

# **Stewardship and Engagement**

## **Implementation Statement – 1 April 2020 to 31 March 2021**

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### *Introduction*

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On 6 June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”). The Regulations require that the Trustee of the Hollingsworth & Vose Company Limited Employees’ Pension Scheme (the “Trustee”) outline how they have ensured compliance with the policies and objectives set out in their Statement of Investment Principles (“SIP”) over the course of the year under review.

This Statement has been prepared by the Trustee with the assistance of their appointed Fiduciary Manager and is for the year ending 31 March 2021.

The Trustee’s Stewardship and Engagement policies are included in the SIP which is available on request.

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### *Changes to the key policies regarding Stewardship and Engagement*

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The SIP has been reviewed and revised over the course of 2020 to take account of further changes which are required by the Regulations noted above. In particular, the Trustee has outlined their policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies regarding cost transparency and their policies on voting and stewardship rights.

During the course of the year, the Trustee has received presentations from their appointed Fiduciary Manager in relation to how the votes are carried out on their behalf and more generally on how Environmental, Social and Governance (“ESG”) factors are integrated into the Fiduciary Manager’s investment philosophy and by association the underlying specialist managers used in the portfolio.

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### *Voting behaviour*

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Under the Fiduciary Management arrangement in place the Trustee has delegated proxy voting and engagement decisions to the Fiduciary Manager. The Fiduciary Manager has a robust and well-established set of guidelines to follow when voting on the Trustee’s behalf which are reviewed and updated on an annual basis. It has provided the Trustee with both a copy of the Proxy Voting Guidelines and the most recent Active Ownership - Proxy Voting and Engagement Report. The Fiduciary Manager instructs Glass Lewis, a specialist proxy voting firm, to execute the votes in-line with the agreed guidelines and where Glass Lewis cannot apply this policy the votes are referred to Russell Investments Proxy Voting and Engagement Committee.

A total of 12,608 votes were placed on securities held in the Scheme’s Growth portfolio over the period under review. A summary of the voting activity carried out on behalf of the Trustee is set out overleaf.

## Key statistics

	Management Proposals	Share Holder Proposal	Total Proposals
With Management	10,796	223	<b>11,019</b>
Against Management	603	157	<b>760</b>
Votes without Management Recommendation	106	23	<b>129</b>
Take No Action	684	16	<b>700</b>
Unvoted	0	0	<b>0</b>
<b>Totals</b>	<b>12,189</b>	<b>419</b>	<b>12,608</b>

The decision to "Take No Action" was driven by:

- i) Shareblocking markets: As per the Fiduciary Managers standing instructions, if a meeting belongs to a Shareblocking market such as Switzerland, then the ballots are automatically set to Take No Action.
- ii) This rule is applicable at the meeting and the ballot level as well. Sometimes if a meeting or a ballot is share-blocked then either the entire meeting or a ballot gets auto-TNA. You will mostly find the Shareblocking meetings or ballots for Norway, Denmark markets.
- iii) And lastly, for the Contested meetings, one of the two voting cards is set to "Take No Action" (the card which is not voted).

## Most significant votes

### Criteria adopted

To ensure a wide variety of the placed votes is reflected, the summary of the most significant votes below has been split into Environmental, Social or Corporate Governance categories. The most significant votes in each category are defined by filtering for:

- Contentious outcome votes with voting split relatively evenly. The Fiduciary Manager defines a contentious vote as having a (~65/35 split) AND
- Issue Category (Environmental, Social or Governance) AND/OR
- Weighted holdings (where holdings represent greater than 1% of the total portfolio which have voting rights attached to them)

From this subset the votes have been sorted for the largest weight in the portfolio to get the summary of the most significant votes for ESG issues. Any reference to we and/or us in the following examples refers to the Fiduciary Manager's views and / or approach followed when voting on behalf of the Trustee.

### Environmental Votes

#### Procter & Gamble Co.

##### *Shareholder Proposal Regarding Deforestation Report*

Date	13/10/2020
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Mgmt. Rec.	Against
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How the vote was cast	Against
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Vote Outcome	Passed
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#### Rationale

The Company provides thorough disclosure regarding deforestation (wood pulp and palm oil) and has set a goal to increase its use of Forest Stewardship Council certified fiber to 75% across its Family Care brands by 2025, although we recognise that it missed a previous deforestation goal and has attracted negative attention for doing business with a palm oil supplier charged with human rights violations. Ultimately, we do not believe that the proponent has sufficiently demonstrated that a report on how the Company is "assessing if and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains," beyond the disclosure and policies already produced and maintained by the Company, would mitigate risks or increase shareholder value.

