

## Highlands and Islands Enterprise Superannuation Scheme (the 'Scheme') - Investment Accounting Disclosures

### Trustees Policies

This section sets out the policies in the Statement of Investment Principles ('SIP') in force at the Scheme year end, relating to the following:

- Financially Material considerations
- Non-Financially Material considerations
- Investment Manager Arrangements

Stewardship including the exercise of voting rights and engagement activities is set out in the 'Voting and Engagement' section.

### Financially Material considerations

*The Trustees have considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. They believe that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes that they are investing in.*

*In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. The Trustees acknowledge that they cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustees do expect their fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.*

*The Trustees accept that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustees will assess that this corresponds with their responsibilities to the beneficiaries of the Scheme with the help of their investment consultant.*

*An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustees will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standards.*

*The Trustees will monitor financially material considerations through the following means:*

- *Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and their investments;*
- *Use ESG ratings information provided by their investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and*
- *Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via their investment consultant.*

*If the Trustees determine that financially material considerations have not been factored into the investment managers' process, they will take this into account on whether to select or retain an investment.*

## Non-Financially Material considerations

*The Trustees have not considered non-financially material matters in the selection, retention and realisation of investments.*

## Investment Manager Arrangements

### ***Incentives to align investment managers' investment strategies and decisions with the Trustees' policies***

*The Scheme invests in pooled funds and so the Trustees acknowledge the funds' investment strategies and decisions cannot be tailored to the Trustees' policies. However, the Trustees set their investment strategy and then select managers that best suits their strategy taking into account the fees being charged, which acts as the fund manager's incentive.*

*The Trustees use the fund objective/benchmark as a guide on whether their investment strategy is being followed and monitor this regularly.*

### ***Incentives for the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term***

*The Trustees select managers based on a variety of factors including investment philosophy and process, which they believe should include assessing the long term financial and non-financial performance of the underlying company that they invest in.*

*The Trustees also consider the managers' voting and ESG policies and how they engage with the company as they believe that these factors can improve the medium to long-term performance of the investee companies.*

*The Trustees will monitor the managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustees expect their managers to make every effort to engage with investee companies but acknowledge that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.*

*The Trustees acknowledge that in the short term, these policies may not improve the returns it achieves, but do expect that investing in those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme. The Trustees believe that the annual fee paid to the fund managers incentivises them to do this.*

*If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, they will use these factors in deciding whether to retain or terminate a manager.*

### ***How the method (and time horizon) of the evaluation of the fund managers' performance and the remuneration for asset management services are in line with the Trustees' policies***

*The Trustees review the performance of each fund quarterly on a net of fees basis compared to its objective.*

*The Trustees assess the performance of the funds, where possible, over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.*

*The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of their investment consultant to ensure it is in line with the Trustees' policies.*

***How the Trustees monitors portfolio turnover costs incurred by the fund managers, and how they define and monitor targeted portfolio turnover or turnover range***

*The Trustees monitor the portfolio turnover costs on an annual basis.*

*The Trustees define target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.*

*The Trustees have delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.*

***The duration of the arrangement with the fund managers***

*The Trustees plan to hold each of its investments for the long term but will keep this under review.*

*Changes in investment strategy or changes in the view of the fund managers can lead to the duration of the arrangement being shorter than expected.*

## **Voting and Engagement**

The Trustee is required to disclose the voting and engagement activity over the Scheme year. The Trustee has appointed Minerva Analytics ('Minerva') to obtain voting and investment engagement information ('VEI') on the Scheme's behalf.

This statement provides a summary of the key information and summarises Minerva's findings on behalf of the Scheme over the Scheme year.

