Engagement Policy Implementation Statement

The Chanel Limited Pension Plan

This paper has been produced for the Chanel Limited Pension Plan ("the Plan"), as the Trustees of the Plan ("the Trustees") prepare their Engagement Policy Implementation Statement ("EPIS").

Next steps

- The Trustees should review details in relation to the preparation of the EPIS.
- The finalised EPIS must be included in the Plan's Annual Report and Accounts.
- The EPIS will also have to be published on a publicly accessible website.

At a glance…

The first part of this document provides information to the Trustees in relation to the preparation of the EPIS, including information regarding the regulatory background, data gathered, significant votes and next steps.

The remainder of the document includes the draft EPIS that has been prepared for the Trustees to review.

Regulatory background

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that, from 1 October 2020, trustees of defined benefit pension schemes must outline how they have ensured that the stewardship policies and objectives set out in the scheme's Statement of Investment Principles ("SIP") have been adhered to, by preparing an EPIS. The EPIS must:

- Explain how, and the extent to which, pension scheme trustees have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of, the trustees (including the most significant votes cast) during the scheme year and state any use of the services of a proxy voter.

Pension scheme trustees must publish the EPIS online, before 1 October 2021. Pension scheme trustees are also required to include the EPIS in the annual scheme report and accounts.

Prepared for: The Trustees
Prepared by: Aon
Date: 6 August 2021

Preparing the EPIS

Data

Aon has gathered information from your relevant investment managers, when preparing this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time, we expect industry wide templates to be more widely adopted and more consistent information received from investment managers. We believe it is reasonable to use the information provided for this year's EPIS.

To keep the statement relatively concise, we have taken a proportionate approach to reporting stewardship information.

Significant votes

The investment managers have provided the voting statistics (where relevant) and examples of "significant" votes. Each manager has their own criteria for determining whether a vote is significant. In general, a significant vote might be described as:

- a vote that was contentious that had more than 15% against management
- a vote where the investment manager voted against a management recommendation or different from the service provider recommendation
- a vote that is connected to a wider engagement initiative with company management
- 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 Plan.

Materiality considerations

This statement does not disclose stewardship information on any investments in liability driven investments or cash due to the limited materiality of stewardship to those asset classes.

This statement also does not disclose information on the additional voluntary contribution platform providers or funds on the grounds of materiality.

Next steps

The Trustees should review the document to ensure that they are comfortable with the statements being made on their behalf. Once the Trustees have reviewed, they should agree and finalise the EPIS.

The EPIS is required to be included in the Plan's Annual Report and Accounts. In addition, the Trustees are required to publish a copy of the EPIS on a publicly available website.

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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 implementation statement which:

- Explains how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles (“SIP”).
- Describes the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast) during the Plan year and states any use of the services of a proxy voter.

The Engagement Policy Implementation Statement (“EPIS”) for the Chanel Limited Pension Plan ("the Plan") has been prepared by the Trustees and covers the Plan year 6 April 2020 to 5 April 2021.

Plan Stewardship Policy Summary

The below bullet points summarise the Plan’s Stewardship Policy in force over most of the reporting year to 5 April 2021. The SIP is available on request and can be found online.

- 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 Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.
- The Trustees review the suitability of the Plan's appointed investment managers and take advice from their investment consultant regarding any changes. This advice includes consideration of broader stewardship matters and exercise of voting rights by the appointed managers.
- The Trustees will review the alignment of their policies to those of the Plan’s investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees’ rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.
- If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.
- The transparency for voting should include voting actions and rationale with relevance to the Plan, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustees or the investment manager. Where voting is concerned the Trustees expect their investment managers to recall stock lending as necessary, in order to carry out voting actions.

Plan stewardship activity over the year

Training

During the year, the Trustees received training from their investment consultant on the new regulations set by the Department for Work and Pensions (“DWP”), that required the Trustees to establish a policy on their arrangement with asset managers and aimed to encourage long term shareholder engagement. The purpose of the training was to provide the Trustees with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance (“ESG”) factors in investment decision making.

Updating the stewardship policy

Following the regulatory training, the Trustees complied with the regulatory requirements to expand the SIP for several policies, such as cost transparency and incentivising managers. The Trustees reviewed and expanded the stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustees recognise the importance of their role as a steward of capital, as well as indicating how the Trustees would review the suitability of the Plan's investment managers and other considerations relating to voting and methods to achieve their stewardship policy.

Ongoing monitoring

The Trustees monitor their managers' ESG practices and take advice from their investment consultant with regards to any significant concerns. The Trustees expect the Plan's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including, but not limited to, climate change risks) in the selection, retention and realisation of investments. The Trustees expect the managers to exercise their voting rights wherever possible and to promote positive change in the funds and companies in which they invest on the Plan’s behalf.

The Trustees receive regular investment updates from their investment consultant, including on matters relating to responsible investment. The Trustees' ongoing monitoring takes different forms, including investment performance monitoring, ad-hoc market updates and annual investment risk disclosures.

