

LPA Industries Limited Section of the Deloitte Pensions Master Plan

Implementation Statement

For the year ended 31 March 2021

Introduction

This Implementation Statement (the “Statement”) has been prepared by the Trustee (the “Trustee”) of the LPA Industries Limited Section of the Deloitte Pensions Master Plan (the “Section”) to demonstrate how the Trustee has acted on certain policies within the Statement of Investment Principles (“SIP”).

Each year, the Trustee must produce an Implementation Statement that demonstrates how they have followed certain policies within the Section’s SIP over the year. This Implementation Statement covers the Section year from 1 April 2020 to 31 March 2021.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit investments held by the Section.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP policies

This Implementation Statement should be read in conjunction with the Section’s SIP covering the year under review, which provides details of the Section’s investment policies along with details of the Section’s governance structure and objectives.

Between March 2020 and September 2020, the Section’s SIP included policies on:

- How ‘financially material considerations’ including Environmental, Social and Governance (“ESG”) factors are taken into account when taking investment decisions for the Section.
- The extent to which non-financial matters are taken into account in the investment decision making process.
- Stewardship and voting – including details on monitoring and engaging with the companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, risks, corporate governance and ESG).

The SIP was formally reviewed in 2020 and updated in September 2020 to add the following policies:

- In addition to the stewardship policy stated above, engagement with investee companies by the investment managers is also expected on the matters of capital structure and the management of actual or potential conflicts of interest.
- Enhanced policies on monitoring the Section’s investment managers, particularly concerning financial arrangements, performance, ESG factors and engagement were added.
- A policy on the duration of the Section’s arrangement with the investment managers was added.

These changes were made to reflect new legislative requirements.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to 31 March 2021 and the extent to which the Trustee believes the policies within the SIP have been followed.

The Section was invested in pooled funds managed by Legal & General Investment Management (“LGIM”) and Newton Investment Management Ltd (collectively the “Investment Managers”) over the year under review to 31 March 2021.

It is therefore the Investment Managers who are responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments. The Trustee’s policy in relation to any rights (including

voting rights) attaching to its investments is to exercise those rights to protect the value of the Section's interests in the investments.

The Trustee expects the Investment Managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

Description of Equity Voting Behaviour

The Section invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Section sits with the Investment Managers. The Section's voting behaviour over the year is summarised below.

The pooled fund investments held by the Section that carried voting rights during the Section year were the LGIM UK Equity Index Fund, LGIM World (ex UK) Equity Index Fund and the Newton Real Return Fund (c. £1.1m, c. £3.3m and c. £1.8m of Section assets respectively as at 31 March 2021).

The table below shows LGIM's voting summary covering the Section's investment in the LGIM UK Equity Index Fund, which the Section was invested in throughout the year.

LGIM UK Equity Index Fund	1 April 2020 – 31 March 2021
Number of meetings LGIM was eligible to vote at over the year	943
Number of resolutions LGIM was eligible to vote on over the year	12,574
Of the eligible resolutions, percentage that LGIM voted on.	100.0%
Of the resolutions voted, percentage that LGIM voted with management.	92.9%
Of the resolutions voted, percentage that LGIM voted against management.	7.1%
Of the resolutions voted, percentage where LGIM abstained .	<0.1%
Percentage of eligible meetings where LGIM voted at least once against management.	3.3%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.8%

The table below shows LGIM's voting summary covering the Section's investment in the LGIM World (ex UK) Equity Index Fund, which the Section was invested in throughout the year.

LGIM World (ex UK) Equity Index Fund	1 April 2020 – 31 March 2021
Number of meetings LGIM was eligible to vote at over the year	3,243
Number of resolutions LGIM was eligible to vote on over the year	37,840
Of the eligible resolutions, percentage that LGIM voted on.	99.8%
Of the resolutions voted, percentage that LGIM voted with management.	80.3%
Of the resolutions voted, percentage that LGIM voted against management.	19.2%
Of the resolutions voted, percentage where LGIM abstained .	0.6%
Percentage of eligible meetings where LGIM voted at least once against management.	6.4%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.3%

The final table shows Newton's voting summary covering the Section's investment in the Newton Real Return Fund, which the Section was invested in throughout the Section year.