### Voting and Engagement Policy and Funds

The Trustee policy on stewardship is as set out below in the SIP dated September 2020:

*The Trustees' policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustees' behalf, having regard to the best financial interests of the beneficiaries.*

*The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustees believe this will be beneficial to the financial interests of members over the long term. The Trustees will review the investment managers' voting policies, with the help of their investment consultant, and decide if they are appropriate.*

*The Trustees also expect the fund manager to engage with investee companies on the capital structure and management of conflicts of interest.*

*If the policies or level of engagement are not appropriate, the Trustees will engage with the investment manager, with the help of their investment consultant, to influence the investment manager's policy. If this fails, the Trustees will review the investments made with the investment manager.*

*The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments that they manage.*

The table below sets out the funds the Scheme invested in over the Scheme year and states the use of a proxy voter.

Fund / Product Manager	Investment Fund/Product	Investment Made Via	Fund / Product Type	Period Start Date	-	Period End Date	'Proxy Voter' Used?
Aviva	Lime Property Fund	Direct	DB Fund	06/04/2020	-	05/04/2021	
Baillie Gifford	Emerging Markets Leading Companies Fund	Direct	DB Fund	11/12/2020	-	05/04/2021	ISS & Glass Lewis
BlackRock	Dynamic Diversified Growth Fund	Direct	DB Fund	06/04/2020	-	27/01/2021	ISS
Dimensional	Emerging Markets Core Equity Fund	Direct	DB Fund	06/04/2020	-	14/12/2020	
LGIM	Diversified Fund	Direct	DB Fund	25/01/2021	-	05/04/2021	ISS
	LDI Funds (6 Funds)	Direct	DB Fund	01/10/2020	-	05/04/2021	
	LDI Funds (3 Funds)	Direct	DB Fund	06/04/2020	-	01/10/2021	
	LDI Funds (4 Funds)	Direct	DB Fund	06/04/2020	-	05/04/2021	
	Sterling Liquidity Fund	Direct	DB Fund	06/04/2020	-	05/04/2021	
	World Equity Index Fund (GBP Currency Hedged)	Direct	DB Fund	06/04/2020	-	05/04/2021	ISS
M&G	Alpha Opportunities Fund	Direct	DB Fund	06/04/2020	-	05/04/2021	
Oak Hill Advisors	Diversified Credit Strategies Fund	Direct	DB Fund	06/04/2020	-	05/04/2021	
Standard Life	Index Linked Bond Fund	Direct	DB Fund	06/04/2020	-	28/09/2020	
Legal & General	Annuity Product	Direct	Annuity	06/04/2020	-	05/04/2021	
Standard Life	Annuity Product	Direct	Annuity	06/04/2020	-	05/04/2021	
Confirmed by Manager		Not Yet Confirmed by Manager		*Not Applicable			

\*Indicates that the specific fund or product does not have voting information to report, and as a result there is no 'Proxy Voter' as such

ISS and Glass Lewis are proxy voting services.

## Exercise of voting rights

The voting activity was requested from all of the Scheme's managers, where appropriate. Information was obtained from BlackRock, Baillie Gifford, LGIM and M&G, but unfortunately at the time of drafting this report, no information was forthcoming from Oak Hill Advisors or Dimensional.

Minerva confirmed that Baillie Gifford's and BlackRock's voting policies and disclosures broadly comply with the ICGN Voting Guidelines Principles and good corporate governance practices. However, for both managers, there were minor areas of divergence in relation to Audit & Reporting and Remuneration due to a lack of detailed information provided by the managers on these areas. Minerva confirmed that Baillie Gifford and BlackRock followed the Trustees' voting policy.

M&G did provide information on unique voting opportunities within the Fund but as the assets are fixed interest in nature they do not come with traditional voting rights. Therefore, no assessment of good practice could be carried out.

Minerva received a response from Legal & General (for their Annuity Product), Aviva and Standard Life (for the Index Linked Bond Fund and an Annuity Product), both of these managers confirmed that there was no voting information to report.

Legal & General Investment Management ('LGIM') provided a response that there was no voting information to report for the LDI Funds or the Sterling Liquidity Fund. Information was provided for LGIM's Diversified Fund and World Equity Index Fund (GPB Currency Hedged). Minerva confirmed

that LGIM's voting policies and disclosures broadly comply with the ICGN Voting Guidelines Principles and good corporate governance practices in addition to following the Trustees' voting policy.

