Thorntons Pension Scheme (the "Scheme")

Engagement Policy Implementation Statement (the "Statement") for the year to 31 May 2022

Introduction

This Statement sets out how, and the extent to which, the stewardship (voting and engagement) policies set out in the Trustee's Statement of Investment Principles ('SIP') dated 25 March 2021 have been followed during the year to 31 May 2022.

This Statement has been produced in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 as amended and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustee's primary objectives are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme taking into account the funding level of the Scheme and the strength of covenant of the Employer; and
- To pay due regard to the interest of the Employer on the size and incidence of its contribution payments.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially 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 Scheme's investment horizon significantly.

The Trustee understands, following discussions with the Employer, that the Employer is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

Policy on Environmental, Social and Governance ('ESG'), Stewardship and Climate Change

As set out in its SIP, the Trustee has agreed polices in relation to ESG factors, stewardship and climate change. In particular the SIP sets out the Trustee's policies with regard to:

- The exercise of the rights (including voting rights) attaching to the investments held by the Scheme.
- The undertaking of engagement activities with the issuers of the investments held by the Scheme.
- How to incentivise the Scheme's appointed investment managers to align their investment strategy and decisions with the Trustee's policies.
- How to incentivise the investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity they invest in on the Trustee's behalf.
- How to incentivise the investment managers to engage with issuers of debt or equity that they invest in on the Trustee's behalf in order to improve the issuer's performance over the medium to long-term.
- How the method (and time horizon) of the evaluation of the investment managers' performances, and the managers' remunerations for asset management services, are aligned with the Trustee's policies.
- How the Trustee monitors portfolio turnover costs incurred by the investment managers, and how it defines and monitors targeted portfolio turnover or turnover range.
- The duration of the Trustee's arrangements with the investment managers.

Engagement

Set out below is a summary of the work undertaken during the year by the Trustee relating to its stewardship policies and an assessment of how the Trustee's engagement and voting policies were implemented by its appointed investment managers during the year. **In the Trustee's opinion, the implementation of the Trustee's policies has been acceptable over the reporting year.**

- With the assistance of its investment consultant, Mercer Limited ("Mercer"), the Trustee reviewed the stewardship activity of its investment managers. This is with the exception of the Trustee's appointed Additional Voluntary Contributions providers, where the assets held form only a very small part of the Scheme's total invested assets.
- As part of these reviews, the Trustee considered Mercer's assessment of how each manager incorporates stewardship considerations into its investment processes, noting and discussing any changes to Mercer's assessments. Mercer summarises its assessment of each manager by means of an "ESG" rating, an ESG rating of 1 indicating that Mercer believes an investment manager is fully embedding stewardship matters into its investment process and a rating of 4 indicating that Mercer believes an investment manager takes little account of stewardship matters.
- All of the managers retained acceptable ESG ratings during the year, taking into account the asset class / investment structure for their mandate.
- The Trustee also received direct reporting from its investment managers on stewardship activity,
- The Trustee expects the investment managers to undertake stewardship in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. All managers, at the Trustee's request, have recently confirmed their compliance with the principles of the UK Stewardship Code.

Voting Activity

As the Scheme was invested solely in pooled funds over the year, the Trustee accepts it has no legal right to the votes available under these arrangements. Given these arrangements, the Trustee does not use the direct services of a proxy voter.

However, as noted above, the Trustee expects the managers to exercise voting rights and undertake stewardship activity that is consistent with the Trustee's stewardship policies.

The Trustee expects the investment managers to provide a summary of their voting activity at least annually. This is reviewed by the Trustee, with the assistance of Mercer, to ensure that voting activity by the managers was in line with the Trustee's policy.

The voting rights attached to the Scheme's investments related to its equity holdings during the year. These holdings are managed by BlackRock in the following passively managed pooled funds:

- Aquila Life UK Equity Index Fund;
- Aquila Life World (ex UK) Equity Index Fund;
- Aquila Life Currency Hedged World (ex UK) Equity Index Fund;
- Aquila Life Global Minimum Volatility Fund; and
- BlackRock Emerging Markets Index Sub-Fund

BlackRock uses the BlackRock Investment Stewardship ("BIS") team to formulate its voting policy. Voting decisions are made by members of the team with input from investment colleagues as required and in accordance with BlackRock's Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines. The BIS team subscribes to research from the proxy advisory firms Institutional Shareholder Services and Glass Lewis. There is therefore indirect use of proxy voters by the Trustee. However, BlackRock does not simply follow any single proxy research firm's voting recommendations and uses several other inputs, including a company's own disclosures, and BlackRock's record of past engagements, in its voting and engagement analysis.

Information on voting activity has been provided by BlackRock and is summarised below, including commentary provided by them on the most significant votes that have been undertaken on the Trustee's behalf during the Scheme year.

<u>Process for determining the most-significant votes</u>

BIS prioritises its work around themes that they believe will encourage sound governance practices and deliver sustainable long-term financial performance at the companies in which BlackRock invests on behalf of their clients. BlackRock undertake year-round engagements with its clients to understand their focus areas and expectations to help inform these priorities. The themes identified are reflected in BlackRock's "Global Principles", market-specific voting guidelines and engagement priorities. These underpin their stewardship activities and form the benchmark against which the sustainable long-term financial performance of investee companies is looked at.

Voting activity undertaken over the year to 31 May 2022 is summarised in the table below for the Plan's equity funds.