Newton Real Return Fund	1 April 2020 – 31 March 2021
Number of meetings Newton was eligible to vote at over the year	98
Number of resolutions Newton was eligible to vote on over the year	1,307
Of the eligible resolutions, percentage that Newton voted on.	99.2%
Of the resolutions voted, percentage that Newton voted with management.	85.4%
Of the resolutions voted, percentage that Newton voted against management.	14.6%
Of the resolutions voted, percentage where Newton abstained .	0.0%
Percentage of eligible meetings where Newton voted at least once against management.	38.0%
Percentage of voted resolutions where Newton voted contrary to the recommendation of their proxy adviser.	9.9%

Proxy Voting

The Trustee did not employ a proxy-voting service during the year to 31 March 2021.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Service's ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS').

Newton also votes by proxy through the ISS electronic voting platform. Newton uses the research reports on individual company meetings provided by ISS alongside considering a company's individual circumstances, with Newton ultimately making the final voting decision. Newton also uses its Responsible Investment team to help review decisions, which in the case where a meeting resolution covers a contentious issue, the Head of Responsible Investment will take responsibility for the decision-making process. In the event there is a potential material conflict of interest, Newton will follow the voting recommendations of ISS.

How Voting and Engagement Policies Have Been Followed

The Trustee intends to review a summary of the voting and engagement activity taken on their behalf on a regular basis. The information published by LGIM and Newton on their voting policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the year to 31 March 2021.

As set out in the SIP, the Trustee expects the Investment Managers to engage with investee companies on aspects such as performance, strategy, risks, corporate governance, management of actual or potential conflicts of interest, capital structure and social and environmental issues concerning the Trustee's investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustee?	Comments
Performance of debt or equity issuer	✓	LGIM's and Newton's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration. LGIM and Newton have clear voting policies covering each of these topics and have acted on them throughout the Section year on behalf of the Trustee.
Risks	✓	<p>LGIM and Newton have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls.</p> <p>As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors.</p> <p>Newton's policies include the voting and engaging to remove any monetary cap on a business auditors' liability: where a cap is present, Newton would expect a detailed explanation of why it has been adopted.</p>
Corporate Governance	✓	<p>LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. Over the year LGIM voted against 411 companies that combined the roles.</p> <p>Over 2021, LGIM has stated they will oppose Directors in Germany from being elected for longer than 4 years to hold Directors to more accountability than in the past.</p> <p>Newton has several policies that it uses to guide voting and engagement with respect to corporate governance including the establishment of key board committees such as audit, remuneration and nomination functions, succession planning and use of senior independent directors. As an example, Newton voted against the election of two members of the Alibaba Group Holding Limited governance committee in September 2020 following concerns of the level of independence on the board.</p>
Conflicts of Interest	✓	<p>Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with demonstrable company performance.</p> <p>Newton also supports appropriate board remuneration that attracts, motivates and retains suitable staff, with a significant proportion linked to sustainable long-term value creation and aligned with company strategy. Newton expects in instances where the performance metrics of the business are not representative of the underlying performance of the business that an independent remuneration committee should act to stop this and exercise appropriate discretion.</p>
Capital Structure	✓	<p>LGIM and Newton have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance.</p> <p>For example, both LGIM and Newton have a policy that newly issued shares should not expose minority shareholders to excessive dilution.</p>

Social and Environmental impact	✓	<p>LGIM has written to over 500 companies with poor climate scores relative to their size and for those that don't meet minimum standards during the 2021 AGM season, LGIM will look to sanction through voting. If these minimum standards are not met over time, LGIM may look to divest until progress is shown. Over 2020, LGIM announced that it had reinstated investments in Subaru following evidence of progress against emission targets and climate exposure.</p> <p>During 2020, to promote ethnic diversity at the board level, LGIM sent letters to engage with 35 of the largest UK companies and 44 of the largest in the US on why they have no ethnic diversity. LGIM stated it would expect at least one member at the board level to be from a minority background by 2021 and has started to vote against the chair of the board or of the nomination committee if this is not the case.</p> <p>During 2020, Newton undertook 152 ESG quality reviews of the c.750 issuers that they were invested in on behalf of their clients. From these reviews, Newton decides which issuers and businesses to engage with based on an engagement priority matrix using a propriety ESG score and high-level ESG themes of focus. Engagement can take the several forms including meetings, information requests and other lines of communication. Newton's ESG themes of focus over 2020 have included climate change, with the Real Return strategy progressively reducing exposure to fossil-fuel production-based holdings due to the negative externalities associated with it.</p>
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Significant Votes

LGIM and Newton have provided examples of what they believe to be the most significant votes cast on the Trustee's behalf during the period.

