

HOUGHTON PLC GROUP PENSION SCHEME

IMPLEMENTATION STATEMENT – Year ending 30 September 2020

The Trustees have followed its Statement of Investment Principles approach to voting and engagement over the year to 30th September 2020 and expects this to have positively contributed to the Scheme's performance. The Trustee has appointed River and Mercantile Investments Limited ("RAMIL") as fiduciary manager to manage their assets. River and Mercantile Group, of which RAMIL are a division, are a PRI signatory and were rated A+ by PRI in 2019 for their Strategy and Governance. To ensure all relevant voting and engagement is covered, this statement includes information on both the fiduciary manager's voting and engagement record as well as those of the underlying managers. Where proxy voting agents have been used, this has been included in the voting information.

This statement of implementation has been completed over the year to 30th September 2020 and where applicable, underlying managers have provided examples of engagement.

References to "ISS" relate to Institutional Shareholder Services, a proxy voting company.

Fiduciary Growth Portfolio

As there are c. 30 managers in the DB Growth portfolio, RAMIL have only included allocations which are c.3% of Growth assets or higher as at 30th September 2020. RAMIL have listed out the funds we have considered in detail below but have requested information from all the underlying managers in the DB portfolios.

Asset Class	Fund Name	Allocation within DB Growth Assets
Equity	BNY Mellon (River and Mercantile) Global Equity Fund	28.40%
Equity	Morgan Stanley Global Brands	2.80%
Equity	Ninety One Global Strategy Fund - Global Franchise Fund	3.30%
Equity	Fundsmith Equity I Share (ACC) Share Class	4.20%
Alternative	Millennium	2.50%
Alternative	Hudson Bay International Fund Ltd	3.50%
Alternative	Leadenhall Life	3.50%
Return Seeking Credit	BNY Mellon Efficient US High Yield Beta Fund E-Share Class (GBP hedged)	3.10%
Return Seeking Credit	Neuberger Berman Global Flexible Credit Fund I5 Accumulating Class (GBP hedged)	2.50%

HOUGHTON PLC GROUP PENSION SCHEME

Equity

Morgan Stanley – Global Brands Fund:

Voting Statistics

	Number of Meetings voted on	Total number of resolutions	Number of actual votes against management	Average % of votes against management per region	Average % votes against management for E resolutions	Average % votes against management for S resolutions	Average % votes against management for G resolutions	Average % of meetings voted against management endorsement by at least one item
Total 12m to 30/09/2020	41	575	51	13%	0%	12%	13%	72%

Most significant vote(s) and examples of Engagement

Microsoft

- Morgan Stanley ('MS') engaged with the company on their new decarbonisation targets, as well as diversity and engagement
 - *Carbon*

Microsoft has recently pledged to become carbon-negative by 2030; MS probed the company on how this target can be achieved.

Microsoft is also focused on understanding and reducing their supply chain emissions and has started charging a carbon price on them internally, as well as developing tools to incentivise suppliers to reduce them.

- *Diversity and inclusion*

Microsoft shared that diversity and inclusion targets are part of senior management remuneration. The company is also working on improving diversity in hiring and set recruitment campuses at universities with a high percentage of diverse students.

However, despite shareholder pressure, the company still does not disclose median gender pay gaps – MS have reiterated their view that they should.

HOUGHTON PLC GROUP PENSION SCHEME

L'Oreal

- MS have continued to engage with L'Oréal on product sustainability improvements and impact on brand equity.
- The company has confirmed sustainability projects (e.g. the costs of switching to recycled plastic in packaging) are ring-fenced in the budget and will not be hindered by the need to meet financial targets.
- The engagement increased the manager's confidence that the company takes sustainability seriously and is focused on reflecting this in their brand messaging, which should strengthen their brands in the future.

