Engagement Policy Implementation Statemen

This document sets out the actions undertaken by the Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles ("SIP"). The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

This is the engagement policy implementation statement the Trustee has prepared and covers the year ending 31 December 2020.

Scheme stewardship policy summary

The Trustee updated its stewardship policy in September 2020 to reflect the new regulatory requirements with regards to additional disclosures as well as the most recent changes to the investment strategy. The SIP can be found on this website: https://docplayer.net/202679605-Husqvarna-uk-limited-pension-scheme-statement-of-investment-principles-september-2020.html

The below bullet points summarise the Scheme's stewardship policy that was applicable for the majority of the reporting year to 31 December 2020.

- *The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.*
- *As part of their delegated responsibilities, the Trustees expect the Scheme's investment managers to:*

1. *Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and*
2. *Exercise the Trustees' voting rights in relation to the Scheme's assets.*

Through this report, the Trustee reviews how the actions of its asset managers have aligned with its expectations and principles set out in the SIP.

Scheme stewardship activity over the year

Training

Over the year, the Trustee had the responsible investment training session with its investment consultant, Aon, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

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Updating the stewardship policy

In line with regulatory requirements to expand the SIP for a number of policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the stewardship policy in September 2020 to be more explicit on expectations and recourse where necessary.

The expanded policy sets out in greater detail the Trustee's expectations of its appointed investment managers, how the Trustee will review and engage with its investment managers and the reporting that Scheme members can expect from the Trustee.

Whilst these changes were made part way through the year, this report will set out how the Trustee and the Scheme's investment managers have engaged throughout the full year.

Ongoing monitoring

The Trustee received a quarterly monitoring report from its Investment Consultant, Aon. This report include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for Aon's "Buy" rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager.

Aon’s researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Aon's manager research team regularly engage with the Scheme's investment managers on behalf of the Trustee on a variety of ESG issues. Aon will report back to the Trustee any areas of concern on which the Trustee may wish to engage directly with the manager.

There were no major changes to the manager ratings over the year, and all of the Trustee's investment managers continue to be 2 (average) rated (out of 4, with 4 being strong)[1]. Simply put, this rating means that the fund management team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustee notes that the 2 rating Aon has assigned to the Legal & General Investment Management ("LGIM") Multi-Factor Equity Fund is a rating that covers all of LGIM's passive equity products. Passive managers tend to have limited ability to select stocks according to their ESG risks. However, as noted below, the Multi-Factor Equity Fund in which the Trustee is invested has recently evolved to take into account ESG related risks. Over time, we expect ratings may diverge.

Evolution of the Legal & General Investment Management ("LGIM") Multi-Factor Equity Fund

Over the year, the LGIM Developed Balanced Factor Equity Index Fund evolved to incorporate a low-carbon tilt, as well as including explicit exclusions on several sectors. These sector exclusions include tobacco, thermal coal, controversial weapons and companies in violation of the United Nations Compact. These changes have been made to reduce ESG risks, without impacting the primary objective of gaining exposure to robust sources of return.

[1]More information on the ESG Ratings process can be accessed here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx

Voting and engagement activity

LGIM Multi Factor Equity Fund ("LGIM")

Voting

	1 Jan 2020 – 31 Dec 2020
% resolutions voted	99.71%
% of resolutions voted against management	17.90%
% resolutions abstained	0.12%

LGIM makes use of the Institutional Shareholders Service's (ISS) proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools, but does not outsource any part of the strategic decisions. It has put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what it considers to be minimum best practice standards all companies should observe. Even so, LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example of engagements with the company have provided additional information.

Amazon

An example of a significant vote at a company was in May 2020, when LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders, meaning they were not passed.

Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. LGIM's engagement with the company continues as it pushes it to disclose more and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.

Olympus Corporation

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 states that it has for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level it believes that every board should have at least one female director, and deem this a de minimis standard. Globally, it aspires to all boards comprising 30% women.

In February 2019 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 it 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. As a result, LGIM voted against the election of a director for Olympus Corporation at the July 2020 board meeting.

While c. 95% of shareholders voted in favour of the election of the director, LGIM stated it will continue to engage with and require increased diversity on all Japanese company boards.

Pearson

In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson. Pearson issued a series of profit warnings under its previous CEO. Despite this, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.

This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board earlier this year on the board's succession plans and progress for the new CEO. It also discussed the shortcomings of the company's current remuneration policy.

LGIM spoke with the chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

33% of shareholders voted against the co-investments plan and therefore, by default, the appointment of the new CEO. While this resulted in the plan being passed, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement going forward.

Engagement

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

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

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Procter & Gamble:

An example of engagement over 2020 was with Proctor and Gamble (P&G). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution; while P&G has introduced objectives and targets to ensure its business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Insight Broad Opportunities Fund

Insight retains the services of Minerva Analytics (Minerva) for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of markets, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote.

	1 Jan 2020 – 31 Dec 2020
% resolutions voted	100%
% of resolutions voted against management	0%
% resolutions abstained	0%

In February 2020, Insight voted in a number of resolutions at the AGM of GCP Infrastructure Investments Limited (GCP). It voted in favour of all resolutions, which included approval of the director's remuneration report, re-election of a selection of directors to the company, authorisation of the Audit & Risk Committee and authorisation to purchase its own shares.

Insight engaged with several companies over the year on topics such as portfolio outlook and ESG integration. For example, Insight engaged several times with Greencoat UK Wind plc to discuss the portfolio, raising equity and their COVID19 impact assessment, concluding that this was managed appropriately. Insight met with the incoming and retiring chair to discuss prospective strategy including preservation and transfer of corporate knowledge in April 2020. Engagements with the company remain ongoing.

In summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that all of its applicable asset managers were able to disclose strong evidence of voting and engagement activity.

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

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