

# **Deutz Retirement Benefits Plan (the “Plan”) - Annual Engagement Policy Implementation Statement (the “Statement”)**

## **Introduction**

This statement sets out how, and the extent to which, the Statement of Investment Principles (‘SIP’) produced by the Trustees has been followed during the year to 31 December 2020.

The SIP is a document drafted by the Trustees in order to help govern the Plan’s investment strategy. It details a range of investment-related policies, a summary of which is included in the table below, alongside the relevant actions taken by the Trustees in connection with each of these policies.

This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

## **Investment Objectives of the Plan**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees’ agreed investment objectives as set out in the SIP are as follows:

- To make sure obligations to the beneficiaries of the Plan are met.
- Control the level of investment risk to avoid unintended consequences such as a significant fall in the funding level or an excessive rise in contributions above a level that can be supported by the Sponsoring Company.

## **Review of the SIP**

During the year, the Trustees reviewed the Plan’s SIP and a revised SIP was implemented in June 2020 in order reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 to include policies in relation to:

- How the Plan’s arrangements incentivise the investment manager to align their investment strategy and decisions with the Trustees’ policies;
- How that Plan’s arrangements incentivise the manager to make decisions based on assessments of medium to long term financial and non-financial outcomes;
- How the method (and time horizon) of the evaluation of manager’s performance and remuneration are in line with the Trustees’ policies;
- How the Trustees monitor portfolio turnover costs;
- The duration of the arrangement with the investment manager.

In relation to these new policies, the following table describes the Trustees’ policies and the activities undertaken over the course of the year under review.

Section	Overview of Trustee policy	Comments on relevant activities
How the arrangements with the investment manager incentivises the managers to align investment strategies and decisions with the Trustees' policies	Investment managers are appointed by Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics.	<p>With the assistance of the Investment Adviser, the Trustees review the investment manager's performance on a quarterly basis, using performance reporting produced by the investment manager.</p> <p>The Trustees look to ensure that the investment strategy remains appropriate and that feedback can be provided to the investment manager so that they remain informed and aligned with the Trustees.</p>
How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance	The Trustees' focus is primarily on long-term performance but short-term performance is also reviewed. The Trustees may review a manager's appointment if there are sustained periods of underperformance.	<p>The quarterly performance reports provided by the investment manager include 3-year performance figures for each fund and therefore allow the Trustees to monitor the performance of each fund on a medium to long-term basis.</p> <p>The investment strategy is established as a long-term strategic asset allocation set out by the Trustees. Over the course of the year, the Trustees were satisfied that the investment strategy remained appropriate.</p> <p>The Trustees are satisfied that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long-term financial and non-financial performance.</p>

How the method (and time horizon) of the evaluation of the asset managers' performance and the remuneration for asset management services are in line with the Trustees' policies	The Trustees review absolute performance and relative performance against a suitable benchmark index, and against the manager's stated target performance (over the relevant time period).	<p>The investment manager is remunerated by way of a fee calculated as a percentage of assets under management – the investment manager's fees are based on the value of assets managed within the portfolio.</p> <p>None of the underlying funds permit performance based fees, which could encourage the manager to make short-term investment decisions.</p>
How the Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	The Trustees do not currently monitor the portfolio turnover costs but may look to do this as a part of an annual governance review.	Over the year, the Trustees did not monitor portfolio turnover costs in any detail.
The duration of the arrangement with the asset manager	The Trustees are a long-term investor and does not look to change the investment arrangements on a frequent basis. A manager's appointment may be reconsidered if there is a strategic change to overall strategy or the Trustees are no longer comfortable that the manager can deliver the mandate.	<p>The investment performance of all funds is reviewed by the Trustees on a quarterly basis. The Trustees may terminate the manager appointment or investment in individual funds if it is dissatisfied with the managers' ongoing ability to deliver the specific targets for the fund(s).</p> <p>There were no changes to manager appointments over the period.</p>

### Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. The SIP was last reviewed in June 2020.

The following work was undertaken during the year to 31 December 2020 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

## Engagement

- The Trustees requested that the investment manager, Legal and General Investment Management ("LGIM"), confirm compliance with the principles of the UK Stewardship Code. LGIM confirmed that they are signatories of the current UK Stewardship Code and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.
- The Plan's investment performance report is prepared by LGIM and reviewed by the Trustees on a quarterly basis. The investment performance report includes the detailed breakdown of each fund by sector where applicable. The investment manager is expected to report on ESG issues as and when requested by the Trustees.
- The Trustees also received details of relevant engagement activity for the year from the Plan's investment manager, summarised as follows:
  - LGIM directly engage with companies in order to identify ESG risks and opportunities. On-going dialogue with companies is a fundamental aspect of LGIM's responsible investment commitment. LGIM aims to raise the performance of the whole market through their ESG capability and engagement of companies globally.
  - LGIM engaged with companies over the year on a wide range of different issues including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy.
  - LGIM's engagement initiatives are driven mainly through regular engagement meetings with the companies that the funds invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate or not their support for the resolution to the company's management.

## Voting Activity

The Trustees understand that by using pooled vehicles for their investments, the Plan's voting rights are exercised by its investment manager in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. LGIM is expected to provide voting summary reporting on a regular basis, at least annually.

The Trustees do not use the direct services of a proxy voter.

The priority of LGIM's voting policies is to cover key issues which are essential for the protection of companies, shareholders and stakeholders; these include board structure and composition, remuneration and protection of shareholder rights. LGIM's policies are regularly reviewed to ensure that feedback from external stakeholders is integrated. In addition, LGIM remain cognisant of the evolving regulatory and corporate landscape, best practice and emerging issues. LGIM aim to minimise abstentions unless it is technically impossible to vote. LGIM disclose their votes for the major markets.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider vote in accordance with their position on ESG, LGIM have implemented their own custom policies with specific voting instructions.

The voting policy of the investment manager has been considered by the Trustees and the Trustees deem it to be consistent with their investment beliefs.

Over the last 12 months, key voting activity undertaken by LGIM in respect of the funds in which the Plan invests is summarised as below:

- UK Equity Index Fund
  - There have been 1,027 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 13,941 votable proposals;
  - LGIM has participated in 99.9% of the votable proposals. In around 93% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 7% of the proposals.
- North America Equity Index Fund
  - There have been 854 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 10,174 votable proposals;
  - LGIM has participated in 99.9% of the votable proposals. In around 72% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 28% of the proposals.
- Europe (ex UK) Equity Index Fund
  - There have been 676 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 10,695 votable proposals;
  - LGIM has participated in 99.9% of the votable proposals. In around 85% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 15% of the proposals.
- Japan Equity Index Fund

- There have been 567 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 6,697 votable proposals;
  - LGIM has participated in all the votable proposals. In around 87% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 13% of the proposals.
- Asia Pacific (ex Japan) Developed Equity Index Fund
- There have been 636 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 4,299 votable proposals;
  - LGIM has participated in all the votable proposals. In around 75% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 25% of the proposals.
- World Emerging Markets Equity Index Fund
- There have been 4,346 votable meetings over the year, of which LGIM has voted in all of these meetings on behalf of the Trustees. In these meetings, there were a total of 37,948 votable proposals;
  - LGIM has participated in 99.9% of the votable proposals. In around 85% of these votes for proposals, LGIM indicated their support to the companies' managements, while voting against around 13% of the proposals and abstain from 2% of these proposals.

The Trustees invest members' Additional Voluntary Contributions (AVCs) with Prudential and MGM, although the arrangements with MGM have been closed to new members. These arrangements are reviewed from time to time. Votes for the AVC funds have not been considered as they are not considered to be material in the wider context of the Plan.