Liberty Retail Pension Scheme Engagement Policy Implementation Statement ("EPIS")

Introduction

On 6 June 2019, the Government published the Occupational Pension Funds (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustees produce an annual implementation statement which outlines the following:

Explain how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles ("SIP").

Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their behalf) during the fund year and state any use of the services of a proxy voter during that year.

This is the second EPIS that the Trustees have prepared for the Liberty Retail Pension Scheme ("the Scheme") and covers the Scheme year 1 July 2020 to 30 June 2021.

Fund Stewardship Policy Summary

The following points summarise the Trustees' Stewardship Policy in force over the majority of the reporting year to 30 June 2021. The full SIP can be found here:

https://liberty.a.bigcontent.io/v1/static/Liberty%20SIP%20-%2012%20November%202020%20-%20Website%20Version

The Trustees recognise the importance of their role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests.

The Trustees regularly review the suitability of the Scheme's appointed investment managers and take advice from their investment consultant regarding any changes. If an incumbent investment manager is found to be falling short of the standards the Trustees expect, the Trustees undertake to engage with the manager and seek a more sustainable position and may look to replace the investment manager.

The Trustees look for the investment managers, or other authorised third parties, to use their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible shareholder and asset owner.

The Trustees engage with the investment managers, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustees may engage on matters concerning an issuer of debt or equity, including its performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest.

The Trustees will also set out where they expect more information or engagement to be undertaken by their managers

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.

Fund stewardship activity over the year

The Trustees met with their Investment Managers: Aon Investments Limited in fixed income and equity-type investments and M&G Investment Management in fixed income-type investments during the year. At these meetings, they received updates on how the managers incorporate ESG decision making into their investment process and/or into the selection of underlying managers.

In line with regulatory requirements, in September 2020 the Trustees expanded the SIP to include policies on costs transparency and incentivising managers; the Trustees also reviewed and expanded the Stewardship policy. The updated wording in the SIP expands on how the Trustees recognise the importance of their role as a steward of capital, as well as indicating how the Trustees would review the suitability of the investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustees by Aon in their role as Investment Consultant. Their annual report includes ESG ratings and highlights any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy, active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversations with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings are reviewed and where necessary updated during each year to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

The Trustees invest in three funds that are managed by Aon Investments Limited ("AIL"). Whilst these funds are not rated by Aon, all of the underlying funds have a Buy rating and a component rating for ESG.

The Scheme also holds units in the JP Morgan Multi Strategy Fund II which invests in hedge funds. However, this fund is in liquidation and the Scheme has received redemption payments representing approximately 98% of the valuation of the holding as at the liquidation date. Consequently, stewardship information has not been disclosed on grounds of immateriality.

Voting and Engagement activity - Equity and multi asset

Over the year, the Scheme was invested in the AIL Managed Growth Strategy with the main equity investments held being:

- BlackRock Emerging Markets Equity Fund
- Legal and General Investment Management Limited ("LGIM") Multi Factor Equity Fund

BlackRock Emerging Markets Equity Fund

Voting policy summary

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team ("BIS"), which consists of three regional teams – Americas; Asia-Pacific; and Europe, Middle East and Africa. The analysts in each team determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BIS team with input from investment colleagues as required, in accordance with BlackRock's global principles and custom market-specific voting guidelines.

BlackRock subscribes to research from the proxy advisory firms ISS and Glass Lewis. These are one of many inputs into its voting analysis process, though BlackRock does not routinely follow their recommendations on how to vote. BlackRock primarily uses proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can identify companies where additional research and engagement would be beneficial. Other sources of information BlackRock use include the invested company's own reporting (such as their proxy statement and website), BlackRock's engagement and voting history with the company, and the views of its active investors, public information and ESG research.

Significant voting example - Yanzhou Coal Mining Company Limited

In December 2020, BlackRock voted against the management proposal to approve an equity transfer agreement between Yankuang Group Company Limited ("Yankuang Group") and Yanzhou Coal Mining Company Limited ("Yanzhou Coal"). In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group. The key assets to be acquired included a coal liquefaction project, a supporting coal mine and a coal-fired power plant.

BlackRock noted Yanzhou Coal's rationale for making the acquisition, that is to expand its coal chemical business. BlackRock believed it was in their clients' long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of the increasing uncertainty of the role of coal in the future.

On the latter, BlackRock is cautious about the potential stranded asset risks at Yanzhou Coal. The coal-fired power sector in China is facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilisation hours. Therefore, such an acquisition could exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

BlackRock communicated the above concerns to management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures ("TCFD"). BlackRock continues to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation. The Trustees and their advisers will follow up with BlackRock on further developments at the company in relation to the manager's outstanding concerns and topics of engagement.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf

Engagement

BIS' stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

During the year ended 31 December 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the BlackRock Investment Stewardship Annual Report 2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

LGIM Multi Factor Equity Fund

Voting

LGIM makes use of third party provider Institutional Shareholder Services ("ISS")'s proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but they do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what they consider to be the minimum best practice standards all companies in which they invest should observe. LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Significant voting example – Pearson

At an extraordinary general meeting of publishing company Pearson ("EGM") on 18 September 2020, LGIM voted against a resolution to amend the directors' remuneration policy proposed by the company management. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company. If this resolution was not passed the proposed new CEO would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board in 2020 on the board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be revisited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrated the scale of investor concern with the company's approach.

Given the unusual approach taken by the company and LGIM's outstanding concerns, this vote was deemed to be significant. The Trustees and their advisers will follow up with LGIM on further developments at the company in relation to the manager's outstanding concerns and topics of engagement.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities. Broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhance the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here.