Legal and General requested a letter of authority to disclose VEI information for their Annuity Product. This is currently being arranged.

## Manager Voting Behaviour

The Trustees believe that responsible oversight of investee companies is a fundamental duty of good stewardship. As such, they expect the Scheme's managers to vote at the majority of investee company meetings every year, and to provide sufficient information as to allow for the independent assessment of their voting activity.

The table below sets out the voting behaviour of each manager where disclosed by the manager.

Manager	Fund	No. of Meetings Eligible for Voting	No. of Resolutions				
			Eligible for Voting	% Eligible Voted	% Voted in Favour	% of Voted Against	% Abstain
Baillie Gifford	Emerging Markets Leading Companies Fund	16	95	100%	93.6%	6.3%	0%
BlackRock	Dynamic Diversified Growth Fund	988	12,563	96.8%	93.6%	5.6%	92.3%
LGIM	Diversified Fund	11,362	115,604	99.0%	81.7%	17.7%	0.6%
	World Global Equity Index Fund (GBP Currency Hedged)	3,421	40,987	99.8%	81.4%	18.1%	0.6%
M&G	Alpha Opportunities Fund	34	52	86.3%	93.3%	6.7%	0.0%

## Significant Votes

Set out in the following table is a summary of the Scheme's manager's significant voting behaviour. Where the manager has not provided the level of data to identify the 'Significant Votes' based on the criteria explained below, Minerva has applied the definition provided by the managers themselves.

A 'Significant Vote' relates to any resolution at a company that meets one of the following criteria:

- contradicts local market best practice (e.g., the UK Corporate Governance Code in the UK)
- is one proposed by shareholders that attracts at least 20% support from investors; and
- attracts over 10% dissenting votes from shareholders.

