

# Annual Implementation Statement

## Basell Polyolefins UK Pension Scheme – DB Section

### **Introduction:**

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 March 2021. 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. The table later in the document sets out how, and the extent to which, the policies in the DB Section of the SIP have been followed.

### **Investment Objectives of the Scheme:**

The Trustees believe 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 as follows:

- To make sure that the Trustees can meet their obligations to the beneficiaries of the Scheme.
- To pay due regard to the Company's requirements with regards to the size and incidence of contribution payments.

The Trustees' long-term objective is to reach 105% funded on a self-sufficiency basis (defined as "gilts+0.5% p.a.") by 31 December 2025. This includes a buffer to allow for the potential impact of longevity risk.

### **Review of the SIP:**

During the year, the Trustees reviewed the Scheme's SIP. A revised SIP was agreed at the Trustees meeting on 14 September 2020 in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies in the SIP.
- How that arrangement incentivises the asset manager to make decisions based on assessments about the 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.
- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.

- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset manager.

**Assessment of how the policies in the SIP have been followed for the year to 31 March 2021**

The information provided in the table below highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the DB Section of the Scheme. In the opinion of the Trustees, the SIP has been followed during the year. The SIP is attached as an Appendix and sets out the policies referenced below.



## Strategic Asset Allocation

Requirement	Policy	In the year to 31 March 2021
Kind of investments to be held	<p>The Trustees have adopted a strategy that ensures that the risk of an adverse influence on asset values from the poor performance of a small number of individual investments is reduced by diversification of the assets by asset class and region.</p> <p>SIP section 2.2</p> <p>In addition, a number of investment restrictions apply that are designed to limit the Scheme's exposure to any individual asset class, market or security. The Scheme shall only invest in the investment manager's own in house funds specified in the SIP and may not directly invest in property.</p> <p>SIP section 5.2</p> <p>The terms of the legal documentation do not allow the investment manager to make speculative investments or to gear the portfolio or to do anything that would prejudice the Scheme's tax exempt status.</p> <p>SIP section 5.3</p>	<p>The basis of the Trustees' strategy is to divide the Scheme's assets between Equities and Bonds, which comprise of assets such as UK gilts, UK index-linked gilts and UK corporate bonds. The Trustees regard the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile.</p> <p>At the Trustees meetings on 21 April 2020 and 14 September 2020, the Trustees briefly considered the Scheme's investment strategy and agreed that it remained appropriate. The Trustees agreed to give further consideration to a trigger based de-risking framework.</p> <p>The Trustees are comfortable that the Scheme's assets were invested in regulated markets during the year.</p>
The balance between different kind of investments	<p>The Trustees have established a strategic investment benchmark for the Scheme, taking into account the potential risks outlined in the SIP.</p> <p>The Trustees have adopted an investment strategy with a 60% allocation to bonds (gilts, index-linked gilts and UK corporate bonds) and a 40% allocation to equities, split across regional funds.</p> <p>SIP section 2.3</p>	<p>On a quarterly basis, the Scheme's investment manager sought to rebalance the Scheme's assets back to the central benchmark if the underlying allocations fell outside the permitted ranges. For example, at the end of Q3 2020, c.£3.8m was disinvested from the equity portfolio and reinvested into the Scheme's bond portfolio. Similarly, at the end of Q1 2021, c.£5.0m was disinvested from the equity portfolio and reinvested into the Scheme's bond portfolio. Investment/disinvestment requests during the year were used to help keep the asset allocation within the agreed ranges.</p> <p>As noted previously, the Trustees were comfortable that the strategic allocation remained appropriate during the year under review.</p>
Risks including the ways in which risks are to be measured and managed	<p>The Trustees recognise a number of risks involved in the investment of the Scheme. The Trustees have considered risks which they believe may be financially material to the Scheme over its anticipated lifetime.</p>	<p>As detailed in the SIP, the Trustees consider both quantitative and qualitative measures for risks when deciding investment policies, strategic asset allocation and the choice of fund managers / funds / asset classes.</p>

