

# **Accent Group Pension Scheme – Annual Engagement Policy Implementation Statement**

## **Introduction**

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019 and the guidance published by the Pensions Regulator.

## **Investment Objectives of the Scheme**

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Scheme included in the SIP are as follows:

The Trustee's primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustee also ensures that its investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

## **Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustee's policy and beliefs on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change and the processes followed by the Trustee in relation to voting rights and stewardship. These are set out in Appendix 1 to this Statement.

Over the course of the Scheme Year, the SIP was updated on 11 June 2020, 1 September 2020, and 7 December 2020, although these updates didn't result in changes to the above policies.

## **Engagement**

Mercer's investment performance report is reviewed by the Trustee on a quarterly basis. This includes Mercer's ratings (both the general and ESG specific rating) and enables the Trustee to determine whether further action should be taken in respect of specific funds. The Trustee is satisfied that Mercer's ESG scores for the Scheme's managers are satisfactory.

When implementing a new manager the Trustee considers the ESG rating of the manager, and this has been part of the process to implement a new Multi Asset Credit manager.

A further update will be provided in next year's Statement.

## **Voting Activity**

Where the Trustee is specifically invited to vote on a matter relating to the corporate policy, it will exercise its right in accordance with what it believes to be the best interests of the majority of the Scheme's members.

Over the Scheme year, the Trustee has not been asked to vote on any specific matters and have therefore not cast any votes.

The Scheme only invests in pooled funds and therefore the Trustee has no direct voting rights in relation to the Scheme's investments.

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Nevertheless, Appendix 2 of this Statement sets out a summary of the key voting activity of the pooled funds in which the Scheme's assets are invested for which voting is possible (i.e. those funds which include equity holdings).

This includes information on what the fund managers consider to be a significant vote, and examples of these. The Trustee has no influence on the managers' definitions of significant votes but have noted these and are satisfied that they are all reasonable and appropriate.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will continue to take on board industry activity in this area before the production of next year's' statement.

### **Assessment of how the Engagement Policies in the SIP have been followed for the year to 5 April 2021**

The Trustee is satisfied that the Engagement Policies set out in the SIPs which have been in place over the year have been followed.

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### **Appendix A – Trustees’ Policies on ESG factors, stewardship and Climate Change**

#### *Financially Material Considerations*

The Trustee considers many risks which they anticipate could have an impact on the financial performance of the Scheme’s investments over the Scheme’s expected lifetime. Such risks are set out in the next section of this statement.

The Trustee recognises that environmental, social and corporate governance (“ESG”) factors, including but not limited to climate change, can influence the investment risk and return outcomes of the Scheme’s portfolio and it is therefore in members’ and the Scheme’s best interests that these factors are taken into account within the investment process.

The Trustee further recognises that investing with a manager which approaches investments in a responsible way and takes account of ESG related risks may lead to better risk adjusted performance as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustee would seek to invest in funds which incorporate ESG principles.

In setting their investment strategy, the Trustee has prioritised funds which provide leveraged protection against movements in the Scheme’s liability value and also funds which provide actively managed diversification across a wide range of investment markets and consider the financially significant benefits of these factors to be paramount.

The Trustee notes that ESG considerations are not paramount to the first level decision making process within the funds which provide either actively managed diversification or leveraged liability protection. However, in the actively managed Diversified Growth Funds in which the Scheme invests, whilst managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

In addition, the Scheme invests in passively managed global equity funds which track a reference index. Though these funds do not explicitly consider ESG within security selection, the Trustee has selected a manager with a strong stewardship team which actively engages with companies on all ESG aspects.

The Trustee expects the importance of ESG considerations will increase over time and have therefore added this as a standing agenda item to their Investment Subcommittee meetings to make sure that their policy evolves in line with emerging trends and developments.

The Trustee is therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

#### *Non-Financial Matters*

The Trustee has determined that the financial interests of the Scheme members are their first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members’ preferences into account when setting the investment strategy for the Scheme.

#### *Stewardship*

The Scheme is invested solely in pooled investment funds. The Trustee’s policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

The Trustee notes that the investment managers’ corporate governance policies are available on request and on their respective websites.

