trustee is of the opinion that overall, its stewardship policy has been followed in practice. The Trustee notes that most of the Scheme’s applicable investment managers were able to disclose evidence of voting and engagement activity.

From the year under review, the Trustee has gained a more detailed insight and understanding of the investment managers' policies on voting and engagement and how the managers put their policies into practice. Over the coming year the Trustee will continue to engage with the investment managers regarding their stewardship and engagement activities and challenge Fund of Hedge Funds Manager A to provide more information and clarity around its engagement activities.

27 July 2021

Appendix - Voting Statistics

This below information relates to some of the specific funds in which the Scheme was invested over the year to 31 December 2020 (or earlier date of fund manager termination where applicable).

	1 January 2020 to 31 December 2020			
	Of the resolutions available the % of proposals voted	Of the resolutions on which the fund voted, % that were voted with company management	Of the resolutions on which the fund voted, % that were voted against company management	Of the resolutions on which the fund voted, % that were abstained from
Equity Manager A (Global Equities and Currency Hedged Global Equities)[1]	91.39%	92.39%	6.92%	0.69%
Equity Manager A (Emerging Market Equities)[1]	97.05%	88.62%	8.41%	2.97%
Equity Manager B[2]	91.18%	89.89%	8.86%	1.25%
Equity Manager C[2,3]	100.00%	92.00%	7.25%	0.75%
Equity Manager D	98.47%	96.23%	3.18%	0.59%
Multi Asset Manager B[2]	96.83%	93.42%	5.64%	0.94%

[1] Equity Manager A does not always vote on account of regulatory constraints or operational issues. For example, it states that it currently does not vote at shareholder meetings that require share "blocking" (i.e. blocking shares from trading): the restriction that is imposed when a vote is cast represents a liquidity constraint on the portfolio managers and increases the risk of failed trades which can be costly to clients.

[2] We have restated the information that the investment manager has provided as a proportion of the total number of proposals it voted in, including abstentions. This is in order to facilitate a like for like comparison across the voting statistics provided.

[3] The investment manager provided information on a quarterly basis; we have quoted the average of these quarterly figures here.