	<p>These considerations are taken into account in the selection, retention and realisation of investments. SIP section 2.2</p>	<p>The Trustees maintain a risk register of the key risks, including investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions. The Trustees reviewed the risk register at the Trustees meetings on 21 April and 14 September 2020 and, following some updates to cover the risk of widespread business disruption and office closures due to external factors, agreed that it accurately represented the key risks faced by the Scheme and the control measures in place to mitigate these risks.</p>
<p>Expected return on investments</p>	<p>The Scheme aims to generate a return in order to meet the funding and investment objectives. The use of passive management reduces the risks associated with poor manager performance. SIP section 2.2</p> <p>The investment manager passively manages the Scheme's assets through a range of pooled funds with the objective of achieving benchmark performance over rolling three year periods within certain tolerances. SIP section 2.4</p>	<p>The Trustees' investment consultant provided the Trustees with an investment performance report on a quarterly basis, which included information on the performance of the Scheme's investment strategy as well as how each pooled fund was delivering relative to its respective benchmark.</p> <p>Over the 3-year period to 31 March 2021, the Scheme returned 6.1% p.a. (net of fees) relative to a benchmark return of 6.1% p.a. The Trustees reviewed the performance reports and no actions were taken during the year in respect of the investment strategy or investment manager appointments.</p>



## Investment Mandates

Requirement	Policy	In the year to 31 March 2021
<p>Securing compliance with the legal requirements about choosing investments</p>	<p>The Trustees have consulted a suitably qualified person and have obtained written professional advice from their investment consultant, Mercer Limited. SIP section 1</p>	<p>No new investments were implemented over the period to 31 March 2021.</p> <p>The Trustees sought the advice of their investment consultant when updating the SIP in September 2020. The Trustees received an update on the Scheme's</p>

	<p>Mercer is appointed as the Investment Consultant to the Scheme. The Investment Consultant provides advice to the Trustees but does not have responsibility for decision making in any area.</p> <p>SIP section 9.2</p>	<p>investment arrangements from their Investment Consultant at Trustees meetings on 21 April 2020 and 14 September 2020.</p>
<p>Realisation of investments</p>	<p>The Trustees have adopted a strategy that makes due allowance of the need for liquidity of the Scheme's assets.</p> <p>SIP section 2.2</p> <p>Responsibility for investment of the Scheme assets rests with Legal &amp; General. On a quarterly basis, Legal and General will rebalance the Scheme's assets back to the central benchmark should they fall outside the permitted ranges shown in the table overleaf. Investment/ disinvestment requests are used to help keep the asset allocation within the agreed ranges.</p> <p>SIP section 2.4</p> <p>The Trustees recognise that there is a risk in holding assets which cannot easily be sold should the need arise. The assets the Scheme hold with Legal &amp; General are entirely invested on an index-tracking basis and as a result it is unlikely that the investment manager will hold a security which is not represented in one of the world's leading indices.</p> <p>SIP Section 5.1</p>	<p>Contributions and disinvestments of monies to meet cash flow requirements during the year were undertaken in line with the Trustees' cash flow management and rebalancing policy. Specifically, a number of disinvestments were sourced from Legal &amp; General (in April, June and November 2020 for example), with Legal &amp; General raising monies from the various pooled funds so as to rebalance the Scheme's asset allocation back towards the central benchmark.</p> <p>In addition, in September 2020 surplus cash held in the Trustee bank account was invested into the Scheme's Bond portfolio, specifically the index-linked gilt portfolio.</p>
<p>Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection,</p>	<p>The Trustees recognise a number of risks involved in the investment of the assets of the Scheme. The Trustees have considered a number of risks which they believe may be financially material to the Scheme over its anticipated lifetime, including Environmental, Social and Governance ('ESG') risk and climate risk. These considerations are taken into account in the selection, retention and realisation of investments.</p>	<p>The investment performance reports were received by the Trustees on a quarterly basis during the year under review, and considered in more detail at the Trustees meetings on 21 April and 14 September 2020 – these included ratings (both general and ESG specific) from the investment consultant. All of the pooled funds remained highly rated during the year, where relevant (the Trustees acknowledge that some of the fixed income pooled funds do not have high ESG ratings assigned by the investment consultant due to the nature of the asset class) and there were no significant developments at the manager.</p>