Manager	Fund(s)	Company Name	Date of Vote	Summary of Resolution	For / Against / Abstain	Outcome of Vote	Why Significant?
Baillie Gifford	Emerging Markets Leading Companies Fund	PT Bank Raykat Indonesia	21-Jan-21	Director Related	Against	Pass	This resolution is significant because it received greater than 20% opposition.
		<b>Vote Rationale:</b> We opposed the resolution requesting approval for changes in the company's management due to a lack of disclosure.					
		Haier Smart Home	05-Mar-21	Elect Director(s)	Against	Pass	This resolution is significant because we opposed the election of a director.
		<b>Vote Rationale:</b> We opposed the election of a non-executive director because of concerns of over boarding.					
		Banco Bradesco	10-Mar-21	Shareholder Resolution - Governance	Against	Pass	We supported the re-election of an incumbent Fiscal Council member and alternate proposed by a minority preferred shareholder.
		<b>Vote Rationale:</b> We supported the re-election of an incumbent Fiscal Council member and alternate proposed by a minority preferred shareholder.					
		CEMEX, S.A.B. DE C.V.	25-Mar-21	Elect Director(s)	Against	Pass	This resolution is significant because we opposed the election of a director.
Baillie Gifford	Emerging Markets Leading Companies Fund	<b>Vote Rationale:</b> We opposed a bundled resolution to elect directors and committee members due to a lack of diversity and concerns overboard composition.					
		Ping An Insurance	25-Mar-21	Elect Director(s)	Against	Pass	This resolution is significant because we opposed the election of a director.
		<b>Vote Rationale:</b> We opposed the re-election of a non-executive director as he is a shareholder representative and sits on the Audit Committee, which should be comprised entirely of independent directors.					
		PT Bank Raykat Indonesia	25-Mar-21	Remuneration - Report	Against	Pass	This resolution is significant because we opposed remuneration.
		<b>Vote Rationale:</b> We opposed the remuneration for the board as independent directors receive incentive-based pay which we believe could compromise their objectivity.					
		Woodside Petroleum Ltd	12-Apr-20	Special Resolution to Amend the company Constitution. Ordinary Resolution on Paris Goals and Targets. Ordinary Resolution on Climate-Related Lobbying. Ordinary Resolution on Reputation Advertising Activities	BlackRock voted against all these resolutions.	The special Resolution to amend the Company constitution was Defeated. The remaining resolutions were withdrawn.	Manager identified.
		<b>Vote Rationale:</b> BlackRock is generally not supportive of constitutional amendment resolutions as the relative ease of filing risks distracting and time-consuming proposals being submitted by shareholders whose interests are not necessarily aligned with those of the broader shareholder base. We believe shareholder proposals should be a tool used after engagement has failed, which in our experience is not the case here. BlackRock believed the company is responsive to shareholder concerns regarding carbon disclosure and emissions targets draws on the fact that Woodside publicly recognizes the science of climate change, has committed to the Paris Goals, and stated its ambition of being carbon neutral by 2050.					
BlackRock	Dynamic Diversified Growth Fund	L'Air Liquide	05-May-20	Directors elections	For/Against	Passed	Manager identified.
		<b>Vote Rationale:</b> BlackRock voted against the re-election of Brian Gilvary for the company's lack of progress on climate-related reporting in alignment with the TCFD recommendations. BlackRock supported the elections of both Anette Bronder and Kim Ann Mink as they are new to the company's board.					
		Barclays Plc	07-May-20	Approve Barclays' Commitment to Tackling Climate Change & Approve ShareAction Requisitioned Resolution	For/Against	Passed/Defeated	Manager identified.
		<b>Vote Rationale</b> The company sets a clear ambition to become net-zero and align to the goals of the Paris Agreement, addressing shareholders' concerns for the time being.					
		Chevron Corp	27-May-20	Report on Climate Lobbying Aligned with Paris Agreement Goals	For	Defeated	Manager identified.
		<b>Vote Rationale</b> BlackRock voted FOR this proposal, as greater transparency into the company's approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy.					
		Facebook	27-May-20	Director election and Shareholder Proposal to Approve Recapitalization Plan for all Stock to Have One-vote per Share	Against/For	Passed/Defeated	Manager identified.
		<b>Vote Rationale</b> BlackRock voted against Mr. Andreessen as he serves on the Audit Committee and they do not consider him independent. They voted for the shareholder proposal asking for a recapitalization plan as they generally support one share one vote capital structures.					



Manager	Fund(s)	Company Name	Date of Vote	Summary of Resolution	For / Against / Abstain	Outcome of Vote	Why Significant?
BlackRock	Dynamic Diversified Growth Fund	Amazon	27-May-20	Shareholder proposals	Against	Defeated	Manager identified.
		<u>Vote Rationale</u> BlackRock determined that Amazon is actively addressing those material issues raised by the various shareholder proposals					
		Alphabet Inc	03-Jun-20	Director election/Shareholder Proposal to Approve Recapitalization Plan for all Stock to Have One-vote per Share	Against	Passed/Defeated	Manager identified.
	<u>Vote Rationale</u> BlackRock voted against Director Mather due to excessive board commitments. They voted for the shareholder proposal asking for the recapitalization plan as they generally support one share one vote capital structures.						
	Daimler AG	08-Jun-20	Discharge of the Supervisory Board, director election and amendments to the Articles of Incorporation	Against	Passed	Manager identified.	
	<u>Vote Rationale</u> BlackRock voted against some resolutions, concerns about progress on climate-related risk reporting, the external mandates held by the proposed Supervisory Board member, and the reduction in shareholder rights from the proposed article amendment.						
BlackRock	Dynamic Diversified Growth Fund	Royal Dutch Shell plc	19-May-20	Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions	Against	Defeated	Manager identification
		<u>Vote Rationale</u> BlackRock took into consideration that Shell already had some of the most ambitious climate targets in the industry on all relevant scopes (1,2,3), and that the company already makes strong TCFD disclosures. Furthermore, the shareholder resolution refers to Shell's previous climate commitments, which are now out of date and have been superseded by renewed and stronger commitments. As a result of Shell's responsiveness, BlackRock considers the request made in the resolution to have substantively been delivered.					
		Cheniere Energy Inc	14-May-20	Director elections and shareholder resolution on stranded carbon asset risks	Against	Passed/Defeated	Manager identification
		<u>Vote Rationale</u> BlackRock voted against the re-election of Directors G. Andrea Botta and Andrew Langham for insufficient progress on climate reporting, and over-boarding, respectively. They voted against the shareholder proposal as we view it as too prescriptive.					
LGIM	Diversified Fund  World Equity Index Fund (GBP Currency Hedged)	Lagardere	05-May-20	Shareholder resolutions A to P. 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 Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments).	LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G).	Even though shareholders did not give majority support to Amber's candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)	LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.
		<u>Vote Rationale</u> 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. 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. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. 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. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where we were able to speak to the proposed new SB Chair, and also Lagardere, where we spoke to the incumbent SB Chair. This allowed us to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.					
LGIM	Diversified Fund  World Equity Index Fund (GBP Currency Hedged)	Barclays	07-May-20	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.	Resolution 29 - supported by 99.9% of shareholders Resolution30 - supported by 23.9% of shareholders (source: Company website)	Since the beginning of the year there has been significant client interest in our voting intentions and engagement activities in relation to the 2020 Barclays AGM. We thank our clients for their patience and understanding while we undertook sensitive discussions and negotiations in private. We consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as our clients.
		<u>Vote Rationale</u> The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.					