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**JPMorgan Chase & Co.**

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*Shareholder Proposal Regarding Aligning GHG Reductions with Paris Agreement*

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Date	09/05/20
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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**Rationale**

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Adoption of this proposal would allow shareholders to better understand the risks facing the Company and how the Company is monitoring and managing the risks associated with its lending activities, especially given the public scrutiny surrounding the Company in regard to its carbon-intensive lending portfolio.

The proposal was voted down by less than 1% of the vote.

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**Walmart Inc**

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*Shareholder Proposal Regarding Report on Single-Use Plastic Shopping Bags*

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Date	03/06/20
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Mgmt. Rec.	Against
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How the vote was cast	Against
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Vote Outcome	Voted Down
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**Rationale**

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The Company states that it has an aspiration for Zero Plastic Waste and that it will take action to move from single-use towards reuse models where relevant by 2025. The company is middle-of-the-pack compared to peers on this issue. At this time, we do not believe the proponent has sufficiently demonstrated that the Company is in violation of any laws or regulations regarding its single-use plastic shopping bags or that its current management of this issue is deficient to the degree that warrants adoption of this proposal.

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**Social Votes**

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**Walt Disney Co (The)**

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*Shareholder Proposal Regarding Lobbying Report*

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Date	09/03/21
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Mgmt. Rec.	Against
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How the vote was cast	Against
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Vote Outcome	Undisclosed
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**Rationale**

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In recent years, the Company has demonstrated responsiveness to this issue by significantly enhancing its disclosure of the trade associations of which it is a member. As a result, we believe that the Company has provided reasonable disclosure regarding its process, policies, and lobbying expenditures. We also note that the Company has met and exceeded the legal requirements for political spending and lobbying expenditure disclosure and has provided reasonably accessible information regarding the policies governing its lobbying activities. As such, the proponent had not sufficiently demonstrated that the Company's current disclosure is deficient or that adoption of this proposal would clearly lead to a meaningful benefit to shareholders at this time.

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**Amazon.com Inc.**

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*Shareholder Proposal Regarding Report on Hate Speech and Sale of Offensive Products*

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Date	27/05/20
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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**Rationale**

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While the Company has previously shown responsiveness when alerted to the existence of controversial products on its website, we believe that adopting policies that ensure these products are handled internally prior to the Company having to be alerted would mitigate potential reputational risks. We believe that this is especially important at the Company, as even a perception that issues related to the sale of offensive or controversial products are not handled in an efficient and unobtrusive manner could present significant reputational risks to the Company. Accordingly, we believe that additional information on the steps that the Company is taking to address hate speech and the sale of offensive products throughout its business would benefit shareholders.

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**Johnson & Johnson**

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*Shareholder Proposal Regarding Report on Response to Opioid Epidemic*

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Date	23/04/20
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Passed
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**Rationale**

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We believe that the Company could reasonably enhance its disclosure to provide shareholders with the information requested by this proposal, namely, the governance measures that the Company has taken to effectively monitor and manage financial and reputational risks related to the opioid epidemic. Moreover, we do not believe that the request is excessively burdensome as this proposal does not request that the Company undertake any specific action, rather it just requests that the Company provide information concerning its response to the opioid epidemic. Further, several peers have provided reporting similar to that requested by this proposal.

Given the breadth of legal, regulatory, and reputational risk that the Company is facing on account of its role in the opioid epidemic, We believe that the requested reporting will better allow shareholders to understand the risks facing the Company and the steps that the Company has taken to mitigate such risks.

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**Governance Votes**

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**AT&T, Inc.**

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*Shareholder Proposal Regarding Independent Chair*

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Date	24/04/20
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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**Rationale**

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Vesting a single person with both executive and board leadership concentrates too much responsibility in a single person and inhibits independent board oversight of executives on behalf of shareholders. We believe adopting a policy requiring an independent chair may therefore serve to protect shareholder interests by ensuring oversight of the company on behalf of shareholders is led by an individual free from the insurmountable conflict of overseeing oneself. We believe that this resolution is reasonably crafted and that shareholders should support this proposal.

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**Microsoft Corporation**

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*Shareholder Proposal Regarding Report on Non-Management Employee Representation on the Board*

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Date	02/12/20
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Mgmt. Rec.	Against
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How the vote was cast	Against
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Vote Outcome	Voted Down
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**Rationale**

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This proposal requests that the Company issue a report essentially describing the opportunities to include non-management employee representation on the board. Although the proponent is likely seeking the actual appointment of these individuals on the board, this proposal is not requesting such an action. If taken on its face, the Company has already provided sufficient information addressing the request of this proposal by issuing its statement of opposition where it addresses why it opposes such an action. We are unconvinced that the adoption of the requested report would provide shareholders with valuable information or that the resources necessary to provide the requested report would result in a commensurate benefit to shareholders.

