

Linton Park Pension Scheme (2011)

Implementation Statement for the Defined Benefit section for the year ending 30 June 2020

This is the Defined Benefit section Implementation Statement prepared by the Trustee of the Linton Park Pension Scheme (2011) ("the Scheme") and sets out:

- How the Trustee's policies on exercising rights (including voting rights) and engagement have been followed over the year.
- The voting behaviour of the Trustee, or that undertaken on their behalf, over the year to 30 June 2020.

How voting and engagement policies have been followed

The Scheme's Defined Benefit (DB) section invests entirely in pooled funds, and as such, the responsibility for carrying out voting and engagement activities have been delegated to the Scheme's fund managers.

The Trustee, via its Investment Subcommittee ("ISC"), initially considered its views on the financial materiality of ESG (including climate change) factors, as well as the way in which ESG is taken into account by each of the Scheme's managers and at a strategy level at their meeting on 5 June 2019. They considered that the managers' policies are reasonable and in broad alignment with the Trustee's own policies. Following this, an ESG policy was developed and draft wording for an updated SIP was produced. This draft wording was considered at the Trustee meeting in September 2019 and again at an ISC meeting in late September 2019. A final version was then signed and uploaded to the company website ahead of the 1 October deadline. No actions were taken at a manager level as a result of this.

In addition to the information required for the drafting of this Statement, the Investment Subcommittee also received available voting and engagement information from the Scheme's managers ahead of a meeting in February 2020, collated by their investment consultants. The Trustee is due to more formally monitor the investment managers' approach to ESG and climate related risks over the next Scheme year via a report from its investment consultants.

Voting undertaken on behalf of the Trustee

Voting only applies to equities held in the portfolio. The Scheme's equity investments within the DB section are held through pooled funds, and as such the investment managers of these funds vote on behalf of the Trustee.

The table below provides a summary of the voting activity undertaken by each manager during the year to 30 June 2020.

Manager	Baillie Gifford	BlackRock	BNY Mellon	Fundsmith
Fund name	UK & Worldwide Equity Fund	Dynamic Diversified Growth Fund	Real Return Fund	Equity Fund
Structure	Pooled	Pooled	Pooled	Pooled

Manager	Baillie Gifford	BlackRock	BNY Mellon	Fundsmith
Does manager vote at a fund level or at a firm-wide level?	Fund	Firm-wide	Fund	Fund
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.			
Does manager use proxy voting services?	Baillie Gifford take the advice of proxy voting services ISS and Glass Lewis but do not rely solely on their recommendations when voting.	BlackRock take the advice of proxy voting services ISS and Glass Lewis but do not rely solely on their recommendations when voting.	BNY Mellon take the advice of proxy voting service ISS but do not rely solely on their recommendations when voting.	Fundsmith do not use proxy voting advisory services.
Number of company meetings the manager was eligible to vote at over the year	178	16,200	75	28
Number of resolutions the manager was eligible to vote on over the year	2,430	not available	1,115	444
Number of resolutions the manager voted on over the year	2,430	153,001	1,096	444
Percentage of resolutions voted <i>with</i> management or abstained, as a percentage of the total number of resolutions voted on	97.5%	91%	85%	95%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	2.5%	9%	15%	5%

Significant votes

Baillie Gifford, UK & Worldwide Equity Fund

Baillie Gifford have provided the following summary of three votes that they consider to be significant for the Fund:

	Vote 1	Vote 2	Vote 3
Company name	British American Tobacco	British American Tobacco	Bunzl

	Vote 1	Vote 2	Vote 3
Date of vote	30 April 2020	30 April 2020	15 April 2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.66%	1.66%	1.56%
Summary of the resolution	Remuneration - Report	Incentive Plan	Amendment of Share Capital
How the manager voted	Against	Against	For
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes	No	Yes
Rationale for the voting decision	Baillie Gifford opposed the executive remuneration report and policy due to concerns regarding the potential size of the pay award.	Baillie Gifford opposed the Incentive Plan due to concerns regarding the potential size of the pay award.	Baillie Gifford have supported the higher level of issuance authority this year to provide companies with additional flexibility in the current market environment.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	Baillie Gifford continue to oppose remuneration due to concern that pay is not aligned with performance. The company has steadily increased pay over recent years whilst the company has delivered poor value to shareholders. This year, the CEO's, Jack Bowles, salary has increased by 9.5%, taking his salary to a rate comparable to his predecessor (£1.3m). In addition, Baillie Gifford have previously taken issue with the high maximum award on the Long-Term Incentive Plan, which is still 500% for the CEO, and has increased from 350% to 400% of salary for the CFO (for 2020 onwards).	Baillie Gifford have opposed remuneration at British American Tobacco for a number of years due to concerns regarding the size of the potential awards. They continue to engage the company on the issue and push for change. This year, 38% of shareholders also opposed the remuneration report, which is a clear signal to the company that shareholders have concerns.	Baillie Gifford have supported the higher level of issuance authority this year to provide companies with additional flexibility in the current market environment. They will monitor this at next year's AGM.
Criteria on which the vote is considered "significant"	This resolution is significant because the manager opposed remuneration.	This resolution is significant because the manager opposed remuneration.	This vote is significant because the manager deviated from their usual approach. They have previously opposed the authority to issue two-thirds of issued share capital with pre-emption rights. However, they have supported the higher level of issuance authority this year to provide companies with

Vote 1

Vote 2

Vote 3

additional flexibility in the current market environment.