Nike

- MS engaged with Nike on labour conditions in their suppliers' factories, their efforts to reduce the environmental impact of their products and diversity and inclusion.
- While labour conditions in outsourced factories remain a risk given the complexity of the supply chain, the company has shared initiatives to mitigate these risks.
- However, MS highlighted to them that they lag some of the peers in using modern technology, such as apps, to receive direct feedback from factory workers.
- The company has adopted aggressive science-based targets to reduce direct and indirect emissions. It is collecting data from suppliers to understand their emissions profile and plans to use this to reward better performing ones in the future.
- The company introduced a requirement to have diverse slates of candidates for internal and external recruitment several years ago, but the company admitted there is more work to be done to close the gender seniority gap.

Ninety One – Global Strategy Fund – Global Franchise Fund:

Voting Statistics

	Number of Meetings voted on	Total number of resolutions	Number of votes against management resolutions	Average % of resolutions against management per region	Average % votes against management for E resolutions	Average % votes against management for S resolutions	Average % votes against management for G resolutions	Number of Meetings where voted against management endorsement by at least one item	Average % of meetings voted against management endorsement by at least one item
Total 12m to 30/09/2020	31	473	29	5%	0%	0%	37%	9	43%

HOUGHTON PLC GROUP PENSION SCHEME

Most significant vote(s) and examples of engagement

Voting statics on shareholder resolutions								
Company Name	Country	Meeting Date	Proponent	Proposal Text	Management Recommendation	ISS Recommendation	Vote Instruction	Voter Rationale
Microsoft Corporation	USA	04-Dec-19	Share Holder	Report on Employee Representation on the Board of Directors	Against	Against	None	Internal discussion was not resolved in time to vote.
Microsoft Corporation	USA	04-Dec-19	Share Holder	Report on Gender Pay Gap	Against	For	None	Internal discussion was not resolved in time to vote.
Intuit Inc.	USA	23-Jan-20	Share Holder	Adopt a Mandatory Arbitration Bylaw	Against	Against	Against	Not considered to be in the best interest of all shareholders
Becton, Dickinson and Company	USA	28-Jan-20	Share Holder	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	For	
EA	USA	06-Aug-20	Share Holder	Provide Right to Act by Written Consent	Against	For	For	

Examples of Engagement

FactSet

- In 2018, Ninety One engaged with FactSet around concerns about the Board composition. At the AGM in December 2018, they expressed their worries around the board structure by voting against the re-election of the audit committee chair given concerns over his long tenure and lack of independence. This was compounded by the board's not being able to provide a satisfactory rationale for maintaining this status quo and the fact that the board is classified, and this director is only up for election every three years.
- Despite further engagements with FDS post the AGM, Ninety One had not received a satisfactory mitigating explanation regarding the concerns around the tenure of the audit committee. At the time of the 2019 AGM, the audit committee remained at only 50% independence; however, the manager was limited in their opportunity to oppose at the AGM since the two non-independent committee members were not up for re-election

HOUGHTON PLC GROUP PENSION SCHEME

- However, the resolution came through in early Q3 2020 when FactSet publicly announced that they were refreshing their board. The director the manager had highlighted as tenured and the chair of the audit committee in numerous engagements was leaving. The new board chair is female which is also a positive step from the standpoint of diversity and progression.

VeriSign

- NO engaged pre-AGM with the Company on their audit committee composition. They opposed three directors due to independence concerns given tenure on the board. The three members of the audit committee had tenures of between 12 and 18 years which NO consider too long to be independent. As such, they voted against the nomination of two members, and requested the board investigate the structure of the audit committee to safeguard independence, considering director tenure, without adversely impacting Verisign's business operations, continuity and performance.