Engagement example – Proctor and Gamble ("P&G")

An example of LGIM's engagement was with P&G. P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their suppliers of palm oil were linked to illegal deforestation.

A resolution was proposed by another stakeholder in P&G, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain. LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution by Green Century as, although P&G introduced several measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continues to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council-certified sources. The Trustees and their advisers will follow up with LGIM on further developments at the company in relation to the manager's outstanding concerns and topics of engagement.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity - Fixed Income

While equity managers may have more direct influence on the companies they invest in, fixed income managers are increasingly influential in encouraging positive change through engagement with investee companies. 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.

Over the year ended 30 June 2021, the Scheme had invested in several fixed income funds. The below practices and case studies demonstrate the types of engagement activity being carried out on the Scheme's behalf.

Aegon Asset Management ("Aegon") European ABS Fund

Aegon's engagement efforts can be categorised according to three areas of activity; policy-based, thematic and product support. The reasons that Aegon starts these engagements include seeking to:

- Improve performance and promote companies' long-term financial performance;
- Monitor, manage and mitigate investment risk;
- Better understand companies and set expectations on company management;
- Set goals and timeframes for these to be met, in order to reach compliance with its policies;
- Improve ESG disclosure;
- Maximise positive sustainability outcomes, including those related to the Sustainable Development Goals;
- Encourage the issuance of green, social and sustainable bonds for investment participation and growing sustainable business practices.

Engagement Example – Collateralized Loan Obligations (CLO)

At a fund level, Aegon has been engaging with managers issuing CLOs to make sure they improve the quality of CLO collateral pools by excluding loans with high ESG risk. Aegon sent the CLO managers an ESG questionnaire, specific for CLOs, and had several meetings with C-suite executives to discuss the answers to the questionnaire, their ESG goals and areas in which Aegon would like to see improvement/development or more ESG awareness. After this there will be several follow up meetings dependent on the specific engagement. Aegon engagements aim to encourage the trend of increasing ESG scrutiny of CLO collateral by CLO managers and increasing explicit exclusion language in CLO documentation, which fosters ESG improvements in the companies behind the collateral pool.

M&G Investments (“M&G”) Alpha Opportunities Fund

Stewardship activities such as monitoring and engaging with investee companies, as well as reporting to clients, are undertaken by the investment teams, research analysts, and members of M&G’s Corporate Finance & Stewardship team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies) with representation from each team.

Engagement Example – UK energy company BP Plc

From April 2020, M&G began engaging with BP Plc to seek enhanced carbon data and emissions disclosure from BP.

M&G met with the company’s investor relations manager to outline its position which is, M&G, as an investor, has committed to Net Zero by 2050 across its investment portfolios. M&G monitor and track the collective climate performance of its investments with assistance from the CDP (Carbon Disclosure Project) portal, which it views as a leading tool for climate data management. CDP disclosure is an important aspect of managing the carbon exposure in its portfolio companies. As such, M&G would welcome and encourage the inclusion of BP into the CDP carbon database.

As a result of the engagement, BP said that it aimed to be recognised as an industry leader in the transparency of its reporting. It believed it had made good progress in that space, and was listening to M&G’s feedback and that of other investors, on the CDP platform. Subsequent to the meeting, BP contacted M&G to say it had informed CDP that it plans to respond to the 2021 climate change questionnaire.

Schroders plc (“Schroders”) ISF Securitised Credit

At a firm level, Schroders is currently engaging with banks on their fossil fuel financing. Schroder’s credit team, along with a number on equity teams, selected around 50 banks in Europe, North America and Asia for deeper analysis and engagement. Following each engagement, Schroders highlighted three to four objectives they would like the bank to work on over 12 months from Q1 2021. Examples included:

- Development of a commitment to align the bank’s financing activities with the goals of the Paris agreement, plus related milestones and targets.
- Reviewing and strengthening the bank’s fossil fuel policies in line with the latest science and/or good practice
- Development of the TCFD / climate risk reporting, including disclosure of additional climate metrics.

For banks that have already made progress in these areas, their discussions have focused on the robustness and evolution of their measurement and target-setting methodologies, in relation to the bank’s commitment to align its financing activities with the Paris Agreement. Schroders have said it is still too early to assess the impact of their discussions, however they have had good response from banks so far.

Liquid Alternatives – Insurance Linked Securities

Leadenhall Insurance Linked Securities

Over the year ended 30 June 2021, the Scheme invested in alternatives such as insurance linked securities and gold. This section details examples of policies and practices at Leadenhall Capital Partners, the appointed underlying insurance linked securities manager.

Leadenhall assesses adherence to ESG principles by considering specific factors, including:

- Environmental impact including pollution prevention and remediation, reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards.
- Social impact including human rights, welfare and community impact issues.
- Governance issues including board structure, remuneration, accounting quality and corporate culture.

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group (MS&AD) and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. They are a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall perform a detailed review of their investment counterparties' policies and controls including those concerning their explicit ESG and CSR frameworks. Where appropriate they will make recommendations to avoid investment counterparties who are not aligned with their ESG policies.

In summary

Based on the activity over the year ended 30 June 2021 by the Trustees and their service providers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustees note that most of their applicable asset managers were able to disclose strong evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Voting Statistics

	% resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
LGIM Multi Factor Equity Fund	100.0%	18.3%	0.1%
BlackRock Emerging Markets Equity Fund	100.0%	9.0%	4.0%