# PARAGON PENSION PLAN

### Annual Engagement Policy Implementation Statement

## Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 March 2022. This Statement has been produced in accordance with applicable regulations and the guidance published by the Pensions Regulator.

The Trustee considers its policies in relation to:

a) The strategic management of the assets - this is fundamentally the responsibility of the Trustee, acting on expert advice, and is driven by the investment objectives as set out below. The Trustee reviews the investment policy on a regular basis, although it is not expected to change frequently.

b) The implementation of the investment strategy - this occurs through the day to day management of the assets which is largely delegated to the Trustee's selected investment managers ("the Managers"). This is outlined in Section 5 of the Plan's SIP, with full details in the Investment Policy Implementation Document ("IPID").

## Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Plan included in the SIP are as follows:

- The Trustee's overall investment policy is guided by an objective of achieving, over the long term, a return on the investments that is consistent with the contribution framework agreed with the Company to eliminate the ongoing (i.e. Technical Provisions "TP") funding deficit by 31 July 2025, to ensure that it can meet its obligations to the beneficiaries of the Plan.

- To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.

- The Trustee appreciates that the Company wishes to avoid significant volatility in its contribution rate, but some volatility will be tolerated if it is deemed necessary in the achievement of other objectives.

Given the nature of the liabilities, the investment time horizon of the Plan is potentially very long-term, i.e. several decades. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Plan's investment horizon significantly.

## Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in December 2021.

In order to establish these beliefs and produce this policy, the Trustee undertook a survey and investment training provided by the Plan's investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. The training was provided in June 2019. The Trustee keeps its policies under regular review.

The Trustee is satisfied that its engagement policy was followed during the year. The following summarises how the Trustee's engagement and voting policies were followed and implemented during the year accordingly.

## Engagement

- An investment performance report was reviewed by the Trustee on a quarterly basis - this included ratings (both general and specific ESG) from the investment consultant. The investment performance reports included how each investment manager was delivering against their specific mandates. Through its investment consultant, the Trustee reviewed the mandates of Legal & General Investment Management Limited ("LGIM"), Baillie Gifford & Company ("BG"), Insight Investment Management Limited ("Insight"), BlueBay Asset Management ("BlueBay"), Shenkman Capital Management ("Shenkman"), and Kohlberg Kravis Roberts ("KKR") (together the "Investment Managers") in relation to ESG factors including climate change. The Plan's managers remained generally highly rated during the period.

- The Trustee also undertook an annual ESG rating benchmarking exercise in November 2021. This exercise assessed the average ESG rating of the Plan's holdings and compared the rating of each fund to other funds in the same asset class universe. From the latest review, the Trustee concluded that the Plan's managers have an above average ESG rating compared to the wider universe.

- In February 2022, the Trustee prepared an ESG investment beliefs statement, setting out the Trustee's beliefs on ESG issues as it relates to investment of the Plan. It is intended to be a reference for the Trustee when incorporating ESG factors into investment decision-making and in the development of a future Responsible Investment Policy. In establishing its beliefs, the Trustee has considered the ESG beliefs of the Sponsoring Employer.

- The Trustee has requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. The majority of the Plan's Investment Managers (representing 92% of the strategic benchmark allocation) confirmed that they are signatories of the UK Stewardship Code 2020. Two of the Plan's managers (Shenkman and KKR) confirmed that they are not signatories to the code, on the basis that as credit investors it is not relevant to the assets they manage, particularly as the code focuses on listed equities.

- The Trustee also receives presentations from each of the Plan's managers periodically. Manager presentations are prioritised based on advice received from the investment consultant and discussions during the quarterly monitoring process described above. The Trustee provides the investment managers with questions prior to these meetings, including questions on ESG-related/engagement issues. It also receives briefing from the Investment Consultant prior to the meeting, based on the Investment Consultant's research reporting, including background to the manager's ESG rating.

- During the Plan year the Trustee received a presentation from Insight regarding the Absolute Return Bond mandate following the format described above. The Trustee also received presentations from LGIM to discuss LGIM's 'Future World' equity fund range and ESG considerations within the LDI mandate, in particular the use of green gilts.

- The Trustee also received details of relevant engagement activity for the year from the Plan's investment managers, as part of their regular reporting.

## Voting Activity

Voting is relevant to the Plan's passively managed equity investments and diversified growth investments only. This specifically relates to the LGIM Equity Portfolio and the Diversified Growth Funds with Baillie Gifford and Insight, which have a combined benchmark allocation of 48% of total Plan assets. The Plan's AVCs have been transferred out of the Plan and therefore no information on AVCs is included in this Statement.

The Trustee has delegated its voting rights to the investment managers. The Trustee does not use the direct services of a proxy voter.

Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. LGIM, BG and Insight have been asked to confirm examples of significant voting activity (including a description of how they define a 'significant' vote) in relation to the pooled funds in which the Plan is invested, over the year to 31 March 2022. They have responded as outlined below. The Trustee will be developing its own criteria for what constitutes a 'significant' vote, but is of the view that the responses below are consistent with the Trustee's policies as outlined in the SIP.

