Liberty Retail Pension Scheme
Engagement Policy Implementation Statement

Introduction

This statement sets out the actions undertaken by the Trustees, their service providers and investment managers, to implement the stewardship policy as set out in the SIP and includes voting and engagement information that has been gathered from the investment managers.

The report covers activities over the period 1 July 2019 to 30 June 2020.

The SIP relating to the financial year ended 30 June 2020 was signed in June 2019. The SIP relating to the financial year ending 30 June 2021 was signed in September 2020 and further updated in November 2020.

Stewardship Policy

The Trustees updated their Stewardship policy for the period 1 July 2019 to 30 June 2020. This read:

"The Trustees recognise the importance of their role as a steward of capital, promoting corporate responsibility and ensuring the highest standards of governance, as good stewardship can enhance shareholder value over the long term. The Trustees recognise that ultimately this will help to protect the financial interests of the beneficiaries of the Scheme.

The Trustees expect the investment managers to use their influence as institutional investors to carry out the Trustees' rights and duties as a shareholder including voting and engaging when appropriate with underlying companies to promote good corporate governance, accountability and positive change.

The Trustees expect the investment managers will provide details of their stewardship policy and activities on an annual basis. The Trustees will engage with the investment managers where necessary for more information."

Through this report, the Trustees review how the actions of their investment managers have aligned with the expectations and principles set out in the SIP. The Trustees will also set out where they expect more information or engagement to be undertaken by their managers.

Scheme activity over the year

To benefit from increased diversification, the Trustees invest in funds that are managed by Aon Investments Limited ("AIL"). AIL's funds use underlying managers to gain exposure to asset classes and companies' stocks and bonds. Given this arrangement, the Trustees focus on monitoring the stewardship carried out between AIL and the underlying investment managers.

Aon has a responsible investment framework in place to ensure that underlying managers are incorporating Environmental, Social and

Governance ("ESG") factors into their investment processes, and in turn ensures robust integration of ESG factors into the Scheme's portfolio.

The Trustees review the ESG practices on an annual basis and take advice from their investment adviser with regards to any significant concerns. The Trustees require the investment managers through adherence to the Scheme's SIP to exercise their voting rights wherever possible and to promote positive change in the funds and companies in which they invest on the Scheme's behalf.

The Trustees keep up-to-date on developments in Responsible Investment through regular contact with AIL. The Trustees also received a presentation from AIL at a meeting in December 2019, which included training on climate change, ESG regulations and the ESG ratings process carried out by AIL.

The Trustees have informed AIL of the importance of appropriately considering ESG factors with regards to the underlying funds and companies in which they invest.

Similarly, the Trustees have made explicit their expectation that AIL should use its influence to encourage the underlying funds to invest to generate better long-term financial outcomes for the Scheme's beneficiaries.

The Trustees receive an annual investment report prepared by the investment adviser. Amongst other analysis, the report includes ESG ratings on certain investment managers. These ESG ratings reflect analysis carried out by the investment adviser assessing the investment managers on the extent of ESG integration and Stewardship programs.

The Trustees review fund factsheets on the Scheme's investment managers produced quarterly by AIL taking advice where appropriate from their investment adviser. Amongst other analysis, presentations provided by AIL include ESG ratings on the underlying investment managers.

In December 2019, the Trustees put in place an updated set of objectives for their investment adviser for the 2020 calendar year covering the delivery of strategic investment advice, compliance, monitoring and service standards. The Trustees require their investment adviser to keep the Trustees informed on the performance of the investment managers including the reporting of engagement and stewardship activity.

Statement of Investment Principles

The latest version of the SIP was agreed by the Trustees on 24 September 2020 and has been published on the website of Liberty Retail Limited. The SIP has been updated to include information on arrangements with investment managers, transparency of managers' costs and stewardship.

The Trustees have worked with, and considered advice provided by, their investment adviser, Aon, when preparing the SIP.

Overview & Investment strategy

The Scheme invests in a wide range of investments. The Trustees' primary concern when setting the investment strategy is to act in the best interests of the beneficiaries, ensuring that the Scheme receives as good a return as is reasonably possible, commensurate with acceptable levels of financial risk, while taking into account the present and future liabilities of the Scheme. The Trustees believe that promoting corporate responsibility and ensuring the highest standards of governance is an important element of this objective.

Voting & Engagement – Alternative assets

Over the year, the Scheme was invested in the following alternative strategies:

Investment Manager	Fund name
AIL	Diversified Absolute Return Strategy
JP Morgan	Multi-Strategy Fund II[1]

[1]Certain hedge fund strategies in this fund invest in equity markets

The Trustees recognise that the respective investment processes and often illiquid nature of alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustees still expect that all their investment managers should maintain an open dialogue to engage with issuers and companies that they invest in, and that they should identify concerns that may be financially material.

AIL Diversified Absolute Return Strategy

AIL and the underlying investment managers are signatories to the Principles for Responsible Investment ("PRI")[1] - the leading proponent of responsible investment. The Trustees expect that this partnership will encourage increased activity, focus and collaboration on improving standards in ESG integration and stewardship on the Scheme's behalf.

Under the Trustees' fiduciary mandate managed by AIL, AIL appoint underlying asset managers to achieve an overall target return. The Trustees delegate the monitoring of ESG integration and stewardship quality to AIL. AIL have confirmed that all equity and fixed income managers used within the strategy have been rated 2 or above on AIL's four-tier ESG ratings system[2] . This means that all the appointed asset managers are aware of potential ESG risks in the investment strategy and have taken steps to identify, evaluate and potentially mitigate these risks.