Manager	Fund(s)	Company Name	Date of Vote	Summary of Resolution	For / Against / Abstain	Outcome of Vote	Why Significant?
LGIM	Diversified Fund  World Equity Index Fund (GBP Currency Hedged)	Amazon	27-May-20	Shareholder resolutions 5 to 16	Of 12 shareholder proposals, we voted to support 10. We looked into the individual merits of each individual proposal, and there are two main areas which drove our decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14).	Resolution 5 to 8, and 14 to 16 each received approx. 30% support from shareholders. Resolutions 9 and 10 received respectively 16.7 and 15.3% support. Resolution 11 received 6.1% support. Resolution 12 received 1.5 % support. Resolution 13 received 12.2% support. (Source: ISS data)	<p>The market attention was significant leading up to the AGM, with:</p> <ul style="list-style-type: none"><li>•12 shareholder proposals on the table – the largest number of any major US company this proxy season;</li><li>•Diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers;</li><li>•Substantial press coverage – with largely negative sentiment related to the company's governance profile and its initial management of COVID-19; and</li><li>•Multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled 'Workplace &amp; Investor Risks in Amazon.com, Inc.'s COVID-19 Response'</li></ul> <p>Anecdotally, the Stewardship team received more inquiries related to Amazon than any other company this season.</p>
		<p><u>Vote Rationale</u></p> <p>In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics: Governance: Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings Environment: Details about the data transparency committed to in their 'Climate Pledge' Social: Establishment of workplace culture, employee health and safety The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of \$2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear. We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.</p>					
LGIM	Diversified Fund  World Equity Index Fund (GBP Currency Hedged)	ExxonMobil	27-May-20	Resolution 1.10 - Elect Director Darren W. Woods	Against	93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. Approximately 30% of shareholders supported the proposals for independence and lobbying. (Source: ISS data)	We voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction.
<p><u>Vote Rationale:</u></p> <p>In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, we announced that we will be removing ExxonMobil from our Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, we also announced we will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, our voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.</p>							
LGIM	Diversified Fund	SIG plc.	09-Jul-20	Resolution 5: Approve one-off payment to Steve Francis proposed at the company's special shareholder meeting held on 9 July 2020.	We voted against the resolution.	The resolution passed. However, 44% of shareholders did not support it. We believe that with this level of dissent the company should not go ahead with the payment.	The vote is high-profile and controversial.
		<p><u>Vote Rationale:</u></p> <p>The company wanted to grant their interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). The CEO agreed to invest £150,000 of this payment in acquiring shares in the business, and the remaining £225,000 would be a cash payment. The additional payment was subject to successfully completing a capital-raising exercise to improve the liquidity of the business. The one-off payment was outside the scope of their remuneration policy and on top of his existing remuneration, and therefore needed shareholder support for its payment. LGIM does not generally support one-off payments. We believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility. This should negate the need for additional one-off payments. In this instance, there were other factors that were taken into consideration. The size of the additional payment was a concern because it was for work carried over a two-month period, yet was equivalent to 65% of his full-time annual salary. £225,000 was to be paid in cash at a time when the company's liquidity position was so poor that it risked breaching covenants of a revolving credit facility and therefore needed to raise additional funding through a highly dilutive share issue.</p>					