<u>Investment performance monitoring</u>

On a six-monthly basis, the Trustees receive monitoring reports from their investment consultant outlining the valuation of all investments held, the performance of these investments and any major transactions made during the quarter. Investment returns are compared against appropriate performance objectives to monitor the relative performance of these investments. The asset allocation is also monitored and compared to the strategic asset allocation for the Plan on a monthly basis.

The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon’s researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Voting and Engagement activity – Equity

Over the year, the Plan was invested in the following funds:

Manager	Fund Name
Legal & General Investment Management	World (ex-UK) Equity Index Fund
	World (ex-UK) Equity Index Fund – GBP Currency Hedged
	UK Equity Index Fund

Legal & General Investment Management ("LGIM")

Voting policy

LGIM make use of third-party provider Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary Environmental, Social and Governance ("ESG") assessment tools, but do not outsource any part of the strategic decisions. LGIM have put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what LGIM consider to be the minimum best practice standards all companies should observe. LGIM retain 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.

Voting statistics over the year to 31 March 2021	World (ex-UK) Equity Index Fund	UK Equity Index Fund
Number of resolutions eligible to vote on	37,840	12,574
% of resolutions voted on for which the fund was eligible	99.8%	100.0%
Of the resolutions on which the fund voted, % that were voted against management	19.2%	7.1%
Of the resolutions on which the fund voted, % that were abstained from	0.6%	0.0%

Voting example

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against a resolution to amend the directors' remuneration policy proposed by Pearson. LGIM deemed this vote to be significant given the unusual approach taken by the company and LGIM's outstanding concerns.

This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company. If this resolution was not passed the proposed new chief executive officer ("CEO") would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO and raised the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM voted against the amendment to the remuneration policy.

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach.

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.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement example

An example of LGIM's engagement at a firm level was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP (formerly the Carbon Disclosure Project) Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity – Fixed Income

The Plan also invests in a fixed income strategy managed by JP Morgan Asset Management ("JPM"). While the Trustees acknowledge the ability of fixed income managers to engage and influence companies may be less direct compared to equity managers, from the information received it is encouraging that JP Morgan is aware and active in their role as a steward of capital.

In their engagement with the companies it invests in, JPM have five main investment stewardship priorities that they believe are most applicable:

1. Governance;
2. Strategy alignment with the long-term;
3. Human capital management;
4. Stakeholder engagement; and
5. Climate risk.

More information can be found here: https://am.jpmorgan.com/blob-gim/1383664293468/83456/J.P.%20Morgan%20Asset%20Management%20investment%20stewardship%20statement.pdf

Engagement example

JPM analysts proactively engaged with Berkshire Hathaway Energy on a number of ESG factors. Two of the company's largest utilities generate more than 30% of their electricity from coal. The California insurance regulator has asked insurance companies to list out companies that generate more than 30% of electricity from coal. JPM has met with the company 3-4 times per year to discuss changes in Californian regulation, the possibility of issuing green-bonds to fund investment in environmentally friendly power generation, and to assess compliance with the Paris Climate Agreements. The company has since issued a $500m green bond.

Engagement activity – Real Estate

The Plan also invests in a real estate fund managed by Schroder Investment Management ("Schroders").

Schroders will engage and vote on any issue affecting the long-term sustainable value of a company in which it is invested. Schroders engagement activities combine the perspectives of their portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces. Intervention will generally begin with a process of enhancing their understanding of the company and helping the company to understand their position. The extent to which Schroders would expect to effect change will depend on the specific situation. Schroders' focus will be on issues material to the value of the company's shares.

Schroders state that they generally engage for one of three reasons:

1. To seek improvement in performance and processes in order to enhance and protect the value of their investments,
2. To monitor developments in ESG practices, business strategy and financial performance within a company, and
3. To enhance Schroders' analysis of a company's risks and opportunities.

Schroders' mechanism for engagement varies but typically includes one-to-one meetings with company representatives (e.g. members of the Board including Committee chairs, senior executives, investor relations, managers of specialist areas), and focused ESG engagements undertaken by Schroders' ESG specialists where appropriate.

Schroders prioritise their engagement activities based on the materiality of the issue, and the size of their exposure to the individual company, either by the total amount of assets invested on behalf of clients or by the percentage of shares held.

Engagement example

Schroders note an example in relation to with Batterseas Studios, London which comprises two office buildings and is held within the UK Real Estate Fund in which the Plan invests.

A comprehensive review focusing on health and wellbeing credentials was undertaken by Schroders to support understanding of tenant's needs. A wellness gap analysis was completed for the building and management operations against the Fitwel standard (a US based health and wellbeing assessment and certification routine for office buildings).

The review included conducting an occupant commuter survey to better understand transport requirements for building users (e.g. bike storage and showers), establishing an indoor air quality management policy and installing signs promoting stair use at lift call areas and handwashing in bathrooms.

Identified improvements have been implemented and the Fitwel certification was completed in March 2019, with one of the buildings officially awarded the first 'Fitwel for Workplace: Multi-Tenant Whole Building' Certification in Europe, gaining a 1 star rating. Schroders continue to develop their understanding of what health and wellbeing aspects contribute to improved tenant experience to further improve the building and the star rating.

In summary

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

The Trustees expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement.

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