

Implementation Statement, covering the Scheme Year from 1 July 2020 to 30 June 2021

The Trustee of the Hermes Group Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Scheme 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 Scheme Year.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year, by continuing to delegate to its 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.

As well as the SIP, the Trustee maintains a separate document outlining its investment beliefs. This was reviewed in March 2021 to reflect the Trustee’s latest views on responsible investment.

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.

Over the period, the Trustee reviewed LCP’s responsible investment (RI) scores for the Scheme’s existing managers and funds, along with LCP’s qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP’s ongoing manager research programme and it is these that directly affect LCP’s manager and fund recommendations. The manager scores and red flags are based on LCP’s Responsible Investment Survey 2020. The Trustee was satisfied with the results of the review, but nonetheless considered future actions it could take in respect of RI. As such, it was agreed to invite Legal & General Investment Management (“L&G”, the asset manager holding the greatest proportion of the Scheme’s assets) to the September Trustee 2021 meeting to provide an update on the following topics:

- voting and engagement practices on the Scheme’s existing assets; and
- Alternative investment products with a greater focus on RI.

3. Description of voting behaviour during the Scheme Year

All of the Trustee’s holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Scheme’s funds that hold equities as follows:

- L&G All World Equity Index Fund
- L&G All World Equity Index Fund (GBP Hedged)
- L&G FTSE RAFI AW 3000 Equity Index Fund
- L&G FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged)

In addition to the above, the Trustee contacted the Scheme’s other asset managers that don’t hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. These managers confirmed that they did not have any voting opportunities over the period.

3.1 Description of the voting processes for Legal & General equity funds

Legal & General's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas. Legal & General's voting policies are reviewed annually, taking into account feedback from its clients. Every year, Legal & General holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as it develops Legal & General's voting and engagement policies.

All decisions are made by Legal & General's Investment Stewardship team and in accordance with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. The Investment Stewardship team uses the Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by Legal & General and it does not outsource any part of the strategic decisions. Legal & General uses ISS recommendations but purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that Legal & General receives from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with Legal & General's position on ESG, Legal & General has put in place a custom voting policy with specific voting instructions that apply to all markets globally. Legal & General retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information that allows Legal & General to apply a qualitative overlay to its voting judgement. Legal & General have strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service provider.

3.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the period is provided in the table below. The total size of the Scheme's invested assets as at 30 June 2021 was £266.5m.

	Fund 1	Fund 2	Fund 3	Fund 4
Manager name	Legal & General	Legal & General	Legal & General	Legal & General
Fund name	All World Equity Index Fund	All World Equity Index Fund (GBP Hedged)	FTSE RAFI AW 3000 Equity Index Fund	FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged)
Total size of fund at end of reporting period	£6.3bn	£4.6bn	£6.4bn	£1.6bn
Value of Scheme assets at end of reporting period	£3.6m	£10.7m	£3.5m	£10.5m
Number of equity holdings at end of reporting period	3,730	3,730	2,929	2,929
Number of meetings eligible to vote	6,192	6,192	3,733	3,733
Number of resolutions eligible to vote	64,750	64,750	44,767	44,767
% of resolutions voted	99.9	99.9	99.7	99.7
Of the resolutions on which voted, % voted with management	82.7	82.7	81.2	81.2
Of the resolutions on which voted, % voted against management	16.2	16.2	18.2	18.2
Of the resolutions on which voted, % abstained from voting	1.1	1.1	0.6	0.6
Of the meetings in which the manager voted, % with at	59.0	59.0	72.6	72.6

least one vote against management				
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	8.9	8.9	13.2	13.2

3.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the period, from the Scheme’s asset managers who hold listed equities, is set out below. We have interpreted “most significant votes” to mean those provided by the investment managers, following the PLSA guidance provided.

Legal & General Equity Portfolio

The below votes were listed as significant by Legal & General and were taken in relation to the All World Equity, Index Fund, All World Equity Index Fund (GBP Hedged), FTSE RAFI AW 3000 Equity Index Fund and FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

- **Textron Inc., USA, April 2021. Vote:** Against. **Outcome of the vote:** Passed.

Summary of resolution: Resolution to elect the joint Chairman and CEO.

Rationale: LGIM voted against the resolution as it has a longstanding policy advocating for the separation of the roles of CEO and Chairman.

Criteria against which this vote has been assessed as “most significant”: LGIM considered this vote to be significant as it is in application of an escalation of its vote policy on the topic of the combination of the board chair and CEO.

- **NOK Corp., Japan, June 2021. Vote:** Against. **Outcome of the vote:** Passed.

Summary of resolution: Resolution to elect the Chairman of the Board.

Rationale: In early 2020, LGIM announced that it would vote against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100 where there is not at least one female board member. LGIM therefore opposed the election of this director as he is a member of the nomination committee and the most senior member of the board, and this standard is not met.

Criteria against which this vote has been assessed as “most significant”: LGIM considered this vote significant as it views gender diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf.

- **Sumitomo Corporation, Japan, June 2021. Vote:** For. **Outcome of the vote:** Did not pass.

Summary of resolution: Shareholder resolution requesting amendment to the articles of incorporation to include the adoption and disclosure of a plan outlining the company’s business strategy to align its business with the goals of the Paris Agreement.

Rationale: LGIM voted for this resolution as it had concerns regarding the alignment of interim pathways with a 1.5 degree scenario. LGIM believed that its support for the shareholder resolution would help to signal the importance of the climate emergency as a large investor and its expectations for companies to align urgently with the goals of the Paris Agreement.

Criteria against which this vote has been assessed as “most significant”: LGIM considered this vote to be significant as it took the rare step of publicly pre-declaring it before the shareholder meeting.

- **Medtronic plc, USA, December 2020. Vote:** Against. **Outcome of the vote:** Passed.

Summary of resolution: Executive directors were granted one-off stock options to compensate for the lack of a traditional bonus being paid during the financial year.

Rationale: LGIM voted against the one-off payment as they are 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 they engaged with the company and clearly communicated their concerns over one-off payments.

Criteria against which this vote has been assessed as “most significant”: LGIM believe it is contrary to best practice in general and their pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment..