Somerfield Pension Scheme

Engagement Policy Implementation Statement

3 September 2021

Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 which requires the Trustee to a statement setting out (among other things) how the Trustee has followed its policies on the exercise of voting rights attaching to their investments and engagement activities. This document is intended to meet those requirements and will be included in the Scheme's Report and Accounts and published on the Scheme's website.

This is the Somerfield Pension Scheme's second published Implementation Statement and covers the Scheme year from 1 April 2020 to 31 March 2021.

The Trustee's review of the SIP over the year

The Trustee maintains a SIP for the Scheme, and it is reviewed annually or following any significant changes in investment policy.

The Trustee reviewed and updated the SIP in September 2020 to reflect new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The SIP was also updated in March 2021 following a decision to de-risk the Scheme's long term investment strategy. The most recent version of the SIP was updated on 25 March 2021 and is available on the Scheme's website, https://coop.pacepensions.co.uk/other-schemes/.

In preparing the SIP, the Trustee consults with the sponsoring employer. The employer is consulted regarding any proposed changes to the Statement and investment strategy, however, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 12 of the SIP)

The Trustee's policies on engagement are set out in the SIP, and are summarised below, together with the Trustee's assessment of how and the extent to which these policies have been implemented:

Policy	Assessment
The Trustee seeks to address [the broad Responsible Investment issues set out in its Responsible Investment Policy] … in a number of ways. For example, the Scheme's equity assets are invested in the LGIM Future World Funds which have tilts towards companies with positive ESG scores…. The Trustee also applies a specific exclusion list of stocks for the segregated investment grade credit mandates to restrict investment in companies identified as conflicting with the Trustee's aims under these issues. *The Trustee gives its investment managers full discretion to evaluate ESG factors and engage*	Where assets are held directly by the Scheme (specifically the segregated RLAM and LGIM corporate bond assets), the Trustee applies explicit exclusion lists to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. This has been applied throughout the year with updated exclusions lists provided to the managers quarterly based on ESG data licensed from MSCI.

with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	Elsewhere, the Scheme invests entirely in pooled investment funds alongside other investors and does not therefore directly invest in underlying companies or have the ability to engage directly with these companies. The Scheme's equity manager is Legal & General Investment Management ("LGIM"); in July 2019, the Trustee moved the Scheme's 'developed market' equity investments from "market cap" index-tracking equity funds (which invest in companies around the world in proportion to their size, or market capitalisation) into LGIM's Future World equity index funds, which "tilt" investments towards companies assessed as having better ESG ratings (e.g. more diverse boards, lower carbon footprints or stronger supply chain policies), and that also publicly disinvest from companies who have failed to engage seriously on climate change. In July 2020 following the launch of additional funds, the Scheme also switched its 'emerging market' equity holdings from a "market cap" fund to the Future World Emerging Market equity index fund. The Trustee believes this approach is better aligned with the Scheme's Responsible Investment Policy. The Scheme's equity investments are held through pooled vehicles and the Trustee does not therefore directly exercise voting rights. LGIM votes on these shares using ISS's ProxyExchange electronic voting platform, but voting decisions are retained by the manager and are strategic decisions made by LGIM's Corporate Governance Team in accordance with their corporate governance policies. LGIM disclose their voting records on their website at the end of each month, including summaries of their positions for significant shareholder votes, and these are summarised in their quarterly ESG impact reports (see below).
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Ad hoc queries have been raised throughout the year through the Co-op Pensions Department (for example, in July 2020 in relation to the equity fund holdings in BooHoo.com and LGIM's assessment of their ESG ratings in light of related press coverage).

Investment Managers are asked to report to the Investment Committee on the issue of responsible investment.	The Trustee has, directly or through the Co-op's Manager Monitoring and Implementation Committee, met with all five of the Scheme's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments, and areas of engagement as well as developments over the year. In particular, the Scheme's Investment Committee met with LGIM in December 2020 where LGIM provided an update on the Scheme's equity investments and LGIM's engagement with companies invested in through the Future World funds, as well as an update on LGIM's Climate Impact Pledge and the widening of its engagement with companies on climate change.
In addition, the Investment Committee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.	As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Investment Committee receives reporting from its investment consultants integrated into the Scheme's quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices. In addition, since Q2 2020 each quarter the Investment Committee has reviewed LGIM's quarterly ESG impact report, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions.
As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's	No new managers were appointed over the year, although the strength of LGIM's ESG processes were a major consideration in the switch to the Future World developed market equity funds in 2019. As noted above, the Co-op's Manager Monitoring and Implementation Committee met with all five of the Fund's managers throughout the year as part of a rolling

Responsible Investment policy. This includes the investment managers' policy on voting and engagement. *In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.*	program, and ESG factors and engagement with investee companies were discussed at each meeting. The Investment Committee also met directly with LGIM and received a presentation on their ESG policies and approach to engagement in December 2020.
The Scheme's equity manager (who is registered in the UK) is expected to report on their adherence to the UK Stewardship code on an annual basis.	LGIM report on their compliance with their engagement policies annually via their Active Ownership Report, with the 2019 report published in April 2020 and reviewed by the Investment Committee at its meeting on 3 September 2020. The 2020 report was published in April 2021 and is intended to meet the 12 Principles of the new 2020 UK Stewardship Code. This report will be reviewed later in 2021 by the Investment Committee.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Voting activity

As noted above, the Trustee invests in equities through pooled funds managed by LGIM. LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny);
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- A sanction vote as a result of a direct, or collaborative, engagement; and
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy.

Significant votes identified during the year included:

- On 7 May 2020, LGIM voted to support a management resolution at **Barclays** (supported by ShareAction) outlining its target to align the entire business to the goals of the Paris Agreement through plans to shrink its carbon footprint to net zero by 2050; this was deemed ‘significant’ because of the interest across LGIM’s clients in relation to the AGM and voting intentions. The resolution was supported by 99.9% of shareholders.

- On 30 July 2020, LGIM voted against the election of the most senior member of the board at **Olympus Corporation** in line with LGIM’s policy for companies in the TOPIX100 to vote against the chair of the nomination committee or the most senior board member if there were no women on their boards or at executive level, to support greater diversity at board level. This was deemed ‘significant’ as LGIM considers it imperative that the boards of Japanese companies increase their diversity. Approximately 95% of shareholders supported the election of the nominated director, although LGIM has noted that it will continue to engage with the require increased diversity on all Japanese company boards.
- On 13 October 2020, LGIM voted to support a shareholder proposal at the **Proctor and Gamble** (P&G) AGM in relation to increasing transparency around palm oil and wood pulp, to limit deforestation. The resolution received the support of over two thirds of shareholders (including LGIM), and LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement. This was deemed ‘significant’ as it was linked to LGIM’s five-year strategy to tackle climate change, and attracted a great deal of interest from LGIM’s clients; and
- On 11 February 2021, LGIM supported a shareholder resolution that requested that **Tyson Foods** produce a report on their human rights due diligence process. This was a result of the potential deficiencies highlighted in the application of their human rights policies during the pandemic, including strict attendance policies, insufficient access to testing and social distancing and non-comprehensive Covid-19 reporting. An ISS AGM benchmark report noted there had been over 10,000 positive Covid-19 cases, and 35 worker deaths. This is in conjunction with additional litigation and regulatory investigations in the US. LGIM believes companies should uphold their duty to ensure the health and safety of employees over profits. The resolution failed to get a majority support as only 17% of shareholders supported it; LGIM has noted that it will continue to monitor the company.