## LGIM Equity Portfolio

### *Proxy Voting*

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 it does not outsource any part of the strategic decisions. To ensure its proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions.

### *Significant Vote (description)*

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to a LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

## UK Equity

| Votes cast | | | Significant vote example |
|---|---|---|---|
| **Votes in total** | **Votes against management endorsement** | **Abstentions** | |
| 10,813 resolutions eligible for (99.98% cast) | 6.93% | 0.00% | **Company:** Frasers Group plc<br><br>**Summary:** Voted "AGAINST" the resolution 1: To receive and adopt the report & accounts.<br><br>**Rationale:** LGIM's corporate governance policy requires all UK-listed companies to meet the requirements of the Modern Slavery Act 2015. Section 54 of the Act requires companies to provide a statement setting out the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain. In addition, the statement should be signed by the board of directors. LGIM will sanction any company that has failed to meet the requirements of the Act for two consecutive years. Not only do they consider this to be serious governance failing, they see this as both a humanitarian crisis and a risk to a company's operating model. In 2016, it is estimated that there were more than 40 million cases of modern slavery globally; the true figure today is thought to be significantly higher, LGIM is part of a collaborative engagement group that is trying to ensure UK companies comply with this legislation.<br><br>**Outcome:** Resolution supported by 99.5% of shareholders.<br><br>**Implications:** While engagement with the company suggests it will be compliant with the requirements of section 54 by the end of this year, LGIM considered this to be insufficient cause to change their vote.<br><br>**Significance:** This vote was significant because it relates to one of LGIM's engagement themes: Human Rights/Inequality |

## North America

<table>
<tr><th colspan="3">Votes cast</th><th rowspan="2">Significant vote example</th></tr>
<tr><th>Votes in total</th><th>Votes against management endorsement</th><th>Abstentions</th></tr>
<tr><td>8,181 resolutions eligible for (99.74 cast)</td><td>29.51%</td><td>0.06%</td><td>Company: McDonald's Corporation<br><br>Summary: Voted “FOR” the resolution 5: Report on Antibiotics and Public Health Costs against management.<br><br>Given their recent engagement with the company on the topic of antibiotic use in their supply chain and their decision to publicly pre-declare their support to the shareholder resolution on the topic, LGIM exceptionally decided to communicate their vote intentions to the company as part of their continuous engagement with them.<br><br>Rationale: LGIM voted in favour as they believe the proposed study will contribute to informing shareholders and other stakeholders of the negative externalities created by the sustained use of antibiotics in the company’s supply chain and its impact on global health, with a particular focus on the systemic implications. Antimicrobial resistance (AMR) is a key focus of the engagement strategy of LGIM’s Investment Stewardship team. LGIM believes that, without coordinated action today, AMR could prompt the next global health crisis, with a potentially dramatic impact on the planet, its people, and global GDP. Whilst LGIM applauds the company’s efforts over the past few years on reducing the use of antibiotics in its supply chain for chicken and beef as well as pork, they believe AMR is a financially material issue for the company and other stakeholders, and they want to signal the importance of this topic to the company’s board of directors.<br><br>Outcome: Resolution supported by 11.3% of shareholders.<br><br>Implications: LGIM will continue to engage with the company and monitor progress.<br><br>Significance: LGIM considers this vote to be significant as they took the rare step of publicly pre-declaring it before the shareholder meeting. Publicly pre-declaring their vote intention is an important tool for their engagement activities. LGIM decided to pre-declare their vote intention for a number of reasons, including as part of their escalation strategy, where they consider the vote to be contentious, or as part of a specific engagement programme.</td></tr>
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**Europe (ex UK)**

| Votes cast | | | Significant vote example |
|---|---|---|---|
| **Votes in total** | **Votes against management endorsement** | **Abstentions** | |
| 9,447 resolutions eligible for (99.80% cast) | 17.11% | 0.70% | **Company:** Volkswagen AG<br><br>**Summary:** Voted “AGAINST” the Resolutions 3.1 to 4.21: Approve Discharge of Management Board and Supervisory Board members.<br><br>**Rationale:** LGIM notes the progress made by the company in its strategy towards the transition to a lower emission world, LGIM remains concerned regarding the handling of the diesel emissions scandal of 2015 by the management and supervisory boards and the overall governance structure of the company. In particular, they note a lack of transparency regarding the handling of the crisis, including any lessons learnt by the boards, how sufficient internal control mechanisms have been put in place, and any progress made around improvement of corporate culture.<br><br>**Outcome:** Resolution supported by 99.5% of shareholders.<br><br>**Implications:** LGIM will continue to monitor and engage with the company.<br><br>**Significance:** A vote against the discharge of responsibility of both the management and supervisory boards is a rare step in LGIM's escalation policy. |