retention and realisation of investments	<p>SIP section 2.2</p> <p>The Trustees have given the investment manager full discretion when evaluating ESG issues and the Trustees expect that their investment manager will take account of all financially material considerations including the potential impact of ESG factors in the implementation of their mandate and in exercising rights and stewardship obligations attached to the Scheme's investments.</p> <p>SIP section 6</p>	<p>The Trustees were comfortable with the ratings applied to the funds, and continue to closely monitor these ratings and any significant developments at the investment manager. When implementing a new fund or manager, the Trustees consider the ESG rating of the fund/manager.</p> <p>The Scheme's SIP includes the Trustees' policy on ESG factors, stewardship and climate change. This policy sets out the Trustees' beliefs and the processes followed by the Trustees in order to monitor ESG related risks and opportunities. The Trustees reviewed the investment manager's latest available ESG/stewardship report at the Trustees meeting on 14 September 2020, which summarised the manager's activity and voting behaviour in this area, and agreed that no action was required.</p>
The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	<p>Given the objectives of the Scheme, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy. The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material considerations</p> <p>SIP section 6</p>	<p>Member views are not explicitly taken into consideration.</p>

## **Monitoring the Investment Managers**

Requirement	Policy	In the year to 31 March 2021
<p>How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees policies mentioned in sub-paragraph (b) of the legislation [2-8 of this Statement]</p>	<p>Given the DB Section is only invested in multi-client pooled funds, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific funds. The Trustees are able to make investment manager appointments in such a manner that the assets are managed consistent with the investment strategy for the Section. The investment managers are incentivised by the knowledge that the Trustees will review their appointment if, over time, they do not meet expectations.</p>	<p>The Trustees did not identify any instances where its investment manager's strategies and decisions were inconsistent with the Trustees policies over the year to 31 March 2021. The Trustees noted that all of the pooled funds remained highly rated by the investment consultant during the year, where relevant.</p> <p>No new investment managers were appointed over the period to 31 March 2021.</p>

	<p>Investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.</p> <p>For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from their investment consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.</p> <p>SIP section 7.1</p>	
<p>How the arrangement incentivises the asset manager 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.</p>	<p>Assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers, where applicable.</p> <p>These managers may be in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees do however consider the investment consultant's assessment of how each investment manager integrates ESG and stewardship into their investment process.</p> <p>SIP Section 7.2</p>	<p>During the year to 31 March 2021, the Trustees remained comfortable that the arrangement in place with the investment manager continues to incentivise the manager to make decisions based on medium to long-term financial and non-financial performance.</p>
<p>How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies mentioned in</p>	<p>The Trustees receive investment performance reports on a quarterly basis. The Trustees review the performance against a suitable index used as the benchmark (where appropriate), and/or against the managers' stated performance target over the relevant period. The Trustees maintain a focus on long term performance. They may review a manager's appointment if the manager has extended periods of underperformance, there is a material change in personnel or there are</p>	<p>The investment performance reports were received by the Trustees on a quarterly basis during the year under review, and considered in more detail at the Trustees meetings on 21 April and 14 September 2020. The Trustees reviewed the performance against suitable benchmarks over both the short and long-term, and did not draw any concerns around the performance of the investment manager.</p> <p>Over the year, there were no changes to the remuneration arrangements with the Scheme's investment manager. Post year-end however, the Trustees agreed a revised arrangement with the manager, which will result in lower fees for the Scheme going forward.</p>

