

## ***Implementation Statement, covering 1 April 2020 to 31 March 2021***

The Trustees of the Littlejohn Frazer Retirement Benefits Scheme (the “Scheme”) are required to produce a yearly statement to set out how, and the extent to which, the Trustees have followed the voting and engagement policies in their Statement of Investment Principles (“SIP”) during the year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

### **1. Introduction**

No changes were made to the voting and engagement policies in the SIP during the year. The last time these policies were formally reviewed was October 2019.

The Trustees have, in their opinion, followed the Scheme’s voting and engagement policies during the year, by continuing to delegate to their investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. The Trustees and their advisers took a number of steps to review the Scheme’s existing managers and funds over the period, as described in Section 2 (Voting and engagement) below.

### **2. Voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

LCP’s responsible investment (RI) manager score for Newton Investment Management is 4; and the fund score for the Newton Real Return Fund is 3. These scores cover the manager’s approach to ESG factors, voting and engagement. The manager score is based on LCP’s Responsible Investment Survey 2020, and the fund score and assessment are based on LCP’s ongoing manager research programme and it is these that directly affect LCP’s manager and fund recommendations. The highest score available is 4 and the lowest is 1.

### **3. Description of voting behaviour during the year**

All of the Trustees’ holdings in listed equities are within the Newton’s pooled fund and the Trustees have delegated to Newton the exercise of voting rights. Therefore the Trustees do not direct how votes are exercised and the Trustees themselves have not used proxy voting services over the year.

In this section we have sought to include voting data on the Newton Real Return Fund, which is the Scheme’s only fund that holds equities.

We have omitted the Scheme’s other funds (e.g. bond and index-linked gilts funds) on materiality grounds since these are not expected to hold any physical equity holdings, and any holdings with voting rights attached to them are expected to be only a small proportion of the Scheme’s total assets.

### 3.1 Description of the voting processes

Newton's head of responsible investment (RI) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. It does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company's individual circumstances, Newton's investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, Newton may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). All voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence.

It is also only in these circumstances when Newton may register an abstention given Newton's stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures Newton does not provide confusing messages to companies.

Newton employs a variety of research providers that aid it in the vote decision-making process, including proxy advisors such as ISS. Newton utilises ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

Voting decisions take into account local market best practice, rules and regulations while also supporting Newton's investment rationale.

### 3.2 Summary of voting behaviour over the year

A summary of Newton's voting behaviour over the period is provided in the table below.

	Newton Real Return Fund
No of underlying equity holdings (31 March 2021)	91
No of meetings eligible to vote	98
No of resolutions eligible to vote	1,307
% of resolutions voted	99%
% of resolutions voted with management	85%
% of resolutions voted against management	15%
% of resolutions abstained	0%
% of meetings with at least one vote against management	38%

### 3.3 Most significant votes over the year

We have included the “most significant votes” below as provided by Newton.

#### **LEG Immobilien AG, August 2020:**

Newton voted against the proposed pay arrangements on account of their lack of alignment with performance. The executive Long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, Newton were concerned that long-term awards could vest for below-median poor performance. Furthermore, the introduction of special remuneration awards through transaction-based bonuses were not considered to be ideal for promoting talent retention. due to these generally being one-off in nature.

#### **Microsoft Corporation December 2020:**

Despite improvements to executive remuneration practices over recent years, Newton remained concerned that approximately half of long-term pay awards vest irrespective of performance. Newton voted against the executive compensation arrangements and against the three members of the compensation committee.

Newton also voted against the re-appointment of the company's external auditor given that its independence was jeopardised by having served in this role for 37 consecutive years.

#### **Linde Plc, July 2020:**

Newton decided to vote against the advisory vote on executive compensation, and against the members of the remuneration committee members. A majority of long-term pay awards vest based on time served, which means executive pay is not subject to rigorous performance conditions and therefore not aligned with shareholders' interests. In addition, some of the perks to the CEO seem unnecessary and excessive, including the use of company aircraft for personal purposes, financial planning expenditures, and additional years of service credits beyond time served at the company being considered to calculate his pension benefit.

#### **Nike, Inc, September 2020:**

Newton voted against management on a number of resolutions.

Newton voted against the appointment of the external audit firm owing to it serving the company for 46 consecutive years. Newton believe this compromises independence and objectivity.

Votes were also instructed against the ratification of the executive compensation arrangements. Newton's chief concern was that fewer than 50% of long-term pay awards were subject to the achievement of performance conditions.

Finally, Newton supported a shareholder resolution requesting enhanced disclosures on political contributions. While the company's disclosures offer some insight into the contributions made and the governance framework surrounding this risk, Newton felt that the proposal would offer increased transparency of the company's relationships with trade associations and would bring its disclosures in line with better-performing peers.

#### **Meditronic plc, December 2020:**

A significant proportion of executives' long-term compensation awards vest regardless of performance. Where performance conditions determine vesting, the performance targets are not considered stretching. Additionally, Newton were also concerned with a further long-term compensation scheme as it allows awards to vest for cash rather than equity. Newton voted

against the advisory vote on executive compensation and against the re-election to the board of five members of the compensation committee.

Newton also voted against the appointment of the external auditor owing to the firm having served in this capacity for 57 consecutive years, which jeopardises the firm's ability to exercise independent judgement.

**TE Connectivity Ltd, March 2021:**

Newton voted against the executive-compensation arrangements and against the members of the compensation committee. Newton were concerned that a significant portion of long-term pay awards are not subject to performance hurdles.

**Mastercard Incorporated, June 2020:**

Votes were instructed against the executive compensation structure and the members of the compensation committee. Newton were concerned that a significant proportion of the long-term pay awards are subject only to time served and not performance.

Newton also voted against the appointment of the auditor as it had been in place for 30 years which raised concerns surrounding independence.

**The Goldman Sachs Group, April 2020:**

Newton supported two shareholder resolutions which management recommended voting against. The first resolution related to improving minority shareholder rights by allowing the right to act through written consent. This would provide an opportunity for matters to be raised and approved outside regularly held AGMs. The second resolution was a request that the board of directors conduct a review of the company's governance arrangements in the context of its support of the US Business Roundtable's 'Statement on the Purpose of a Corporation'. While Newton accept that the company has responded in part to these commitments, it does not have governance documents that detail how trade-offs and prioritisation between different stakeholders are managed, which is a key component of a multi-stakeholder management approach. Newton also voted against the appointment of the auditor owing to long tenure. The firm had been in place since 1922, which brings into question its independence.

**Zurich Insurance Group, April 2020:**

Newton voted against a resolution requesting shareholder approval for "other business" to be transacted at the AGM. No information or comfort was provided ahead of the meeting.

**Alibaba Group Holdings Limited:**

Newton voted against the two members of the governance committee who were seeking re-election given our concern surrounding the low level of independence on the board.