Engagement Policy Implementation Statement

The Lyreco (UK) Pension Fund

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual statement called an Engagement Policy Implementation Statement ("EPIS") which outlines:

- the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles ("SIP").

- the voting behaviour by or on behalf of the Trustees (including the most significant votes cast) during the Scheme year and any use of third party provider of proxy voting services.

The EPIS has been prepared by the Trustees and covers the Scheme year 1 January 2021 to 31 December 2021.

Executive summary

Based on the activity over the year by the Trustees and their investment managers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustees note that all of their investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees 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.

Scheme stewardship policy

The below bullet points summarise the Scheme's stewardship policy in force over the Scheme year to 31 December 2021.

The full SIP can be found here: Lyreco SIP

- The Trustees recognise the importance of their 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.
- The Trustees annually review the stewardship activity to ensure the policy is being appropriately implemented in practice. The Trustees receive annual reports on stewardship activity carried out by their asset manager, which include detailed voting and engagement information from underlying asset managers.
- The transparency for voting should include voting actions and rationale with relevance to the Scheme.
- The Trustees recognise that their collaborative behaviours can further work to mitigate the risks we have identified above.
- The Trustees may engage with their asset manager, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance. Where a concern is identified, the Trustees will consider a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Scheme.

Scheme stewardship activity over the year

The Trustees review monthly asset statements prepared by Aon Investments Limited ("AIL"). AIL provided the Trustees with a copy of their 2020 Stewardship Report which provided details of the key engagements undertaken and asset managers' Responsible Investment activities throughout 2020.

Engagement activity – Fiduciary manager

The Trustees invest the Scheme's assets in Aon's Delegated Consulting Service. Management of the Scheme's assets has been delegated to its fiduciary manager, AIL. AIL manage the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers to manage the investments on behalf of the Trustees.

The Trustees have reviewed the AIL Annual Stewardship Report and believe this evidences that AIL is using its resources to effectively influence positive outcomes in the strategies in which it invests.
AIL have undertaken a considerable amount of engagement activity over the period. AIL held several Environmental, Social and Governance ("ESG") focussed meetings during the reporting year with equity managers in which the Scheme is invested. At these meetings, AIL discussed ESG integration, voting and engagement activities undertaken by the investment managers, allowing AIL to form opinions on each managers' relative strengths and areas for improvement. AIL have provided feedback to managers following these meetings with the goal of continuing to lift the standard of ESG integration across portfolios. AIL continues to execute on their ESG integration approach and engage with managers.
Aon Solutions UK Limited ("Aon") also actively engage with investment managers and this is used to support AIL in its fiduciary services. Aon launched its Engagement Programme in early 2020, a cross asset class initiative which brings together members of Aon's manager research team and responsible investment specialists to help promote manager engagement with the needs of the Scheme's investments in mind,

In Q3 2021, Aon was confirmed as a signatory to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken on behalf of the Trustees by Aon (both Aon and AIL entities). For further details, please see the submission report here.

Engagement example:

In October 2021, Aon's Engagement Programme ("EP") engaged with an underlying equity manager. Following discussions between the EP and the manager, Aon welcomed the continued progress made through developing focus and processes with respect to more active investment stewardship. While the manager is not yet a signatory to the UK Stewardship Code 2020, it believes it currently does much to align with the Code and does plan to evaluate if it is able to make a submission in light of any other potential contradictory commitments.

However, Aon notes that while the manager has the right ambitions and understanding of what is needed, there are a number of areas where further progress is needed. For example, as European legislation increasingly demands more active stewardship with demonstrable activity and outcome, the manager needs to articulate its beliefs and commitments around EGS topics. Notably, climate change is a theme which could feature in the manager's policies with clear indication as to how it plans to mitigate risks as well as benefit from the opportunity in a transitioning economy to a low carbon world. Aon notes that the manager has plans over the coming year to develop its Net Zero approach and continue to engage with companies.

Aon were encouraged to hear about the manager's plans to progress and look forward to further developments in the near future.

