

THE NORGINE RETIREMENT BENEFITS SCHEME

Engagement Policy Implementation Statement

Financial Year Ending 31st December 2020

Introduction

This statement, written for the benefit of the Scheme's members, sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles¹ ('SIP') produced by the Trustees, has been followed during the year to 31st December 2020. 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 Scheme

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

- To achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

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, which also sets out the processes followed by the Trustees in relation to voting rights and stewardship.

The Trustees have considered financially material factors such as ESG issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. They believe that ESG factors are implicitly reflected in the expected risk and return profile of the asset classes they are investing in and it is therefore in members' best interests to account for these factors within the investment process.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. The Trustees acknowledge that they cannot directly influence the ESG policies and practices of the companies in which the pooled funds invest. However, the Trustees do expect their fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustees accept that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustees will assess that this corresponds with their responsibilities to the beneficiaries of the Scheme with the help of their investment consultant.

¹ A statement of Investment Principles describes the way in which the Trustees are seeking to manage the assets of the Scheme.

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An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are reviewed regularly for existing managers with the help of the investment consultant. The Trustees will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustees will monitor financially material considerations through the following means:

Use ESG ratings information provided by its investment advisor, to assess how the Scheme's investment managers take account of ESG issues; and

Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant

The following sections set out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

Monitoring

- The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment managers.
- Managers will be expected to report on their own ESG policies as and when requested by the Trustees.
- The Scheme's investment performance report is reviewed by the Trustees on a quarterly basis – this includes ratings from the investment adviser. These ratings include an indication of Mercer's conviction in the ability of a manager to deliver its performance objectives. Deteriorations in these ratings may prompt the Trustees to consider terminating certain managers. The investment performance report includes details of how each investment manager is delivering against their specific mandates.
- The Trustees also received details of relevant engagement activity for the year to 31 December 2020 from each of the Scheme's investment managers, covering a wide range of different issues, including ESG factors. Examples of this are given below:
 - **Vanguard** (which the Scheme is invested in via Standard Life Aberdeen) engaged with 655 companies during 2020 – representing roughly \$2 trillion in assets, and voted on 176,834 proposals. Board compensation was a particular focus of Vanguard's stewardship approach, and was discussed in 60% of their engagements. Executive compensation, as well as oversight of strategy and risk were also frequently discussed. When voting, Vanguard consults a wide variety of third party research providers and their own internal proprietary databases. They then analyse the various issues and ballot measures in conjunction with their Proxy Voting Guidelines and other relevant data to reach their own independent decisions. Vanguard's Investment Stewardship team uses a variety of research from well-known providers, such as Institutional Shareholder Services (ISS), Glass Lewis, Bloomberg, Sustainalytics as well as a number of smaller research providers.
 - **Aberdeen Standard** (aka Standard Life Aberdeen) have integrated ESG factors into their investment process, and are dedicated to advancing policy, regulation and industry standards to benefit stakeholders. For example Boohoo. Across 2020, Aberdeen Standard had 508 ESG specific engagements focussed around strategy, risk management, board composition, remuneration, audit, climate change, diversity & inclusion, human rights, and bribery and corruption.
 - **UBS** is dedicated to helping achieve the UN's Sustainable Development Goals (and is a signatory to the UN Principles for Responsible Investment), along with moving capital to facilitate an orderly transition to a low carbon economy as per the Paris Agreement. ESG research is fully integrated

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across the traditional active businesses as well as specific ESG Funds. UBS's engagement across 2020 was focused on four specific themes: climate change, gender, equity impact, and controversies. During the year, they engaged with 277 companies, with discussions primarily around corporate governance, remunerations, strategy and business model, capital management, and transparency and disclosure.

- **Killik & Co.** have specialist ESG investment strategies, but have not declared how in depth their ESG considerations are across the company as a whole. Through Killik & Co, the Scheme is invested in iShares (run by BlackRock) and Berkshire Hathaway. BlackRock held over 3,500 engagements during 2020, notably seeing a 212% increase in environmental engagements from 2019, and a 142% increase on social issues engagements. Berkshire Hathaway has not engaged with ESG considerations, or produced ESG engagement reports as it differs to the manager's investment/management ethos.

Stewardship

- Over the year, the Trustees requested that the investment managers confirm compliance with the principles of the UK Stewardship Code.
- Aberdeen Standard, BlackRock, Vanguard, and UBS are all Tier 1 signatories of the UK Stewardship Code, indicating a high quality and transparent description of their approach to stewardship, and explanations of an alternative approach where necessary.
- Over the period, the Trustees did not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

Voting Activity

The Trustees have delegated their voting rights to the investment managers, except for Killik & Co, where the Scheme is engaged as an advisory client. As such, the Trustees hold the voting rights for the Berkshire Hathaway Direct Equity, iShares Developed Markets Property Yield UCITS ETF, and iShares UK Property UCITS ETF.

The Trustees did not use the direct services of a proxy voter over the year.

Over the last 12 months, the key voting activity on behalf of the Trustees was as follows:

Standard Life – Vanguard FTSE UK All Share Index

Vanguard voted at 10,596 proposals over the year; voting in line with management 99% of the time, against management 1% of the time, and abstained from voting 8 times. Vanguard utilises the Institutional Shareholder Services (ISS) voting platform, and has developed a robust custom voting policy.

Standard Life – Vanguard US Equity Index

Vanguard voted at 6,595 proposals over the year; voting in line with management 98% of the time, against management 2% of the time, and didn't abstain from voting on any of the proposals. Vanguard utilises the Institutional Shareholder Services (ISS) voting platform, and has developed a robust custom voting policy. Significant votes include voting for a report on governance measures relating to opioids at Johnson & Johnson, and voting for Facebook Inc. to require an independent board member.

Standard Life – Vanguard FTSE Developed Europe ex UK Equity Index

Vanguard voted at 8,538 proposals over the year; voting in line with management 95% of the time, against management 5% of the time, and abstained from voting 4 times. Vanguard utilises the Institutional Shareholder Services (ISS) voting platform, and has developed a robust custom voting policy. Significant votes include voting against multiple remuneration reports due to concerns over structure, excessive pay, and disclosure for Atlantia SpA, AB InBev SA/NV, Prosus NV, and Comagnie Financiere Richemont SA.

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Standard Life – *Vanguard Japan Stock Index*

Vanguard voted at 3,920 proposals over the year; voting in line with management 99% of the time, against management 1% of the time, and didn't abstain from voting on any of the proposals. Vanguard utilises the Institutional Shareholder Services (ISS) voting platform, and has developed a robust custom voting policy.

Standard Life – *Vanguard Pacific ex Japan Stock Index*

Vanguard voted at 1,139 proposals over the year; voting in line with management 96% of the time, against management 3% of the time, and didn't abstain from voting on any of the proposals. Vanguard utilises the Institutional Shareholder Services (ISS) voting platform, and has developed a robust custom voting policy. Significant votes include voting against the election of directors at CK Hutchinson Holdings Limited due to non-compliance with the Hong Kong governance code.

Standard Life – Index Linked Gilt Fund, and Long Corporate Bond Fund

The manager did not provide voting activity details as these are fixed income portfolios that do not have voting rights.

Aberdeen – *Eurozone Property Fund of Funds*

This Fund in has been in liquidation since 2019, with no voting activities taking place.

UBS – *Triton Property Fund*

Due to the nature of this Fund, there is only 1 vote per year at Triton's Annual Investor Meeting, which covers the re-election of a member of the Fund's Supervisory Board. The Trustees are not entitled to vote in this meeting.