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If the Trustee is specifically invited to vote on a matter relating to corporate policy, they would exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

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### Appendix B - Voting Activity

The Scheme does not hold any equities directly and the Trustee has not been asked to vote on any specific matters over the Scheme year. Nevertheless, this Appendix sets out a summary of the key voting activity of the pooled funds in which the Scheme's assets are ultimately invested for which voting is possible.

We note that best practice in developing a statement on voting and engagement activity is evolving and we consider relevant developments before the production of next year's statement.

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
<b>LGIM UK Equity Index</b>	<p>LGIM's Investment Stewardship team uses <b>Institutional Shareholder Services (ISS)</b> 'ProxyExchange' electronic voting platform to electronically vote clients' shares.</p> <p>The use of ISS recommendations is purely to augment internal research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the ISS research reports for UK companies when making specific voting decisions.</p>	12574 resolutions eligible for (100% cast)	7.05% of votes cast	0.01% of votes cast	<p>In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions &amp; Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:</p> <ul style="list-style-type: none"> <li>- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;</li> <li>- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where they note a significant increase in requests from clients on a particular vote;</li> <li>- Sanction vote as a result of a direct or collaborative engagement;</li> <li>- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.</li> </ul>	<p><b>International Consolidated Airlines Group</b> – a vote 'against' approving a remuneration report.</p> <p><b>Rationale:</b> LGIM voted against the proposal that would permit the company to have a level of bonus payments of 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. Whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).</p> <p><b>Outcome of vote:</b> 28.4% of shareholders opposed the remuneration report</p> <p><b>Implications:</b> LGIM have been engaging with the company behind the scenes for a few years and this eventually led to a success, as the appointment of a new CEO to replace the long-standing CEO was announced in January 2020. A new board chair: an independent non-executive director, was also recently appointed by the board. LGIM will continue to engage closely with the renewed board</p>
<b>LGIM North America Equity Index</b>	<p>All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.</p>	9495 resolutions eligible for (100% cast)	28.17% of votes cast	0.04% of votes cast	<p>Same as above</p>	<p><b>Medtronic plc</b> – a vote 'against' ratifying named Executive Officers' Compensation.</p> <p><b>Rationale:</b> LGIM voted against the proposal for executive directors to be granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM is not supportive of one-off awards in general and in particular when these are awarded to</p>

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						<p>compensate for a payment for which the performance criterion/criteria were not met.</p> <p><b>Outcome of vote:</b> For: 91.73%; Against: 8.23%.</p> <p><b>Implications:</b> Prior to the AGM LGIM engaged with the company and clearly communicated their concerns over one-off payments. They will continue to monitor the company.</p>
<b>LGIM Europe (ex UK) Equity Index</b>		11412 resolutions eligible for (99.89% cast)	15.26% of votes cast	0.53% of votes cast	Same as above	<p><b>Lagardère</b> – voting on proposals for new directors for the company</p> <p><b>Background:</b> Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments). Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures.</p> <p><b>LGIM voted</b> in favour of five of the Amber-proposed candidates and voted off five of the incumbent Lagardère SB directors.</p> <p><b>Rationale:</b> The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this.</p> <p><b>Outcome of vote:</b> Even though shareholders did not give majority support to Amber’s candidates, its proposed resolutions received between 30-40% support, a clear indication that many shareholders have concerns with the board.</p> <p><b>Implications:</b> LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.</p>

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<b>LGIM Japan Equity Index</b>		6518 resolutions eligible for (100% cast)	13.92% of votes cast	0.00% of votes cast	Same as above	<p><b>Olympus Corporation</b> – a vote ‘against’ the election of a director</p> <p><b>Rationale:</b> Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM have for many years promoted and supported an increase of women on boards, at the executive level and below. They have voted against the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.</p> <p><b>Outcome of vote:</b> 94.90% of shareholders supported the election of the director</p> <p><b>Implications:</b> LGIM will continue to engage with and require increased diversity on all Japanese company boards.</p>
<b>LGIM Asia Pacific ex Japan Developed Equity Index</b>		3774 resolutions eligible for (100% cast)	25.76% of votes cast	0.03% of votes cast	Same as above	<p><b>Qantas Airways Limited</b> – a vote ‘for’ on the approval of a remuneration report but ‘against’ the participation of the CEO in the LTIP.</p> <p><b>Rationale:</b> The COVID crisis has had an impact on the Australian airline company’s financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as they wanted to ensure the impact of the COVID crisis on the company’s stakeholders was appropriately reflected in the executive pay package. They supported the remuneration report given the executive salary cuts, short-term incentive cancellations and the CEO’s voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, LGIM were concerned as to the quantum of the 2021 LTIP grant, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against the resolution to signal our concerns.</p>