BlackRock, Dynamic Diversified Growth Fund

BlackRock have not provided a summary of key votes. BlackRock list five primary stewardship priorities in their annual stewardship report, which they use to inform their voting decisions - these are listed below. For each priority, BlackRock have provided an example of how they have used voting and engagement to promote their principles.

- **Board quality:** BlackRock believe that high-quality leadership and business management is essential to delivering sustainable financial performance. They voted against management at a UK hotel and pub company as the continued presence of non-executive directors was impairing board independence.
- **Environmental risks & opportunities:** BlackRock believe that sound practices in relation to material environmental factors can be a signal of operational excellence and management quality. Based on their analysis and engagement with the company, they voted against two sustainability-related shareholder proposals at Sanderson Farms (the third largest poultry producer in the US) given the company's current level of sustainability disclosures and its willingness to improve its reporting.
- **Corporate strategy & capital allocation:** BlackRock believes that aligning purpose, strategy, and culture is key to a company's ability to create value for all its stakeholders. They engaged with the CEO of one of Italy's largest banks to understand his views on the culture and purpose of the bank, and how such vision filters through to strategy and cascades throughout the organisation.
- **Human capital management:** BlackRock view a company's approach to human capital management as a potential competitive advantage. They supported a shareholder proposal at CorVel that requested information regarding the risks associated with omitting sexual orientation and gender identity from its written equal employment opportunity policy.
- **Compensation that promotes long-termism:** BlackRock expect executive pay policies to use performance measures that are closely-linked to the company's long-term strategy and goals. They supported a shareholder proposal at Swedish retailer H&M seeking sustainability targets in pay, because the company's own compensation guidelines indicated that it uses sustainability targets in setting executive pay, yet little was disclosed.

BNY Mellon, Real Return Fund

BNY Mellon have provided the following summary of three votes that they consider to be significant for the fund:

	Vote 1	Vote 2	Vote 3
Company name	Associated British Foods Plc	Zurich Insurance Group	The Goldman Sachs Group
Date of vote	6 December 2019	1 April 2020	30 April 2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.67%	0.87%	0.87%
Summary of the resolution	Approve Remuneration Report	Transact Other Business (Voting)	Vote to Ratify PriceWaterhouseCoopers LLP as Auditors, Shareholder Proposal

	Vote 1	Vote 2	Vote 3
			to provide right to act by way of written consent and a Shareholder Proposal that the Directors conduct a review of Statement on the Purpose of a Corporation.
How the manager voted	Against	Against	FOR shareholder proposals
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes	No	Yes
Rationale for the voting decision	<p>BNY Mellon voted against the remuneration report owing to long-held concerns about the exclusion of the sugar division's performance from the calculation of management's long-term incentive award.</p>	<p>BNY Mellon voted against a resolution requesting shareholder approval for "other business" to be transacted at the AGM. No information or comfort was provided ahead of the meeting.</p>	<p>The first resolution supported related to improving minority shareholder rights by allowing the right to act through written consent. This would provide an opportunity for matters to be raised and approved outside regularly held AGMs. The second resolution supported was a request that the board of directors conduct a review of the company's governance arrangements in the context of its support of the US Business Roundtable's 'Statement on the Purpose of a Corporation'. While BNY Mellon accept that the company has responded in part to these commitments, it does not have governance documents that detail how trade-offs and prioritisation between different stakeholders are managed, which is a key component of a multi-stakeholder management approach. The manager also voted against the appointment of the auditor owing to long tenure. The firm had been in place since 1922, which brings into question its independence.</p>
Outcome of the vote	3.3% vote against.	Not reported	41.4% for shareholder proposal to provide right to act by way of written consent and 5.8% for shareholder proposal to conduct review of Statement on the Purpose of a Corporation. 4.6% against auditor re-appointment.