Voting and Engagement Activity – Underlying Investment Managers

Over the period, the Scheme was invested in equity funds through its investment in Aon's Delegated Consulting Services. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material underlying managers.

Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity and multi-asset investments held by the Scheme were:

Fund Manager	Fund
BlackRock	Emerging Markets Equity Fund
Legal & General Investment Management	Alternative Indexation Multi-Factor Equity Fund

All managers use the services of proxy voting organisations for various services that may include research, vote recommendations, administration and vote execution.

In this section there is a summary of voting information and examples of significant voting activity for each of the Scheme's relevant managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal;
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting;
- a vote that is connected to wider engagement with the company involved;
- a vote that demonstrates clear and considered rationale;
- a vote that the Trustees consider inappropriate or based on inappropriate rationale;
- a vote that has significant relevance to members of the Scheme.

The Trustees consider a significant vote as one which the voting manager deems to be significant.

BlackRock

Voting policy

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. Blackrock's voting decisions are informed by its internally developed proxy voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its proxy voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

BlackRock subscribes to research from the proxy advisory firms ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock do not routinely follow the voting recommendations of their proxy voting advisers.

The table below shows the voting statistics for BlackRock's Emerging Markets Fund for the period to 31 December 2021.

Number of resolutions eligible to vote on over the period	28,844
% of resolutions voted on for which the fund was eligible	100.0%
Of the resolutions on which the fund voted, % that were voted against management	9.0%
Of the resolutions on which the fund voted, % that were abstained from	4.0%

In June 2021, BlackRock voted against a proposal from the management of Huadian Power International ("Huadian International"), a Chinese energy company. The proposal was to reorganize its wind and solar power portfolio by transferring all related assets into a dedicated renewable energy entity, which the majority is controlled by its parent company Huadian Group, in exchange for a minority stake in the renewable energy entity.

BlackRock voted against the proposal because it was concerned about the conflict of interest between Huadian International and its parent company. This proposal would prevent Huadian International from investing in wind or solar power projects, to avoid it being in competition with the majority shareholder, Huadian Group. In BlackRock's view, the transaction would disadvantage the minority shareholders of Huadian International by preventing them from participating in China's renewable energy market.

The vote was passed, however the Trustees expect BlackRock to continue to engage with the company on this topic.

Engagement policy

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock Investment Stewardship ("BIS") team's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, company impacts on people.

More information can be found here: https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf

Legal & General Investment Management ("LGIM")

Voting policy

LGIM uses proxy voting service provider Institutional Shareholder Services ("ISS") to execute votes electronically and for research, which augments LGIM's own research and proprietary ESG assessment tools. LGIM do not outsource any part of the voting decisions to ISS. It has put in place with ISS a custom voting policy that applies to all markets globally, which seeks to uphold what it considers to be the best practice standards companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

The table below shows the voting statistics for LGIM's Alternative Indexation Multi Factor Equity Fund for the period to 31 December 2021.

Number of resolutions eligible to vote on over the period	10,329
% of resolutions voted on for which the fund was eligible	100.0%
Of the resolutions on which the fund voted, % that were voted against management	19.1%
Of the resolutions on which the fund voted, % that were abstained from	0.1%

In June 2021, LGIM voted against a resolution to elect Target Corporation's CEO, Brian C. Cornell, to be its Board Chair as well. LGIM considers this vote to be significant as it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. LGIM expects a CEO (or Chair/CEO) or Non-Executive Director not to hold too many external positions to ensure they can undertake their duties effectively.

The outcome of the resolution was that the vast majority of shareholders were in favour of the resolution. However the Trustees expect LGIM to continue to engage with the company on the topic.

Engagement policy

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.

LGIM takes an active role in stewardship and considers it a duty to be accountable to its clients' assets and ensure it upholds the highest corporate governance standards. LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy.

All decisions are made by LGIM's investment stewardship team and in accordance with its relevant corporate governance, Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. The corporate governance team meets with the active equity and fixed income team on a bi-weekly basis to share information gained from analysis and engagement activity. This is a forum for raising and discussing particular investment and ESG concerns, insights and updates.

LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy here.

Engagement example:

Over 2021, LGIM engaged with a number of companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks. After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance.

LGIM believes it is important to promote an enhanced and standardised approach to antimicrobial resistance through influencing the regulatory landscape. As such, it is also working with its peers in the Investor Action on Antimicrobial Resistance initiative.[1]

Engagement activity – fixed income funds

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making.

While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in their ability to encourage positive change.

<u>Engagement example:</u>

In late 2021, T.Rowe engaged with Ambev, a Brazilian brewer, regarding human and labour rights related to Venezuelan migrants employed by the carrier, found to be sleeping in trucks equipped like motor homes. T.Rowe's engagement sought to develop a better understanding of the controversy, whether the incident is indicative of underlying organizational or cultural issues at the company and the actions that management have taken in response to the event.

Ambev indicated that the carrier involved in the controversy represents less than 1% of its transportation in Brazil and that it launched a full investigation into the incident. Ambev said that company policy is to terminate relationships where an ethical breach has occurred, and it is extremely strict on this. Legally, Ambev was able to terminate the supplier's contract immediately because it had in place the correct suppliers' policies and codes.

Despite being confident in its existing procedures, Ambev is making its supply chain risk management more robust. The company has enlisted several consultants to support this process and help embed more data analytics and enhanced auditing, as well as to refine its risk methodology.

The engagement met T.Rowe's objective and informed its investment research. T.Rowe believe Ambev acted quickly and responsibly in relation to the incident. It also sees that the company is researching and investing in ways to make supply chain management more robust and mitigate the risk of future controversies.

Engagement activity – Alternatives

The Trustees acknowledge that the ability of alternative managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information they provided for the EPIS that the managers are aware and active in their role as stewards of capital.

The following section demonstrates some of the engagement activity being carried out by the Scheme's alternative managers over the year.

Leadenhall is an Insurance Linked Securities ("ILS") manager. Reinsurance can be socially responsible and can align to many of the UN's Sustainable Development Goals ("SDGs"), but the measurements and data on ESG is still at its infancy. Over the Scheme year, Leadenhall engaged with over 60% of its counterparties regarding ESG-related matters. These conversations are currently qualitative rather than quantitative, but Leadenhall is working to provide standardisation of data within the reinsurance

[1] A coalition between the Access to Medicine Foundation, the FAIRR Initiative, the Principles for Responsible Investment and the UK Government Department of Health and Social Care to galvanise investor efforts to address global antimicrobial resistance

sector. During the Scheme year, Leadenhall engaged with a ESG consultant and have retained them in 2022 to help with development of their own ESG framework and measurements. The framework will be released later in 2022 with education and training for Portfolio Managers and Analysts throughout 2022. With the framework education and training, this will enable qualitative and quantitative engagement of counterparties at all levels. With this framework, Leadenhall believe there is greater ability to embed ESG into investment decisions.

The manager is engaging with data and modelling providers of environmental and social data in particular. Given the significance of climate change to Leadenhall's business, the manager is also engaging with research partners and modelling firms specialising in catastrophic risks ("Catastrophe Modelling firms"), to further quantify climate change and its impact on meteorological and physical risk.

The ILS strategy's investments are impacted by climate change via natural catastrophe losses. As such, Leadenhall plan to engage with Catastrophe Modelling firms to be able to incorporate climate related scenarios to a larger extent in future, in line with the recommendations of the Task Force on Climate Related Financial Disclosures ("TCFD")[2]. Leadenhall hope that incorporating these quantitative uncertainties will help in developing new products and structures (e.g. renewable energy etc) for the ILS and reinsurance industry.

Summary

Based on the activity over the year by the Trustees and its investment managers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that all of its investment managers were able to disclose adequate evidence of voting or engagement activity.

The Trustees 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.

[2] The TCFD establishes a set of consistent climate-related financial risk disclosures for use by companies, banks, and