

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 2021. 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 September 2020.

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, from the point it was adopted. 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"), Kohlberg Kravis Roberts ("KKR") and Lothbury Investment Management Limited ("Lothbury") (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 2020. 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.
- 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 presentations from Shenkman and KKR following the format described above. ESG factors were considered as part of the manager selection process.

- 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 current UK Stewardship Code and have submitted 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. 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 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 44.5% 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 2021. They have responded as outlined below. The Trustee is 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 examples
Votes in total	Votes against management endorsement	Abstentions	
12,574 resolutions eligible for (100% cast)	7.05%	0.01%	<p>Company: Barclays</p> <p>Summary: Voted “FOR” the resolution 29: Approve Barclays’ Commitment in Tackling Climate Change; and resolution 30: Approve ShareAction Requisitioned Resolution.</p> <p>Rationale: The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. LGIM is particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.</p> <p>Outcome: Resolution 29 - supported by 99.9% of shareholders Resolution 30 - supported by 23.9% of shareholders.</p> <p>Implications: LGIM focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. LGIM plans to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.</p> <p>Significance: Since the beginning of the year there has been significant client interest in voting intentions and engagement activities in relation to the 2020 Barclays AGM.</p>

North America

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
9,495 resolutions eligible for (100% cast)	28.17%	0.04%	<p>Company: Tyson Foods</p> <p>Summary: Voted “FOR” in a shareholder-led resolution requesting that the company produced a report on Tyson’s human rights due diligence process. This proposal was raised due to concerns over potential deficiencies in the application of its human rights policies highlighted by the pandemic.</p> <p>Furthermore, according to the ISS AGM Benchmark report, there have been over 10,000 positive cases and 35 worker deaths. As such, the company is opening itself up to undue human rights and labour rights violation risks.</p> <p>Rationale: LGIM believes that companies in which they invest clients’ capital should uphold their duty to ensure the health and safety of employees over profits. LGIM believes that producing this report is a good opportunity for the board to re-examine the steps they have taken and assess any potential shortfalls in safety measures so that they can improve controls and be better prepared for any future pandemic or similar threat.</p> <p>Outcome: The resolution failed to get a majority support as only 17% of shareholders supported it.</p> <p>Implications: LGIM will continue to monitor this company.</p> <p>Significance: Clients were particularly interested in the outcome of this vote.</p>

Europe (ex UK)

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
11,412 resolutions eligible for (99.89% cast)	15.26%	0.80%	<p>Company: Lagardère</p> <p>Summary: Voted ‘FOR’ for five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardère SB directors (resolutions B,C,E,F,G). The resolution led by Activist Amber Capital, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).</p>

			<p>Rationale: LGIM engaged with both Amber Capital, where it was able to speak to the proposed new SB Chair, and Lagardère, where it spoke to the incumbent SB Chair. This allowed LGIM to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.</p> <p>Outcome: Even though shareholders did not give majority support to Amber’s candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)</p> <p>Implications: LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.</p> <p>Significance: LGIM noted significant media and public interest on this vote given the proposed revocation of the company’s board.</p>
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Japan

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
6,518 resolutions eligible for (100% cast)	13.92%	0.00%	<p>Company: Fast Retailing Co. Limited.</p> <p>Summary: Voted “AGAINST” the Resolution 2.1: Elect Director Yanai Tadashi.</p> <p>Rationale: LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to act on the inability to meet LGIM targets of female board diversity.</p> <p>Outcome: Resolution passed. Shareholders supported the election of the director.</p> <p>Implications: LGIM will continue to engage with and require increased diversity on all Japanese company boards, including Fast Retailing.</p> <p>Significance: LGIM considers it imperative that the boards of Japanese companies increase their diversity.</p>

Asia (ex-Japan)

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
3,774 resolutions eligible for (100% cast)	25.76%	0.03%	<p>Company: Whitehaven Coal</p> <p>Summary: Voted "FOR" Resolution 6 Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.</p> <p>Rationale: LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.</p> <p>Outcome: The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in 'significant environmental harm'. As the company is on LGIM's Future World Protection List of exclusions, many of its ESG-focused funds – and select exchange-traded funds – were not invested in the company.</p> <p>Implications: LGIM will continue to monitor this company.</p> <p>Significance: The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.</p>

Emerging Markets

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
36,036 resolutions eligible for (99.89% cast)	13.40%	1.38%	There were no significant votes made in relation to the securities held by this fund during the reporting period.

Baillie Gifford (“BG”) – Diversified Growth Fund

Proxy Voting

ISS and Glass Lewis - for voting recommendations. BG does not delegate or outsource any of its stewardship activities or follow or rely upon their recommendations when deciding how to vote on its clients’ shares. All client voting decisions are made in-house. BG votes in line with its 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.

Votes cast			Significant vote examples
Votes in total	Votes against management endorsement	Abstentions	
925 resolutions eligible for (96.00% cast)	5.18%	1.24%	<p>Company: Covivio REIT</p> <p>Summary: Resolutions regarding Remuneration Policy.</p> <p>Rationale: Voted “AGAINST” five resolutions regarding the in-flight and proposed long term incentive scheme because it could lead to rewarding under-performance.</p> <p>Outcome: The resolutions passed.</p> <p>Implications: Following the AGM in 2020, BG informed the company of its voting decision and advised that BG expects more stretching performance criteria to apply to long term incentives going forward. BG has yet to see improvements in the targets so will continue dialogue with the company and to take appropriate voting action.</p> <p>Significance: This resolution is significant because BG opposed remuneration.</p>

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 examples
Votes in total	Votes against management endorsement	Abstentions	
17 resolutions eligible for (100% cast)	0%	0%	See 'Significant Vote (description)'.