<p>sub-paragraph (b) of the legislation [2-8 of this Statement]</p>	<p>developments that may severely impact the outcome of the investment.</p> <p>The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.</p> <p>SIP section 7.3</p>	
<p>How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.</p>	<p>The Trustees do not currently monitor portfolio turnover costs in respect of the DB section and have no set portfolio turnover targets; rather the Trustees assess investment performance net of the impact of the costs of such activities.</p> <p>SIP section 7.4</p>	<p>At present, the Trustees do not monitor portfolio turnover costs, instead the Trustees reviewed the net of fees performance in their quarterly reports and received verbal updates from their investment consultant at the Trustees meetings on 21 April and 14 September 2020.</p>
<p>The duration of the arrangement with the asset manager</p>	<p>The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments.</p> <p>The Trustees will retain an investment manager unless there is a change to the overall investment strategy that no longer requires exposure to that asset class or manager, or the manager appointment has been reviewed and the Trustees have decided to terminate the mandate.</p> <p>SIP section 7.5</p>	<p>Post year-end at the 12 April 2021 Trustees meeting, the Trustees received a presentation from LyondellBasell regarding the appointment of a single investment manager for its three UK defined benefits pension schemes. LyondellBasell had identified LGIM as its preferred provider due to its market leading presence in the UK, strong performance record, commitment to ESG and effective stewardship, and its ability to seamlessly support the Trustees if the Scheme needed to purchase annuities or similar insurance products.</p> <p>The Trustees were comforted that a detailed provider selection exercise had affirmed their belief in LGIM’s capabilities. Furthermore, by consolidating the funds across all three of its UK plans with LGIM, LyondellBasell had managed to secure a reduction in LGIM’s fees for the Scheme.</p>



## ESG, Stewardship, Climate Change and Voting Disclosures

Requirement	Policy	In the year to 31 March 2021
<p>The exercise of the rights (including voting rights) attaching to the investments</p>	<p>The Scheme's voting rights are exercised by its investment manager on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value, in accordance with its own corporate governance policies. The investment manager also takes into account current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Equity managers who are registered in the UK are expected to report on their adherence to the UK Stewardship Code on an annual basis.</p> <p>Where relevant, the Trustees will review the voting policies of the investment manager and determine that these policies are appropriate. The Trustees will request their investment manager provides details of any change in its house policy periodically.</p> <p>SIP section 6</p>	<p>The Trustees have delegated the exercise of voting rights to the Scheme's investment manager. As such, this activity is expected to be undertaken on behalf of the Trustees. The Trustees do not use the direct services of a proxy voter, however the investment manager may enlist the service of a proxy voted when required.</p> <p>The Trustees have equity exposure through the following funds;</p> <ul style="list-style-type: none"> <li>• UK Equity Fund Index Fund</li> <li>• North American Equity Index Fund</li> <li>• Europe (ex-UK) Equity Index Fund</li> <li>• Japan Equity Index Fund</li> <li>• Asia Pacific (ex-Japan) Developed Equity Index Fund</li> </ul> <p>The key voting activity on behalf of the Trustees over the year to 31 March 2021 is outlined at the end of this Statement. During the year under review, the Trustees did not actively challenge the investment manager on its voting activity.</p>

<p>Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)</p>	<p>Where appropriate, the Trustees will engage with and may seek further information from their investment manager on how portfolios may be affected by a particular issue.</p> <p>The Trustees do not engage directly but believe it may be appropriate for their investment managers to engage with key stakeholders in order to improve corporate behaviour and performance and to mitigate financial risks. Such stakeholders may include corporate management, regulators and governance bodies. The Trustees will review engagement activity undertaken by their investment manager as part of their broader monitoring activity.</p> <p>SIP section 6</p>	<p>As the Scheme invests solely in pooled funds, the Trustees require their investment manager to engage with the investee companies on their behalf. The Trustees wish to encourage best practice in terms of corporate activism. They therefore encourage their investment manager to discharge its responsibilities in respect of investee companies in accordance with relevant legislation and codes.</p> <p>At the Trustees meeting held on 14 September 2020, the Trustees reviewed the investment manager’s latest available stewardship report which summarised their activity and voting behaviour in this area. The Trustees noted that the investment manager remained highly rated from an ESG perspective by their investment consultant, which provided the Trustees with comfort regarding the engagement activities being undertaken by the investment manager.</p>
--	--	--

