

## IMPLEMENTATION STATEMENT

### *Implementation Statement*

### *Covering 1 July 2019 to 30 June 2020*

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 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 – Last review of the voting and engagement policies**

The voting and engagement policies in the SIP were reviewed and updated during the Scheme year in September 2019 to reflect the Trustee's investment beliefs on these matters and regulatory changes. Further detail and the reasons for these changes are set out in Section 2. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

#### **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.

The September 2019 update of the Scheme's SIP took account of the Trustee's policy on financially material considerations, non-financial factors and engagement activities, with the amendments made to reflect the Trustee's approach to the regulatory changes that came into force with effect from 1 October 2019.

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

In this section we have sought to include voting data on the Scheme's funds that hold equities as follows:

- Legal & General All World Equity Index Fund
- Legal & General All World Equity Index Fund (GBP Hedged)
- FTSE RAFI AW 3000 Equity Index Fund
- 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 generally 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

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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 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 2020 was £278.3m.

|   | Fund 1                      | Fund 2                                   | Fund 3                              | Fund 4   |
|---|-----------------------------|--|-------------------------------------|--|
| <b>Manager name</b>   | Legal & General             | Legal & General                          | Legal & General                     | Legal & General                                  |
| <b>Fund name</b>  | 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) |
| <b>Total size of fund at end of reporting period</b>                      | £4.8bn                      | £3.9bn                                   | £5.2bn                              | £1.4bn   |
| <b>Approximate value of trustees' assets</b>                              | £3.0m                       | £9.0m                                    | £2.8m                               | £8.9m  |
| <b>Average number of holdings</b>   | 1,419                       | 1,419                                    | 3,109                               | 3,109  |
| <b>Number of meetings eligible to vote</b>                                | 3,595                       | 3,595                                    | 3,250                               | 3,250  |
| <b>Number of resolutions eligible to vote</b>                             | 40,386                      | 40,386                                   | 39,276                              | 39,276   |
| <b>% of resolutions voted</b>   | 99.8                        | 99.8                                     | 99.3                                | 99.3   |
| <b>% of resolutions voted with management</b>                             | 81.2                        | 81.2                                     | 80.9                                | 80.9   |
| <b>% of resolutions voted against management</b>                          | 18.3                        | 18.3                                     | 18.8                                | 18.8   |
| <b>% of resolutions abstained</b>   | 0.5                         | 0.5                                      | 0.3                                 | 0.3  |
| <b>% of meetings with at least one vote against management</b>            | 67.4                        | 67.4                                     | 71.4                                | 71.4   |
| <b>% of resolutions voted contrary to recommendation of proxy advisor</b> | 11.3                        | 11.3                                     | 13.0                                | 13.0   |

### 3.3 Most significant votes over the year

Commentary on the most significant votes over the period 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

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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).

- **Barclays, May 2020**

Legal & General voted for a resolution to approve Barclays' commitment to tackling climate change. The resolution proposed by Barclays set out its long-term plans and had the backing of ShareAction and co-filers. This vote was considered significant as there was increased client interest in Legal & General's voting intentions and engagement activities in relation to the Barclays 2020 AGM. The outcome of the vote was that it was supported by 99.9% of shareholders.

- **Amazon, May 2020**

Legal & General voted for a shareholder proposal requesting a mandatory independent board chair policy, as they believed it would lead to a governance structure that would benefit long-term shareholders. Legal & General were also concerned more generally by the harsh workplace practices alleged and the news of a string of workers catching COVID-19. Legal & General had multiple engagements with Amazon over the 12 months leading to the vote. This vote was considered significant as there was considerable market and press attention leading up to the AGM in May 2020. The outcome of the vote was that it was supported by c.30% of shareholders.

- **ExxonMobil, May 2020**

Legal & General voted against the re-election of the combined chair and CEO of the company, as part of their 'Climate Impact Pledge' escalation sanction. Legal & General had concerns over the company's approach to climate change, political lobbying and board independence. This vote was considered significant as it was linked to a Legal & General engagement campaign. The outcome of the vote was that 93.2% of shareholders supported the re-election of the combined chair and CEO.

The below vote was listed as significant by Legal & General and was taken in relation to the FTSE RAFI AW 3000 Equity Index Fund and FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

- **Lagardère, May 2020**

Legal & General voted for a shareholder resolution to replace the existing company directors on the Supervisory Board. They voted in favour of removing 5 of the incumbent directors and in favour of 5 candidates which were proposed to replace them. Legal & General believed that the company strategy had not been value-enhancing and the governance structure of the company was not allowing the Supervisory Board to challenge management on this. This vote was considered significant as there was increased media and public interest, given the proposed revocation of the company's board. The outcome of the vote was that the proposed resolutions received around 30-40% support from shareholders, although they were not passed.