The Trustees have reviewed the AIL Annual Stewardship Report and are satisfied that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL have undertaken a considerable amount of engagement activity during the first half of 2020. AIL held 22 ESG specific "deep-dive" meetings covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest.

[1] The UN Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice

[2] More information on the Aon ESG Ratings process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx

At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting areas of improvement and discussing manager strategy in responsible investment moving forward. Over the course of the engagements, AIL formulated four key development themes that managers were challenged to improve on. These include climate reporting and scenario analysis, stronger engagement on environmental and social issues, formalisation of ESG integration processes, and reporting on voting activities and being able to justify voting actions.

JP Morgan Multi-Strategy Fund II

Voting Policy Summary

JP Morgan use services of an independent proxy voting service Institutional Shareholder Service ("ISS") which is periodically viewed by their established Proxy Committee. ISS is assigned responsibility for various functions, governed by the Proxy Voting Guidelines, which may include one or more of the following: co-ordinating with client custodians to ensure that all proxy materials are processed in a timely fashion; providing JP Morgan with a comprehensive analysis of each proxy proposal; and the provision of recommendations on how to vote on each proxy proposal based on the JP Morgan guidelines or (where no guidelines exist or where the guidelines require a case by case analysis) on the analysis completed by ISS.

Summary Voting Statistics

JP Morgan was unable to provide voting information at a fund level, and therefore the voting details below are at a manager level.

	Q1 2020	Q4 2019	Q3 2019	Q2 2019
% resolutions voted (UK)	96.6%	97.3%	97.3%	97.4%
% resolutions voted (Europe)	91.8%	91.4%	91.4%	93.6%
% of resolutions voted against management	5.4%	4.9%	4.9%	10.5%
% resolutions abstained	0.3%	0.3%	0.2%	0.1%

JP Morgan stated that it will, so far as practicable, vote at all meetings called by companies in which they are invested. JP Morgan confirms that it votes in a "prudent and diligent manner", exclusively looking at the best way to serve the financial interest of its clients.

Example of a significant vote

In Q1 2020, JP Morgan voted against a policy put forward by the management of a company regarding a binding Remuneration Policy, along with 31.5% of shareholders. The rationale for this was that pension provisions for executives was higher than what is expected within the UK market and out of sync with the market's direction of travel and accepted best practice. The board agreed to consult with shareholders and publish an update within the next six months. JP Morgan has highlighted the company as a focus company for engagement during 2020.

Engagement

JP Morgan works closely with the underlying managers that consistently engage with underlying companies. An example was provided by JP Morgan of an engagement activity starting in January 2019 of an underlying manager to improve the governance structure of a company it was invested in. In June 2019, the company moved to a committee structure as part of its transformation plan, which included knowledge exchange with outside directors, including a representative from the underlying manager. The Trustees have and continues to encourage JP Morgan to take a pro-active position, taking advantage of its market size and reputation, to drive positive change in engagement by the underlying hedge funds.

Engagement – Fixed income

The Trustees invest in two fixed income strategies. Both strategies are managed by AIL who invest in underlying funds. All the underlying investment managers have shared information with AIL on their engagement policies, and work done to generate improved long-term outcomes in the companies in which they invest.

The Trustees welcome that investment managers are both actively involved in ongoing industry initiatives and are signatories to the UK Stewardship Code[3] and the PRI, the leading proponent of responsible investment. The Trustees expect that this partnership will encourage further beneficial activity, focus and collaboration on improving standards in ESG integration and stewardship on the Scheme's behalf.

The Trustees believe that climate change will materially impact returns over the long-term and thus welcome various innovations and progress, improved reporting and increased focus by AIL and the underlying investment managers in discussing these topics with the underlying companies.

The Trustees acknowledge that the ability of fixed income and alternative asset class investment managers to engage and influence companies and issuers may be less direct or even limited in comparison to equity holdings. The Trustees believe that all managers should be aware of their responsibility as stewards of capital and should implement stewardship activity within the constraints of their investment process. The Trustees, with the support of their investment adviser, will continue monitoring and engaging on an ongoing basis with all managers on how they implement such activity on behalf of the Scheme.

Examples of engagement

Case study 1

While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in

[3] The UK Stewardship Code sets out high stewardship standards for asset owners and asset managers and for service providers that support them

their ability to encourage positive change. A high-profile example of this is from Robeco Asset Management ("Robeco") who have had ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Whilst the manager was supportive of this step, they were not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a 2-year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.

<u>Case study 2</u>

An example of an engagement carried out during the reporting year ended 30 June 2020 by Aon was with a US based fixed income manager that lacked a responsible investment policy, a metric for scoring securities on ESG criteria, nor public commitments to invest responsibly. Following Aon engagement with the manager on these issues, they acted by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities. Tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to responsible investment by becoming a signatory to the Principles for Responsible Investment.

The Trustees believe that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

Summary

The Trustees are comfortable that the investment managers are exercising their respective voting and engagement duties, where applicable, to a satisfactory level, and that the Trustees' stewardship policy is being appropriately implemented on their behalf.

The Trustees recognise that they have a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets in which the Scheme invests.

The Trustees will continue to use their influence to drive positive behaviour and change among the managers that they have employed to invest the assets of the Scheme, and with other third parties that the Trustees rely on such as their investment advisor. The Trustees will set increasingly higher standards for these parties each year, and will monitor, assess and ultimately hold them to account to ensure that the assets of the Scheme are appropriately invested.