Two of the most significant votes by LGIM related to the remuneration of executives at two airline related companies. With respect to the World (ex UK) Equity Index Fund, LGIM voted in favour of the proposed remuneration package presented to shareholders by Qantas Airways Limited, with LGIM stating that the decision to cut executive salaries, cancel short term incentive plans and defer vesting of the long-term incentive plan were appropriate measures given the financial impact on dividends, termination of employees and acceptance of government assistance that occurred over 2020. Conversely, for the holding within the UK Equity Index Fund, LGIM voted against the remuneration package of International Consolidated Airlines Group, who had similarly accepted government support and made staff reductions but had retained a higher level of bonus payments to the current executives. 28.4% of the shareholder base voted against this measure.

On behalf of the Section's holding in the World (ex UK) Equity Index Fund, LGIM also voted for a report on the wind-down of coal operations at Australia's Whitehaven Coal given the uncertain role of the energy source as countries move to carbon neutrality by 2050. LGIM advocates a managed decline of fossil fuel extraction with capital returned to investors, rather than being invested in other projects which may risk becoming stranded assets.

Due to the multi-asset nature of the Newton Real Return Fund, voting is only relevant for a small proportion of the portfolio. However, an example of a significant vote was in relation to LEG Immobilien AG, a German property company, where Newton voted against the company's remuneration policy. Newton voted against the proposal due to the compensation scheme of the Board being entirely cash-based with no disclosure of the performance targets, which could result in below-median performance and still provide long-term rewards. In addition, a special remuneration reward was included that was related to transactions, which given their one-off nature would not be ideal for promoting talent retention. The overall vote was in favour of management; however, a significant proportion of votes (over 20%) were against the proposal, with Newton citing that this will be likely to cause the company to address concerns going forward to avoid such high levels of dissent.

Engagement with investee companies

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not applicable for the Section's other non-equity based investments within the Newton Real Return Fund or the fixed income

investments held within the LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund (c. £3.9m of Section assets as at 31 March 2021). However, the Trustee expects the Investment Managers to engage on its behalf to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

Newton undertakes an active engagement approach with respect to the companies it invests such as monitoring of any changes including in management process, remuneration and other social and environmental issues with the view that this engagement can increase sustainability and long-term investment opportunity within these companies. Newton holds a variety of positions with respect to these companies including equity, fixed income or a combination of the two and can subsequently on occasion use its voting rights at a company level to influence and drive change within fixed-income holdings.

Newton do not currently provide engagement information at the fund level but do publish ESG engagement information at the total company level.

Over the 12 months to 31 March 2021, Newton undertook 257 engagements with 153 companies. Some engagements cover multiple topics and Newton has provided the following summary:

- 86 on environmental topics;
- 96 on social topics; and
- 75 on governance issues;

The Trustee will monitor Newton's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

LGIM actively engages with the investee companies via meetings with management and engagements via email to influence positive ESG practice. There is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account client feedback.

While engagements are not yet available at a fund level, they are published at a firm level each quarter. LGIM is working to be able to provide engagement information at a fund specific level.

Over the 12 months to 31 March 2021, LGIM undertook 974 engagements with 874 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 427 on environmental topics;
- 241 on social topics;
- 470 on governance issues; and
- 279 on other topics including finance and strategy.

The Trustee will monitor LGIM's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

The remainder of the Section's assets (c. £6.1m of assets as at 31 March 2021) are invested in index-linked government bonds through LGIM with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Section's liabilities. While no investment manager can have a significant impact on government policy, LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

Extent to which Trustee Policies Have Been Followed

Having reviewed the actions taken by the Investment Managers over the year, the Trustee believes that its policies on stewardship and engagement have been implemented appropriately over the year and in line with their views. The Trustee will continue to monitor the actions taken on their behalf each year.

If the Investment Managers deviate substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with each investment manager, and if the Trustee still believe the difference between their policies and the investment manager's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.

September 2021

For and on behalf of the Trustees of the LPA Industries Limited Section of the Deloitte Pensions Master Plan