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						<p><b>Outcome of vote:</b> About 90-91% of shareholders supported both resolutions.</p> <p><b>Implications:</b> LGIM will continue to engage with the company and LGIM's voting highlights their stronger stance on the topic of executive remuneration.</p>
<b>LGIM World Emerging Markets Equity Index</b>		36036 resolutions eligible for (99.9% votes cast)	13.40% of votes cast	1.38% of votes cast	Same as above	No significant votes.
<b>Pictet Dynamic Asset Allocation Fund</b>	<p>ISS provide research and facilitate the execution of voting decisions at all relevant company meetings worldwide.</p> <p>ISS recommendations are communicated to relevant Investment teams and Pictet's in-house ESG team.</p> <p>ISS recommendations inform voting decisions but Pictet may deviate from third party voting recommendations on a case by case basis. Such divergences may be initiated by Investment teams or by the ESG team and will be supported by detailed written rationale.</p>	263 votes (100% of those eligible for)	25 votes	0 votes	Pictet consider a vote to be significant due to the subject matter of the vote, for example a vote against management, if the company is one of the largest holdings in the portfolio, and/or they hold an important stake in the company.	<p><b>LVMH</b> – a vote 'against' on the approval of the Compensation of the Chairman and CEO</p> <p><b>Rationale:</b> Pictet voted against due to the lack of disclosure on the level of achievement of the performance conditions of the annual variable remuneration and the long-term incentive vested this year. Furthermore, the performance criteria of the long-term incentive granted do not seem particularly challenging.</p> <p><b>Outcome of vote:</b> The resolution was approved.</p> <p><b>Implications:</b> Where they believe the subject of the vote could present a material concern from an ESG perspective, they will continue to monitor and engage with the company. If warranted, they will consider actions as part of their escalation strategy, including future voting decisions.</p> <p><b>Significance:</b> This resolution is significant because they voted against management.</p>
<b>Newton Real</b>	Newton utilise ISS for the purpose of administering proxy voting (notification	1307 resolutions eligible for	14.60% of votes cast	0.00% of votes cast	Newton regard as material issues all votes against management, including where they support shareholder resolutions that the	<b>LEG Immobilien AG</b> – a vote 'against' approving remuneration policy.

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<b>Return Fund</b>	<p>and lodgement of votes), as well as its research reports on individual company meetings.</p> <p>All voting decisions are made by Newton and only in the event where there is a potential material conflict of interest is the voting recommendation of ISS followed.</p> <p>Newton do not maintain a rigid voting policy and their RI team takes into account the specific circumstances relating to each case.</p>	(99.2% votes cast)			<p>company's management are recommending voting against. As an active manager, they invest in companies they believe will support the long term performance objectives of clients. By doing so, they are making a positive statement about the business, the management of risks and the quality of management. Voting against management, therefore, is a strong statement that they think there are areas for improvement. As such, by not supporting management, they think that this is material, which is different to a passive investor where there is no automatic assumption of a positive intent in ownership. As such, they report publicly the rationale for each instance they have voted against the recommendation of the underlying company's management.</p>	<p><b>Rationale:</b> Newton voted against the proposed pay arrangements on account of their lack of alignment with performance. The executive long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, they were concerned that long-term awards could vest for below-median poor performance. Furthermore, the introduction of special remuneration awards through transaction-based bonuses were not considered to be ideal for promoting talent retention, due to these generally being one-off in nature</p> <p><b>Outcome of vote:</b> 22.2% against the approval of the Remuneration Policy</p> <p><b>Implications:</b> The vote outcome is considered significant owing to more than 20% of votes being instructed against its approval. It is likely that the company will seek to address concerns in an effort to avoid similar or higher future dissent.</p> <p><b>Significance:</b> Newton believes investor scrutiny of pay arrangements is increasing. The significance of the high vote against is important to note given that a majority of pay proposals from companies rarely see such high levels of dissent.</p>

Source: Based on information from the Investment Managers