### Key Voting Activity

Fund	Votable meetings	Total votable proposals	No. of proposals voted on behalf of investors	Participation rate	% votes against management
UK Equity Index	943	12,574	12,574	100%	7%
North American Equity Index	794	9,495	9,495	100%	28%
Europe (ex-UK) Equity Index	686	11,412	11,401	99.9%	15%
Japan Equity Index	551	6,518	6,518	100%	14%
Asia Pacific (ex-Japan) Developed Equity Index	543	3,774	3,774	100%	26%

LGIM disclosed details of a number significant votes that occurred during the year under review, below we have summarised some examples:

### UK Equity Index Fund

#### ***International Consolidated Airlines Group***

**Date of Vote:** 7 September 2020

**Summary of the resolution:** Approve Remuneration Report was proposed at the company’s annual shareholder meeting.

**Voting decision:** Against

**Rationale for voting decision:**

The COVID-19 crisis and its consequences on international transport have negatively impacted this airline company’s financial performance and business model. At the end of March 2020, LGIM addressed a private letter to the company to state our support during the pandemic.

As a result of the crisis, the company took up support under various government schemes. The company also announced a 30% cut to its workforce. On the capital allocation front, the company decided to withdraw its dividend for 2020 and sought shareholder approval for a rights issue of €2.75 billion at its 2020 AGM in order to strengthen its balance sheet. The remuneration report for the financial year to 31 December 2019 was also submitted to a shareholder vote. LGIM were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. LGIM noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).

**Outcome of the vote:**

28.4% of shareholders opposed the remuneration report. LGIM will continue to engage closely with the renewed board.

***Barclays***

**Date of Vote:** 7 May 2020

**Summary of the resolution:** Approve Barclays' Commitment in Tackling Climate Change Resolution. Approve ShareAction Requisitioned Resolution.

**Voting decision:** Voted for Barclays' commitment in tackling climate change resolution. Voted for the requisitioned resolutions proposed by ShareAction.

**Rationale for voting decision:**

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.

**Outcome of the vote:**

The commitment to tackling climate change resolution was supported by 99.9% of shareholders. The requisitioned resolution was supported by 23.9% of shareholders. LGIMs focus will now be to help Barclays on the detail of their plans and targets. LGIM plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.

**North American Equity Index Fund**

***Medtronic plc***

**Date of Vote:** 11 December 2020

**Summary of the resolution:** Advisory vote to ratify named executive officers compensation

**Voting decision:** Against

**Rationale for voting decision:**

Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as they were not supportive of one-off awards in general and in particular when these are awarded to compensate

for a payment for which the performance criterion/criteria were not met. Prior to the AGM LGIM engaged with the company and clearly communicated our concerns over one-off payments.

**Outcome of the vote:**

Voting outcome was 91.73% (For) and 8.23% (Against). LGIM will continue to monitor this company.

***ExxonMobil***

**Date of Vote:** 27 May 20

**Summary of the resolution:** Elect Director Darren W. Woods

**Voting decision:** Against

**Rationale for voting decision:**

In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, LGIM announced that they 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, LGIM also announced they 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.

**Outcome of vote:**

93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. LGIM voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction. LGIM believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company. Our voting intentions were the subject of over 40 articles in major news outlets across the world, including Reuters, Bloomberg, Les Échos and Nikkei, with a number of asset owners in Europe and North America also declaring their intentions to vote against the company.