	Vote 1	Vote 2	Vote 3
Implications of the outcome	This vote supported and was in line with BNY Mellon's previous voting and engagement activities that have ultimately resulted in the executive pay structure going forward being better aligned with the company's activities and the shareholder experience.	This is a routine resolution item proposed by Swiss companies. Without comfort provided as to the nature of matters that may be raised and approved under this item, the manager will continue to vote against its approval.	The near majority support for the shareholder proposal cannot be ignored by the company and should result in this basic right to be introduced. It is unlikely that shareholders will exercise this right but it is considered an additional tool that can help improve the effectiveness of engagement activities.
Criteria on which the vote is considered "significant"	The vote and change in remuneration structure is considered significant given the manager's multi-year efforts that have resulted in an improved alignment between executive pay arrangements and company performance.	This highlights a significant insight into the Swiss market and its fundamental approach to protecting the interests of minority investors.	The US Business Roundtable statement on corporate purpose received significant public attention when published and appears to have not been actioned by those companies, including Goldman Sachs, which supported the statement.

Fundsmith, Equity Fund

Fundsmith have provided the following summary of three votes that they consider to be most significant for the Scheme:

	Vote 1	Vote 2	Vote 3
Company name	Intercontinental Hotels Group (IHG)	Intertek Group	Reckitt Benckiser
Date of vote	7 May 2020	3 April 2020	12 May 2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.9%	2.3%	3.4%
Summary of the resolution	Fundsmith engaged with IHG to try to get them to change their remuneration policy, removing total shareholder return (TSR) from their Long-Term Incentive Plan and including a returns-based measure or some other metric that incentivises profitable growth. They were eventually successful.	Fundsmith engaged with Intertek over a number of years to change their remuneration policies to include a returns metric in their Long-Term Incentive Plan, which they eventually did.	After voting against their executive remuneration plan in the previous AGM, Fundsmith engaged with the company after they requested Fundsmith's views on their existing policy. Following consultation the company agreed to work towards updating the Long-Term Incentive Plan. The manager voted in favour of the changes at the following AGM.
How the manager voted	For	For	For

	Vote 1	Vote 2	Vote 3
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	n/a	n/a	n/a
Rationale for the voting decision	The metric used better incentivises long-term growth and profitability of the business and protects the best interests of investors.	The metric used better incentivises long-term growth and profitability of the business and protects the best interests of investors.	The metric used better incentivises long-term growth and profitability of the business and protects the best interests of investors.
Outcome of the vote	New remuneration policy was approved.	New remuneration policy was approved.	Plans for an updated remuneration policy were started.
Implications of the outcome	As above	As above	As above
Criteria on which the vote is considered "significant"	Size of Fundsmith's shareholding	Size of Fundsmith's shareholding	Influence on the company

Fund level engagement

Manager	Fund 1	Fund 2	Fund 3	Fund 4
Fund name	Baillie Gifford UK & Worldwide Equity Fund	BlackRock Dynamic Diversified Growth Fund	BNY Mellon Real Return Fund	Fundsmith Equity Fund
Does the manager perform engagement on behalf of the holdings of the fund	Not on a regular basis – only if a segregated client has a particular view on a vote	Yes	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	not available	not available	not available	74
Number of engagements undertaken at a firm level in the year	543	1,230 environmental, 870 social and 2,835 governance engagements	Engaged with 30 companies on ESG	250
Examples of engagements undertaken	Amazon – ahead of the 2020 AGM, the manager discussed shareholder proposals related to Amazon's response to COVID-19, artificial	ExxonMobil – voted against directors due to significant concerns about climate risk management.	CMS Energy – had a discussion on whether the firm's transition strategy (from coal to renewable energy) was	Intercontinental Hotels Group – met with the company regarding their long term incentive plan, prompting the introduction of a

Manager	Fund 1	Fund 2	Fund 3	Fund 4
	intelligence and privacy concerns, and gender and racial pay gap reporting. Ryanair – the manager discussed issues including carbon disclosure, carbon taxation and relations with unions.	Korea Electric Power Corporation – initiated direct dialogue after concerns raised over planned investments in coal-fired power plants.	aligned with the Paris Agreement. Informa – discussed the design of company's executives' remuneration arrangements.	relevant metric which Fundsmith voted for. Intertek Group – similar engagement on long term incentive plans, resulting in an update to the company's remuneration policy.
Manager	Fund 5	Fund 6	Fund 7	
Fund name	M&G All Stocks Corporate Bond Fund	M&G PP UK Fixed Interest Fund	M&G PP UK Index Linked Fund	
Does the manager perform engagement on behalf of the holdings of the fund	Yes	No (invests in government bonds)	No (invests in government bonds)	
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	No (invests in government bonds)	No (invests in government bonds)	
Number of engagements undertaken on behalf of the holdings in this fund in the year	not available	not available	not available	
Number of engagements undertaken at a firm level in the year	not available	not available	not available	
Examples of engagements undertaken	Signify – engaged on ESG resulting in more stringent working conditions, and implementing a 4-day week with reduced salaries during the pandemic rather than making redundancies. Pearson – introduced a Social Education Bond which aims to use proceeds to support underserved learners and communities.	not available	not available	

**Prepared by the Trustee of the Linton Park Pension Scheme (2011)
January 2021**