## Manager Engagement Information

The Trustees believe that an important part of responsible oversight is for the Scheme's investment managers to engage with the senior management of investee companies on any perceived risks or shortcomings – both financial and non-financial – relating to the operation of the business, with a



specific focus on ESG factors. As such, they expect the Scheme's managers to engage with investee companies where they have identified any such issues.

The table below summarises the engagement activity of the managers that provided information.

			Summary of Company Engagement Topics Covered									Outcomes		
			Corporate Governance							Sustainability				
Manager	Fund	No. Meetings	Strategy	Audit & Report.	Board	Capital	Corp. Action	Remun	Shrhdr Rights	Envir.	Social	Resolved	Open	
Aviva	Firm- level data only	772	57%								27%	16%		
Baillie Gifford	Emerging Markets Leading Companies Fund	9	11%	0%	0%	0%	0%	0%	0%	56%	22%	11%	89%	
BlackRock	Dynamic Diversified Growth Fund	938	10%	9%	22%	0%	0%	11%	0%	30%	17%			
Dimensional	Emerging Markets Core Equity Fund													
LGIM	Firm- level data only	891	41.3%								33.8%	24.7%		
M&G	Alpha Opportunities Fund	8	62.5%								12.5%	25%		
Oak Hill Advisors	Diversified Credit Strategies Fund													
		Not identified by Manager												

Ballie Gifford and M&G provided further engagement information, which is set out below.

## Ballie Gifford

Company Name	Associated ESG Pillar	Underlying Issue/Theme	Engagement Details	Outcome	Engagement Result
Public Joint Stock Company Mining and Metallurgical Company Norilsk Nickel	Environmental	Carbon Emissions	In November, Norilsk Nickel published the findings from the independent review of the factors which caused the spill in Norilsk in May. The company also recently published a revised approach to monitoring and managing its environmental footprint over the long term. We had a call with management to discuss the findings and the new long-term environmental approach which incorporates monitoring the impact of climate change on operations. We are encouraged by the disclosure and the direction of travel. We will meet the chairman in January to discuss the board's reflections and ongoing oversight of the incident, as well as the revised long-term strategy.	We plan to meet with the chairman in January to discuss the board's reflections and ongoing oversight of the incident, as well as the revised long-term strategy.	Follow up planned for 2021