**Europe (ex-UK) Equity Index Fund**

***Lagardère***

**Date of Vote:** 5 May 2020

**Summary of the resolution:** 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 Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).

**Voting decision:** LGIM voted in favour of five of the Amber-proposed candidates and voted off five of the incumbent Lagardère SB directors

**Rationale for voting decision:**

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 LGIM were able to speak to the proposed new SB Chair, and also Lagardère, where LGIM spoke to the incumbent SB Chair. This allowed LGIM to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.

**Outcome of the vote:**

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. LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.

### **Japan Equity Index Fund**

#### ***Olympus Corporation***

**Date of Vote:** 30 July 2020

**Summary of the resolution:** Elect Director Takeuchi, Yasuo at the company's annual shareholder meeting.

**Voting decision:** Against

#### **Rationale for voting decision:**

Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM have for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. LGIM deem this a de minimis standard. Globally, LGIM aspire to all boards comprising 30% women. Last year in February LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100. LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.

#### **Outcome of the vote:**

94.90% of shareholders supported the election of the director. LGIM will continue to engage with and require increased diversity on all Japanese company boards.

#### ***Toshiba Corp***

**Date of Vote:** 18 March 2021

**Summary of the resolution:** Appoint Three Individuals to Investigate Status of Operations and Property of the Company. Amend Articles to Mandate Shareholder Approval for Strategic Investment Policies including Capital Strategies

**Voting decision:** For

#### **Rationale for voting decision:**

Toshiba Corp's extraordinary general meeting (EGM) was precipitated by a significant decline in trust between its shareholders and management team following recent controversies, including allegations of abnormal practices and behaviour by the company surrounding its July 2020 AGM. As a result, the company faced two independent shareholder resolutions at the EGM calling for it to introduce remedies that would restore confidence and trust in the company's governance, management and strategy. LGIM supported the resolution calling for the appointment of investigators to address doubts over the company's 2020 AGM conduct and vote tallying. LGIM believe the enquiry, which is unlikely to be a burden on the company, will be an important step in rebuilding trust between shareholders and the company's executive team and board. LGIM also supported the shareholder resolution mandating the company to present its strategic investment policy to a shareholder vote in order to send a clear message to the Toshiba Board and executive team: shareholders expect increased transparency and accountability.

#### **Outcome of the vote:**

The appointment of three individuals to investigate Status of Operations and Property of the Company was passed with 57.9% of participating shareholders in support. The company promptly put investigators in place and set up a confidential hotline for any individuals who are willing to provide information. The amendment of Articles to

Mandate Shareholder approval, in respect to the company's capital allocation and strategic investment policy received 39.3% support and did not pass. However, the vote serves to send a clear signal to the board and executive team that shareholders expect increased transparency and accountability.

### **Asia Pacific (ex-Japan) Developed Equity Index Fund**

#### ***Qantas Airways Limited***

**Date of Vote:** 23 October 2020

**Summary of the resolution:** Approve participation of Alan Joyce in the Long – Term Incentive Plan. Approve Remuneration Report.

**Voting decision:** Voted against for the participation of Alan Joyce in the Long – Term Incentive Plan. Voted for, for the remuneration report.

#### **Rationale for voting decision:**

The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as they wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. In collaboration with our Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express our concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. LGIM supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, LGIM's concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. LGIM voted against resolution 3 to signal our concerns

#### **Outcome of the vote:**

About 90% of shareholders supported the participation of Alan Joyce in the Long-Term Incentive Plan and 91% supported the remuneration report. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration.

#### ***Whitehaven Coal***

**Date of Vote:** 22 November 2020

**Summary of the resolution:** Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

**Voting decision:** For

#### **Rationale for voting decision:**

The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal – Japan, South Korea and China – have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

#### **Outcome of the vote:**

The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in 'significant environmental harm'. As the company is on LGIM's Future World Protection List of exclusions, many of LGIMs ESG-focused funds – and select exchange-traded funds – were not invested in the company.