

# EGL PENSION FUND

## Statements of Implementation

The Trustees have followed their Statement of Investment Principles approach to voting and engagement over the year to 30 June 2020 and expects this to have positively contributed to the EGL Pension Fund's performance. The Trustees have appointed River and Mercantile Investments Limited ("RAMIL") as fiduciary manager to manage the EGL Pension Fund's 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.

Due to constraints around underlying management reporting periods which are compiled at quarter end, this statement of implementation has been completed over the year to 30 June 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 portfolio, RAMIL have only included allocations which are c.3.0% of Growth assets or higher as at 30 June 2020. RAMIL have listed out the funds we have considered in detail below, but have requested information from all the underlying managers in the portfolio:

<b>Asset class</b>	<b>Manager and Fund name</b>	<b>Allocation</b>
<b>Equity</b>	Morgan Stanley Investment Management – Global Brands Fund	3.5%
<b>Equity</b>	Ninety One Fund Managers UK Limited – Global Strategy Fund – Global Franchise Fund	3.5%
<b>Equity</b>	Fundsmith LLP – Equity Fund	3.5%
<b>Equity</b>	BNY Mellon Investment Management – Equity Strategy	27.4%
<b>Hedge Funds</b>	Hudson Bay Capital Management – Hudson Bay International Fund Ltd	4.0%
<b>Mortality Risk</b>	Leadenhall Capital Partners LLP – Life Insurance Linked Investment Fund	3.5%

## **RAMIL pooled fund voting and engagements**

Over the year to 30 June 2020, RAMIL voted on 174 resolutions across 42 meetings. RAMIL voted against management at 8 resolutions across 5 meetings which means overall they voted against management for 5% of resolutions and at 12% of meetings.

Their most significant vote and engagement over the year was around re-appointment of the Board of Directors of a US-based Emerging Market Debt manager, which was 100% non-independent. This has been an ongoing discussion point between RAMIL's Operational Due Diligence Team and the underlying manager, which included raising this point with one of the Board Members during a due diligence meeting in October 2018. On receiving the 2019 AGM notice RAMIL flagged their disappointment that the board was still non-independent and alerted the manager of their intention to vote against the resolution. However, the vote was passed and the Board reappointed. RAMIL again raised this point during their periodic due diligence review in April 2020 and ultimately, again, voted against a fully non-independent board at the April 2020 AGM.

RAMIL continue to engage with the underlying manager on this point and consider the vote to be significant, both from the perspective that they voted against management, and in relation to the matter itself.

## 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 30/06/2020	40	559	47	11%	0%	9%	11%	69%

#### Most significant vote(s) and examples of Engagement

##### *British American Tobacco*

- Morgan Stanley have been engaging with BAT on executive remuneration for a number of years and expressed their concerns about their incentive plan structure. Although management had proposed changes which Morgan Stanley viewed as incrementally positive, they did not address the key concerns around performance metrics.
- **As a result, Morgan Stanley voted against the remuneration report at the AGM and will continue to encourage the company to further improve their pay practices.**

##### *Pernod Ricard*

- Morgan Stanley engaged on the topics of decarbonisation, circular economy, sustainable agriculture, responsible drinking, and diversity and inclusion. There are several positive changes underway such as in the area of diversity. As an example, the board now has four female members versus one 5 years ago. In 2020, the company recruited its first American (who is coincidentally female) to head the US spirits business (Pernod's largest market).
- **In summary, the manager believes the company has strong sustainability governance in place and is taking concrete actions on key ESG topics.**

##### SAP

- Morgan Stanley discussed SAP's contribution to de-carbonising the economy, as well as employee diversity, engagement and welfare.
- **While they believe SAP is ahead of others in their sustainability and diversity efforts, Morgan Stanley noted that it does not report gender pay gap data. Morgan Stanley encouraged them to do so, highlighting potential reputational issues if they do not.**

**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
<b>Total 12m to 30/06/2020</b>	23	370	25	15%	0%	0%	100%	9	54%

**Most significant vote(s) and examples of engagement**

<b>Voting statics on shareholder resolutions</b>								
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	

## Examples of Engagement

### *Check Point*

- In June 2019, NinetyOne (“NO”) began engagement with Check Point Software Technologies, regarding CEO compensation as they viewed the proposal as excessive. The AGM documentation outlined an option award for CEO, Mr Gil Shwed. While they appreciate the alignment created with shareholders through compensation solely by option awards, the proposal to award 1.3 million options did seem high, equating to almost 1% of Check Point’s shares outstanding, and creating the potential to result in a highly lucrative pay package over time.
- In September 2019, NO wrote a letter to the chair of the Compensation Committee, highlighting the concerns on this subject.
- As part of Check Point’s 2020 Proxy Filing, released in June 2020, the company announced a change to the CEO’s compensation arrangements. These changes address the concerns by dramatically reducing the size of the option award.

### *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**

	<b>No. of Voteable Proxies</b>	<b>Times actually voted</b>	<b>No. of Votes Against Management Instruction</b>	<b>% Voted</b>	<b>% Voted Against Management</b>
<b>Total 12m to 30/06/2020</b>	444	444	24	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 encouraged 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) and the engagement with Diageo is ongoing.
- 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.

## **BNY Mellon (“BNYM”) – Equity Strategy:**

### **Voting Statistics**

	<b>Meetings</b>	<b>Proposals</b>	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Abstain</b>	<b>Votes Withhold</b>	<b>With Mgmt</b>	<b>Against Mgmt</b>	<b>With ISS</b>	<b>Against ISS</b>	<b>With Policy</b>	<b>Against Policy</b>
<b>Total 12m to 30/06/2020</b>	995	12726	11397	1116	55	68	11705	941	12383	263	126360	10

### **Most significant vote(s) and examples of engagement**

#### ***ExxonMobil.***

- While noting that the CEO’s pay declined over the year, BNYM expressed a series of concerns with ExxonMobil’s annual compensation programme, including what BNYM felt was an inadequately strong linkage to objective company performance. BNYM consequently voted against management in the “say on pay” proposal regarding executive remuneration.
- The CEO of BNYM will meet with ExxonMobil to continue dialogue on this matter.

#### ***Honeywell.***

- Over several years, BNYM has engaged with Honeywell on the firm’s compensation guidelines and disclosures relating to compensation. Through this process, Honeywell identified ways to improve reporting to better reflect the shareholder value transfer model.
- In September 2019, BNYM and Honeywell discussed how environmental sustainability and diversity in the workplace has become part of the company’s business operations. Honeywell outlined quantitative targets relating to the former and explained changes to the Board composition and average tenure to address the latter.
- BNYM inquired about how the company was responding to shareholder requests to report on lobbying payments and to lower the threshold for shareholders to call special meetings on a range of topics.

#### ***EnzoBio.***

- BNYM were dissatisfied by the size of perquisites (additional benefits above financial remuneration) as a proportion of the CEO’s salary. BNYM also strongly suggested that the company added a woman to its Board, for a number of financial and non-financial reasons, including that the company develops medicines for, and works with, a substantial number of female patients.
- Enzo confirmed to BNYM that a woman had been added to the Board, in part, as a consequence of BNYM’s engagement on the issue.

## Alternatives

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

### ***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.

## **Liability hedging**

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