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**Alphabet Inc**

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*Shareholder Proposal Regarding Recapitalisation*

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Date	03/06/20
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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**Rationale**

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We believe that allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board, especially in regard to the director election process. Elimination of the dual-class structure creates an even playing field for all shareholders, as well as a board that is more responsive to all shareholders. We believe all shareholders should have a say in decisions that will affect them. Shareholders do and, in our view, should take a limited role in the operation of the Company. Management, at the direction of the board, is there to operate the business. However, on matters of governance and shareholder rights, we believe shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than an economic stake.

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*Engagement Activities*

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Whilst not all investments have voting rights attached to them it is still possible to effect positive change by engaging with the underlying issuers of equity and debt. The Trustee is supportive of engagement in this way and has delegated this activity to the Fiduciary Manager. Any reference to we, our and/or us in the following examples refers to the Fiduciary Manager's views and / or approach followed when voting on behalf of the Trustee.

**Collaborative Engagement with a sub-advisor (August 2020)**

**Topic:** Climate change risks with a packaged-food company based in Japan.

**Overview of Engagement:** In August 2020, our portfolio management team participated in a joint engagement with the manager sub-advisor. While the sub-advisor drafted the agenda and led the meeting, our portfolio management team supported their messaging and made their own interest in the topic known to the company.

**Outcome:** As a result of the engagement, we found that the company had become a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) Consortium in June 2020. They are scheduled to disclose necessary information based on TCFD guidelines, including scenario

analysis for climate change impacts and we will be expecting to see this reporting in the coming year.

### Discussion with European industrial conglomerate (September 2020)

**Topic:** Human capital risks and impacts posed by technological change, demographic shifts and globalisation.

**Overview of Engagement:** In 2020, we began a planned three-year engagement in collaboration with Sustainalytics, under the Human Capital and the Future of Work theme. The goal of the programme is to guide companies toward the goal of setting established management strategies that mitigate negative ramifications and ensure workforces that support innovation and business objectives while meeting demands of the future of work. An additional goal of this engagement is to ensure that companies strive to support diversity and inclusion strategies within these practices.

**Outcome:** The company expressed that it valued the opportunity to have a dialogue with Sustainalytics and engaged investors. The next step of this nascent engagement is to discuss the current governance of human capital and the overall human capital management at the company.

### Direct engagement with a US Packaging company (October 2020)

**Topic:** Sustainability disclosures, diversity, and executive compensation

**Overview:** In Q4 2020, our Engagement Subcommittee, joined by a member of the portfolio management team, discussed the current membership of the board. It noted that there are many long-standing board members, but these could be considered entrenched. The company expressed an intention to add fresh perspective via upcoming openings, which is positive. We had flagged executive compensation as an area for discussion after our proxy research provider assigned a low score to the pay for performance metric. Through discussion, we determined the program is sufficiently aligned with company performance measures. We also noted, positively, that the company has begun to incorporate non-financial metrics such as safety measures, and they plan to add a diversity component at the senior level. We assessed their sustainability reporting as strong overall but noted that there were several important metrics still not included in the reporting, and we encouraged further development of these metrics over time.

**Outcome:** We intend to monitor further developments. Our agenda and the results of the conversation were shared with our sub-advisor partner.

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### *Industry Participation*

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The Fiduciary Manager is a signatory to the UK Stewardship code and UN Principles for Responsible Investment (“UN PRI”). As a globally recognised proponent of responsible investment, the UN-supported Principles for Responsible Investing (“Principles or PRI”) provides resources and best practices for investors incorporating ESG factors into their investment and ownership decisions. As a signatory to the PRI since 2009, The Fiduciary Manager has a long-standing relationship with the organisation and has completed the annual PRI assessment every year since 2013. The Principles are a set of global best practices that provide a framework for integrating ESG issues into financial analysis, investment decision-making and ownership practices. The Fiduciary Manager is actively involved with the PRI, attending annual conferences and global seminars, and engaging on discussions of interest.

The current UN PRI scorecard scored by the Fiduciary Manager as A+ or A in all categories. The average Median score across various categories was ‘B’.

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### *Compliance with the policy over the period*

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As a holder of assets with attached voting rights, the Trustee is able to exercise these voting rights on behalf of members of the Scheme and believe the best approach is to delegate the execution of their policy to the Fiduciary Manager. The Trustee has received information on the voting

activity that has been carried out on their behalf on an annual basis and are comfortable with the decisions taken.

Over the course of 2020, the Trustee is pleased to report that they have, in their opinion, adhered to the policies set out in their SIP.

The Trustee is pleased with the progress the Fiduciary Manager has made over the year in this area and will continue to work with them to develop their policies in the future.