Fundsmith – Equity Fund:

Voting Statistics

	No. of Voteable Proxies	Times actually voted	No. of Votes Against Management Instruction	% Voted	% Voted Against Management
Total 12m to 30/09/2020	793	793	44	100%	5%

Most significant vote(s) and examples of engagement

- Engaged with multiple companies in the last year on remuneration policies, but most notably Diageo and IHG. Fundsmith encourage companies to include returns-based measure (ROIC) in their long-term incentive package (LTIP) so that only value accretive growth is rewarded. They were successful in the engagement with IHG (they now include a ROIC measure in the LTIP). Following further engagement Fundsmith were not successful in getting Diageo to add a returns-based measure in their LTIP and as a result voted against their remuneration policy at their AGM.
- As long term shareholders Fundsmith consider ESG factors a significant part of their investment process as they want companies that can sustain a return on invested capital across the business cycle and the only way that is possible (over the long term) is by not having an excessive negative impact on the environment or society. The biggest innovation in this process over the last year was to publish a responsible investment policy, which explains Fundsmith's approach to responsible investment.

HOUGHTON PLC GROUP PENSION SCHEME

BNY Mellon (“BNYM”) – Equity Strategy:

Voting Statistics

	Meetings	Proposals	Votes For	Votes Against	Votes Abstain	Votes Withhold	With Mgmt	Against Mgmt	With ISS	Against ISS	With Policy	Against Policy
Total 12m to 30/09/2020	1111	13887	12408	1245	72	64	12763	1034	13537	360	13787	10

Most significant vote(s) and examples of engagement

Proctor & Gamble

- Strategy: The strategy for P&G has been very aligned with their consumers in the Covid-19 environment. There has been pressure on the supply chain due to increase in demand. The company did take out more debt in March due to a conservative approach to balance sheet in Q2.
- Business focus: There have been three priorities: 1. Health and wellbeing of employees, 2. Consumers, 3. Communities. The company has worked with the government to keep employees safe and to ensure stability. P&G began manufacturing masks and hand sanitizer for own use and for community donation. 99,000 employees have been able to stay on.
- Board and Compensation: There will be 6 women and 6 men on the ballot for the board this year. Directors are slated to retire next year due to 10 year policy and P&G are actively looking for new candidates. BNY is happy with the structure and pay. High SOP vote last year. CEO pay is well tied up into performance goals. At least 2/3 of LTIP tied to CEO.

Regeneron

- Regarding compensation, BNYM expressed concern over retention due to volatility in stock pricing. REGN has talked to investors about the right mix of equity awards; in the last year, it took steps to make changes (used stock options and full value awards of rank and file employees and some senior executives). For the top two executives, REGN uses PSUs for a significant portion of the plan. BNYM stated that the company should detail its engagement process in its next proxy statement.
- BNYM does encourage increased disclosure about efforts made to retain and keep employees safe. This can be in a supplemental report or statement or included in the next proxy statement. BNY also wants to see the results from the last six months of the pandemic.

HOUGHTON PLC GROUP PENSION SCHEME

ExxonMobil

- BNY asks about how Covid-19 may have affected the business and employee issues and human capital management. BNY's big concerns are major strategic shifts in regard to operations and human capital management. Exxon responds that their shift in strategies dates back to previous plan to diversify their assets. These projects are still being executed, but the pace is going to slow down. Projects are still taking place, but there are more efforts to reduce total expenses.
- Human Capital management philosophy has not changed. Focus remains on offering long-lasting careers and work/life balance. Work in other countries is deliberate in order to have positive impact.
- BNY asked about safety numbers and TIRR metrics. Exxon claimed that they are leading industry in lost time incidents and recordable incident rates. They are very proud of their emphasis on safety. BNY suggested focusing on one or two stats and leading the deck with them. There is an opportunity to set those numbers at more recognizable place so that investors will notice.
- Exxon claims that they don't plan on taking any more debt however BNY asked about 10% dividends and asks for safety of dividends. Exxon responded that they will be around \$19billion/year run rate. Exxon believes that they can run that down by reducing cash consumption in capx and cost of goods part of business). Even with reduction in pricing, there has not been a cancellation of projects. Priorities are pulling lever on capx and not take on gross debt. BNY responded by stating that they are simply too big and suggested taking debt levels down.