### Japan

| Votes cast | | | Significant vote example |
|---|---|---|---|
| Votes in total | Votes against management endorsement | Abstentions | |
| 6,109 resolutions eligible for (100% cast) | 13.34% | 0.02% | **Company:** Toshiba Corp<br><br>**Summary:** Voted "AGAINST" the Resolution 1.2: Elect director Nagayama, Osamu.<br><br>**Rationale:** A vote AGAINST the nominee is warranted because Nagayama is the nomination committee chair and the chairman of the board. Therefore, he bears the greatest responsibility in nominating candidates, and has ultimate responsibility for the conduct of the board. Whilst LGIM notes the Board's actions since the concerns regarding the conduct of the 2020 AGM has come to light, they hold the Board Chairman ultimately accountable.<br><br>**Outcome:** Resolution supported by 43.7% of shareholders.<br><br>**Implications:** LGIM will continue to engage on this important ESG issue.<br><br>**Significance:** This was a high profile vote, which followed the publication of a third party investigation report on the company's questionable communications with shareholders. |

### Asia (ex-Japan)

| Votes cast | | | Significant vote example |
|---|---|---|---|
| Votes in total | Votes against management endorsement | Abstentions | |
| 3,457 resolutions eligible for (99.97% cast) | 26.36% | 0.23% | **Company:** United Overseas Bank Limited (Singapore)<br><br>**Summary:** Voted "AGAINST" the resolution 2a: Elect Wong Kan Seng as Director.<br><br>**Rationale:** LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on clients' behalf. For 10 years, LGIM has been using their position to engage with companies on this issue. As part of LGIM's efforts to influence investee companies on having greater gender balance, they expect all companies in which they invest in globally to have at least one woman on their board.<br><br>**Outcome:** Resolution supported by 86.0% of shareholders.<br><br>**Implications:** LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.<br><br>**Significance:** LGIM views gender diversity as a financially material issue for clients, with implications for the assets they manage on clients' behalf. |

### Emerging Markets

| Votes cast | | | Significant vote example |
|---|---|---|---|
| Votes in total | Votes against management endorsement | Abstentions | |
| 34,237 resolutions eligible for (99.80% cast) | 16.71% | 2.18% | **Company:** Alibaba Group Holding Limited<br><br>**Summary:** Voted "AGAINST" the resolution 1.1 - Elect Director Joseph C. Tsai<br><br>**Rationale:** LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they have voted against all combined board chair/CEO roles. Furthermore, they have published a guide for boards on the separation of the roles of chair and CEO, and they have reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.<br><br>**Outcome:** Resolution supported by 73.6% of shareholders.<br><br>**Implications:** LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.<br><br>**Significance:** LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). |

### Baillie Gifford ("BG") – Diversified Growth Fund

*Proxy Voting*

Whilst Baillie Gifford is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of their stewardship activities or follow or rely upon the recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. They vote in line with their in-house policy and not with the proxy voting providers' policies.

*Significant Vote (description)*

The list below exemplifies potentially significant voting situations:

- BG's holding had a material impact on the outcome of the meeting;
- The resolution received 20% or more opposition and BG opposed;
- Egregious remuneration;
- Controversial equity issuance;
- Shareholder resolutions that BG supported and received 20% or more support from shareholders;
- Where there has been a significant audit failing;
- Where BG has opposed mergers and acquisitions;
- Where BG has opposed the financial statements/annual report;
- Where BG has opposed the election of directors and executives.

<table>
<tr><th colspan="3">Votes cast</th><th rowspan="2">Significant vote example</th></tr>
<tr><th>Votes in total</th><th>Votes against management endorsement</th><th>Abstentions</th></tr>
<tr><td>1,537 resolutions eligible for (96.01% cast)</td><td>3.40%</td><td>0.59%</td><td>Company: Vonovia SE<br><br>Summary: Voted “AGAINST” the resolution: Amendment of share Capital.<br><br>Rationale: Baillie Gifford opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.<br><br>Outcome: The resolutions passed.<br><br>Implications: In advance of the AGM Baillie Gifford contacted the company to see if they could provide an assurance, they would not issue shares below Net Tangible Asset (NTA). The company were not able to provide that assurance therefore BG did not feel it was in their clients' interest to support the two equity issuance resolutions. BG encourage the company to provide this additional assurance so BG could consider supporting in future.<br><br>Significance: This resolution is significant because it received greater than 20% opposition.</td></tr>
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## Insight – Broad Opportunities Fund

### *Proxy Voting*

Insight retains the services of Minerva Analytics (Minerva) for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote.

### *Significant Vote (description)*

The strategy invests in listed closed-end investment companies with a focus on cash-generative investments in social infrastructure, renewable energy and asset-backed aviation finance. The corporate structure of closed-end investment companies held in the strategy includes an independent board, which is responsible for providing an overall oversight function on behalf of all shareholders. This governance framework includes a range of aspects including setting out investment objectives, and on an ongoing basis ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework, which is with an independent board acting on behalf of shareholders, generally limits contentious issues that can arise with other listed entities. As a result, examples of significant votes cast that may be comparable to other listed entities are not applicable to the strategy's exposures.

| **Votes cast** | | | **Significant vote example** |
|---|---|---|---|
| **Votes in total** | **Votes against management endorsement** | **Abstentions** | |
| 141 resolutions eligible for (100% cast) | 0.7% | 0% | See 'Significant Vote (description)'. |