Johnson Group Defined Benefit 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 30 September 2022. 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 2018 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 they have set. The objectives of the Scheme included in the SIP are to invest the Scheme’s assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

The Trustee and Committee have agreed that the long-term funding and investment objective for the Scheme was to target becoming fully funded on a gilts + 0.5% p.a. basis by 31 December 2028 and to reduce the 1 year Value at Risk (VaR) measure to below £15m if possible.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustee’s policy on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. Whilst this statement relates to the SIP that was in force over the 12 month period to 30 September 2022, the SIP was updated post year end in March 2023 following a change in investment strategy. There were no changes to the ESG, stewardship and climate change policy in the updated SIP.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. The Trustee keeps policies under regular review with the SIP subject to review at least triennially.

The following work was undertaken during the year relating to the Trustee’s policy on ESG factors, stewardship and climate change, and sets out how the Trustee’s engagement and voting policies were followed and implemented during the year.

Engagement

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustee with ESG ratings for the strategies in which the Scheme invests.

The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. All but one of the Scheme's managers confirmed that they are signatories of the current UK Stewardship Code. The exception was Oaktree Capital Management who have reported that they apply their own business principles and philosophy within their investment strategy globally, which is disclosed on the Oaktree website and maintained within Oaktree's internal policies and procedures. They commented that they do not disagree with the aims of the UK Stewardship Code and Oaktree continually monitors voluntary codes and standards published in different jurisdictions in order to determine whether they will enhance internal standards and benefit Oaktree's clients.

The investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific ESG) from the investment consultant. All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustee continues to monitor. When investing with a new manager, the Trustee considers the ESG rating of the manager. The investment performance report includes how each investment manager is delivering against their specific mandates.

The Scheme's investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). The Scheme's managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate or not their support for the resolution to the company's management[1].

<u>M&G Investments</u>

M&G's real estate fund owns buildings rather than investments with companies. However they do engage with the occupiers in buildings on ESG issues, as landlord rather than investor.

M&G Real Estate's Responsible Property Investment strategy puts areas of environmental excellence; health, wellbeing & occupier experience and contributing to communities & society at its core. M&G are currently aligning the Fund to the strategy in the following ways:

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[1] Data has been provided by investment managers and has not been independently reviewed by the Trustee.

- Aiming to improve the Fund’s GRESB score (global ESG benchmark for real assets) year on year,
- Ensuring compliance with ESG regulations, and
- Working towards net zero carbon by 2050.

M&G have implemented minimum requirements on ESG which form part of the checklist when acquiring any real estate assets. This is subject to scrutiny during the pre-acquisition due diligence process. As a standard part of this process, M&G commission building survey reports and environmental risk assessments.

As part of M&G Real Estate’s commitment to achieve net zero carbon emissions by 2050, they continue to work on identifying carbon reduction pathways with third party specialists and are in the process of appointing a preferred supplier for climate change related physical risk modelling. M&G are also actively engaging with occupiers regarding their environmental programmes and initiatives, and endeavour to support them in meeting their net zero carbon targets. Due to the FRI (Full Repairing and Insuring) lease structures, the Fund has zero directly controllable operational carbon emissions (only Level 3), with tenants responsible for sourcing energy. M&Gs strategy will therefore be focused around working with tenants to help them achieve efficiency improvements and switch to low carbon energy sources.

<u>LGIM</u>

The Scheme fully disinvested its holding in the LGIM Diversified Fund over the year to 30 September 2022. We have included here for completeness as the Fund was held in the Scheme year.

LGIM’s direct engagement with companies is a way they seek to identify ESG risks and opportunities. On-going dialogue with companies is a fundamental aspect of LGIM’s responsible investment commitment. LGIM aims to raise the performance of the whole market through their ESG capability and engagement of companies globally.