## M&G

Company Name	Associated ESG Pillar	Underlying Issue/Theme	Engagement Objective	Action Taken	Engagement Result
BP	Environmental	Climate strategy	Having undertaken engagement activity with oil major BP, and following the company's net zero strategy announcement back in February, we wanted clarity that its reported ambitions to become an integrated, sustainable energy company were viable, and that its overall strategy was in line with our investment expectations.	As part of an ongoing Climate Action 100+ engagement, we and other members of the collaborative engagement group met BP's chief executive and members of his management team.	We gained further understanding on the three core elements of BP's strategic plan: the company's new strategy aimed at delivering on its net zero ambition; its clear financial framework which balances financial hurdles with its sustainability strategy; and its new investor proposition – focusing on how BP will pay distributions and deliver sustainable returns.
BAE	Social	Controversial weapons production and social other topics	To ascertain why British aerospace and defence company BAE Systems' carbon figures, from a selection of ESG data providers, appear high compared to peers. The meeting was also to discuss the company's involvement in the production of white phosphorus. As a further discussion topic, having previously engaged with BAE on its graduate and apprenticeship scheme, we understood that the company relies on these schemes to develop future talent. We wanted to ensure it was still able to offer these, given the current COVID environment.	We had an initial meeting with the chief executive and finance director to discuss the items listed above. Given restrictions on time in the initial meeting, we had a follow up call with the company's head of investor relations to answer our remaining questions.	In relation to the company's carbon emissions, they appear high compared to peers because some of the US defence numbers are included within BAE's reported figures. This is unrepresentative of the company's own carbon emissions, and it is working to remove these from its total figure.  Finally, BAE is continuing to run its graduate schemes and apprenticeships programmes, although some of these have experienced a slightly delayed start date. The company stressed the importance of these schemes and ensured us they will continue to do all they can to allow these to continue.

## Outstanding Information

This section sets out the status of outstanding information Minerva have requested.

Fund / Product Manager	Investment Fund/Product	Information Request Acknowledged	Voting Info Available?	Engagement Info Available	Info Rec'd by Minerva Deadline
Aviva	Lime Property Fund				
Baillie Gifford	Emerging Markets Leading Companies Fund				
BlackRock	Dynamic Diversified Growth Fund				
Dimensional	Emerging Markets Core Equity Fund				
LGIM	Diversified Fund				
	LDI Funds (6 Funds)				
	LDI Funds (3 Funds)				
	LDI Funds (4 Funds)				
	Sterling Liquidity Fund				
	World Equity Index Fund (GBP Currency Hedged)				
M&G	Alpha Opportunities Fund				
Oak Hill Advisors	Diversified Credit Strategies Fund				
Standard Life	Index Linked Bond Fund				
Legal & General	Annuity Product				
Standard Life	Annuity Product				

Positive Response

Partial Response

Not Provided

Not Confirmed

Nothing to Report

\*Not Applicable

\*Indicates that from previous communications the manager had provided the required voting and/or engagement – or had indicated that there was none to report

Minerva is continuing to engage with the relevant managers on the identification and provision of any missing VEI information and will provide the Scheme with an update as soon as all of the managers have formally reported back, and any information provided has then been analysed.

## Conclusion

Minerva was able to confirm that BlackRock and Baillie Gifford had followed the Trustees' voting and engagement policies.

It was determined that the Scheme's holdings in LGIM's LDI Funds and Sterling Liquidity Fund, Legal & General's Annuity Product, as well as Standard Life's Index Linked Bond Fund and Annuity Product had no voting or engagement information to report due to nature of the underlying holdings.

M&G provided both voting and engagement information. As the assets are fixed interest in nature they do not come with traditional voting rights. Minerva was able to conclude that they had followed the Trustees' engagement policy.

Oak Hill Advisors and Dimensional did not respond to Minerva's data request in time to produce the VEI report therefore, no assessment could be made on whether the managers have followed the Trustees' voting or engagement policies.

Minerva has concluded that LGIM followed the Trustees' voting policy for the Diversified Fund and World Equity Index Fund (GBP Currency Hedged), but as the manager only provided firm wide engagement activity and not fund specific data, Minerva could not determine if LGIM had followed the Trustees' engagement policy. However, LGIM did conduct 891 engagements over the Scheme year demonstrating their commitment to good stewardship on behalf of clients.

Aviva had no voting information to report and only provided firm wide engagement information to Minerva rather than fund level data therefore Minerva could not determine if Aviva followed the

Trustees' engagement policy. Despite Aviva not providing Minerva with the right information on time, the fund does engage with tenants to improve their ESG credentials e.g. new developments need an independent sustainability ratings rating of 'Very Good', which ensures the developments are more sustainable to the environment.

Minerva will seek any outstanding information and will agree a way forward on any actions identified with the Trustee once this information is available.