Alternatives

The alternative nature of these funds means investments tend not to be in listed equities and as such, voting is not relevant.

Millennium: International Fund

Due to the nature of the firm's investments, they do not usually vote proxies. In situations where a portfolio manager believes it is useful to vote a proxy, the CLEO (Compliance, Legal, Ethics Oversight) Committee, or a designated member will review the request and decide whether the requested vote is in the Fund's best interest and approve or reject this request accordingly.

Hudson Bay International Fund Ltd:

Due to the nature of this Fund's investments it does not utilise vote proxies. Although Hudson Bay does not have an ESG related policy within its overall portfolio design, it recognises and respects the fact that ESG is a very important issue, therefore, has developed the ability to allocate away any profits and losses attributable to investments that would violate a client's ESG mandate.

Leadenhall Capital – Life Insurance Linked Investment Fund:

Examples of Engagement:

German hybrid insurer/reinsurer

- Leadenhall Life recently engaged on the strength of a German hybrid insurer/reinsurer's ESG support as part of its Operational Due Diligence process.
- On an environmental standing the insurer was particularly sound; its parent group majority investor is a signatory to the UN PRI; the investment screening process removed the risk of investments falling foul of shared environmental goals; the carbon footprint was actively disclosed; and there was an extensive section of their website describing the underwriting and investment policies with regard to sustainability.
- Leadenhall Life conducted a detailed review of the decision-making authority, its organisation chart, and framework for operational risk governance and an internal audit was conducted. Leadenhall Life concluded the firm had solid risk accountability.

Insurance acquisition

- Leadenhall Life were offered the opportunity to lend to a vehicle against the Embedded Value of a targeted insurance acquisition. The deal team brought the proposition to internal committee for discussion. The proposition was rejected, in part, because of potential governance issues, namely, one of the Principals in the vehicle had been previously involved in a failed entity.

ESG process evolution

- Leadenhall Life has begun conducting reviews of the public information of its largest counterparties to create a background of the entities general approach to ESG issues. Leadenhall Life are also putting together a measurement/database of ESG processes for its main counterparties through its own research.

Bonds

Voting is not applicable to bond holdings and as such, examples of manager engagement with underlying bond issuers is set out in this section where information is available.

BNY Mellon: Efficient Global IG Corporate Beta Fund and US High Yield Beta Fund (GBP Hedged)

The manager's investment process for these funds does not currently involve engaging with issuers. An area under development is an ESG scoring matrix of parameters, which will use MSCI ESG data help the manager de-select especially low-scoring issuers.

Neuberger Berman: Global Flexible Credit Fund

Examples of Engagement:

General Electric

- Background: NB discussed company's updated deleveraging plans given weak operating conditions in aviation. Also discussed rationale of GE's issuance activity over the past quarter and how it related to its liquidity and risk management activities
- Outcome: Achieved greater confidence in GE's long-term business strategy and deleveraging plans despite plans being pushed back for a couple of years due to difficult operating conditions; maintained Overweight recommendation on GE

Masonite

- Background: Masonite, one of the largest global manufacturers of doors and door components, is positioned to increase its focus on sustainable and responsibly-sourced materials. Through a proactive and investment team led process, NB was able to engage with the issuer on priorities aligned with the Sustainable Development Goals.
- Outcome: In the company's 2019 sustainability report, Masonite disclosed for the first time that it used 36,000 tons of wheat straw (equating to 71,428 trees saved) in its manufacturing process the prior year. Masonite re-affirmed their commitment to increasing the mix of wheat straw in its production process over time, which NB will be tracking going forward.

Cash

BlackRock – ICS Institutional Sterling Liquidity Fund

Due to the nature of this Fund's investments it does not utilise vote proxies.

Liability hedging & structured equity

Engagement is relevant when considering trading counterparties and RAMIL regularly monitors counterparty ESG scores. At an industry level, RAMIL engages with relevant industry consultations (for example RPI reform and LIBOR reform).