They tackle difficult and inter-connected ESG issues that materially impact the value of their clients’ assets. Regular monitoring of companies assists them in identifying change. In the case of unsuccessful engagements the team will assess where problems arose and what new approach can be employed. As a large and long-term investor, they can maintain the pressure on companies over many years, and they apply a multi-layered escalation strategy. Progress on engagement activity is peer reviewed at weekly team meetings and monthly individual meetings with the Director of Corporate Governance. The regular review process ensures engagement is progressing as expected or requires escalation. The voting process they have established works alongside this engagement process, as voting action is taken where engagement does not produce satisfactory results, and the results are publicly disclosed.

Key votes undertaken over the year – 1 October 2021 – 30 September 2022	
Diversified Fund Over the 12 months to 30 September 2022, LGIM voted on almost all 99,646 resolutions put forward at 9,804 meetings. LGIM voted against management for c. 22% of the total resolutions.	**Company:** *Rio Tinto Plc* **Resolutions proposed:** *Approve Climate Action Plan* **LGIM vote:** *Voted against the resolution.* **Background:** *LGIM recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while LGIM acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, LGIM remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.* **Further comment from LGIM:** "*LGIM will continue to engage with companies and publicly advocate our position on this issue and monitor company and market level progress."*

Insight

Insight has provided the following engagement examples:

1. Severn Trent – Insight have engaged with Severn Trent throughout 2022 to further understand their water plans and if they were environmentally sustainable. Insight met with the treasurer of Severn Trent in 2022 to discuss the work they are currently doing in relation to this. Severn Trent had announced 'Get River Positive' over the year committing to protect and enhance the health of rivers in the region. These commitments are:

   - Ensure storm overflows and sewage treatment works do not harm rivers.
   - Create more opportunities for everyone to enjoy the region's rivers.
   - Support others to improve and care for rivers.
   - Enhance rivers and create new habitats so wildlife can thrive.
   - Be open and transparent about performance and plans.

   Insight were satisfied with the company's actions over the year but will continue to monitor and engage wherever needed.

2. Anheuser-Busch InBev ("ABIBB") – Insight actively engaged with ABIBB over the year as they believed there were improvements needed to the company's ESG footprint. They discussed a range of ESG topics including: Decent Work and Economic Growth, Climate Action and Peace, Justice and Strong Institutions. This was the second engagement between Insight and ABIBB on ESG matters. In the most recent meeting they discussed ABIBB's various key performance indicators and further expanded on discussions in relation to ESG. Insight were satisfied that ABIBB have taken everything

from the discussion on board despite it being too soon to know if any changes had been made by the company. Insight will continue to engage with them in the future to monitor progress.

Mercer

Mercer, through its global investment consulting business, has advised investors on all aspects of responsible investment (RI) since 2004, and were awarded Investment Consultant of the year at the 2021 Sustainable Investment Awards. This experience informs the approach taken by Mercer Alternatives (MA) team members, who are supported by members of the global RI team. Mercer articulates its approach in its global investments beliefs. These beliefs support Mercer's commitment to the Principles for Responsible Investment (PRI) and recognise the international and regional guidance on stewardship.

Mercer's investing in a Time of Climate Change report, and The Sequel, the Paris Agreement on Climate Change and the drivers underpinning the Sustainable Development Goals are examples of other frameworks that inform their RI views. Mercer believes a sustainable investment approach is more likely to create and preserve long–term investment capital and more specifically that:

1. ESG factors can have a material impact on long–term risk and return outcomes, and these should be integrated into the investment process.
2. Taking a broader and longer term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. Climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
4. Stewardship (or active ownership) helps the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets. Consequently, MA believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of clients.

Voting Activity

The Trustee has delegated their voting rights to the investment managers. Investment managers are asked to provide voting summary reporting on a regular basis.

When the investment managers present to the Trustee at Trustee meetings, the Trustee asks the investment managers to highlight key voting activity and the impact on the portfolio. The Trustee does not use the direct services of a proxy voter.

Voting activity was most relevant to the Scheme's Diversified Growth Fund holding with LGIM and we include further details below although the Scheme has fully divested from this fund as at 30 September 2022.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure LGIM's proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. Their voting policies are reviewed annually and take into account feedback from clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continue to develop their voting and engagement policies and define strategic priorities in the years ahead. They also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.