Fund	Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management / abstain *
UK Equity Index Fund	1,125	15,218	96%	92% / 7% / <1%
World (ex UK) Equity Index Fund **	2,199	27,342	91%	94% / 5% / 1%
Global Minimum Volatility Fund	355	5,042	95%	94% / 5% / <1%
Emerging Markets Index Sub-Fund	2,706	23,866	97%	89% / 10% / 3%

Source: BlackRock. Figures subject to rounding.
** Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.*
*** Same voting statistics apply for the Aquila Life Currency Hedged World (ex UK) Equity Index Fund.*

Examples of BlackRock's voting and engagement on behalf of the Trustee over the year to 31 May 2022 are shown below.

Aquila Life UK Equity Index Fund

- **Shell Plc**: In May 2022, BlackRock supported the Shell Energy Transition Progress Update management proposal in recognition of the company's disclosed energy transition plan to manage climate-related risks and opportunities and the company's progress against this strategy.
- At the same meeting, BlackRock did not support the shareholder proposal to request Shell to set and publish targets for greenhouse gas emissions because BlackRock believes that it is not additive to Shell's Energy Transition Strategy and that the company's ability to set absolute short-and medium-term scope 3 emissions reduction targets is impeded by the current uncertainty around the pace of declines in oil and gas demand as well as energy security considerations.
- **Barclays Plc**: In May 2022, BlackRock voted for the proposal of Barclay's Climate Strategy, Targets and Progress 2022 in recognition of the company's disclosed plan to manage climate-related risks and opportunities and the company's progress against this plan.
- **Rio Tinto Limited**: In May 2022, BlackRock voted for the management proposal seeking shareholders' approval of the Rio Tinto Group's Climate Action Plan, which is described in the report "Our Approach to Climate Change 2021". The group's climate action plan, targets, and disclosures are consistent with what the manager looks for and, in BlackRock's assessment, demonstrate management and board responsiveness to shareholder feedback. Accordingly, BlackRock determined that it would be in the best interests of its clients as long-term shareholders to support the proposal to approve the Climate Action Plan.

Aquila Life World (ex UK) Equity Index Fund & Aquila Life Currency Hedged World (ex UK) Equity Index Fund

- **Chevron Corporation**: In May 2022, BlackRock voted for the shareholder proposal for approval of the Executive Officer compensation given the company's disclosures and their ongoing efforts to increase transparency. BlackRock believes Chevron's Compensation Committee has shown effective oversight over the company's compensation program.
- BlackRock also voted for the shareholder proposal to report on reliability of methane emission disclosures because the manager shares the Board's view that this is a material issue for Chevron that could impact the company's ability to generate long-term, durable value.
- At the same meeting, BlackRock voted against the proposal to report on impacts of Net Zero 2050 Scenario, as the company has already committed to fulfilling its task and has demonstrated meaningful progress on climate action to date; voted against the proposal to adopt medium-and long-term GHG reduction targets as BlackRock believes the company has appropriately responded to shareholder concerns by setting scope 1, 2 and 3 GHG reduction targets; voted against the shareholder proposal to report on business with conflict-complicit governments as BlackRock believes that the company has appropriate policies and frameworks in place to oversee and manage this particular risk; and voted against the proposal to report on racial equity audit because, in BlackRock's view, the language and intent appeared to be inconsistent and thus the proposal was not in the best long-term economic interests of shareholders.
- **ExxonMobil Corporation:** In May 2022, BlackRock voted against the shareholder proposal to reduce the company's emissions and hydrocarbon sales in recognition of the steps the company has taken in the past year on setting scope 1 and 2 GHG emissions reduction targets. BlackRock also acknowledged the complexities surrounding scope 3 emissions reduction targets for the oil and gas industry in particular.
- BlackRock also voted against the shareholder proposal to report on low carbon business planning based on an assessment that it was overly prescriptive in nature and unduly constraining on management, and therefore not in the clients' long-term economic interests.
- At the same meeting, BlackRock voted in favour of the shareholder proposal to report on scenario analysis because the manager believes shareholders would benefit from more fulsome information on the company's scenario planning in relation to a range of pathways of the global energy transition.
- While acknowledging the materiality of plastic pollution for the company, BlackRock did not support the shareholder proposal to report on reducing plastic production because BlackRock did not believe that the report as requested in the resolved clause set forth by the proponent would yield the most material information for investors. In addition, the manager believed that the proposal was overly constricting on the Board.
- BlackRock did not support the shareholder proposal to report on political contributions because, in their assessment, Exxon's enhanced disclosure regarding their political spending and lobbying activities provides sufficient information for investors to make informed investment decisions.
- **McDonald's Corporation**: In May 2022, while BlackRock acknowledged the materiality of plastic pollution to the company, BlackRock did not support the shareholder proposal to report on efforts to reduce plastic use because they believed the company's existing disclosure was sufficient.
- BlackRock also voted against the proposal to report on use of gestation stalls in pork supply chain because they believed that the company had adequate disclosure in place to address this issue.
- While acknowledging that racial equity audits can be beneficial for companies in addressing material risks and opportunities, BlackRock did not support a shareholder proposal on this topic because, in their assessment, McDonald's current disclosure provided clear, fulsome information to enable

stakeholders to track the effectiveness of the company's diversity, equity and inclusion efforts, and their stated goals provide insight into the company's ongoing priorities.

- BlackRock did not support the proposal to issue a transparency report on global public policy and political influence because, in their assessment, McDonald's disclosure regarding their political spending and lobbying activities provides sufficient information.

Aquila Life Global Minimum Volatility Fund

- **The Kroger Co.**: In June 2021, BlackRock voted for the shareholder proposal to assess environmental impact of non-recyclable packaging. In Blackrock's view, this shareholder proposal could accelerate Kroger's progress on addressing the use of plastic packaging in its operations.
- **Fortescue Metals Group Ltd.**: In November 2021, BlackRock voted against the shareholder proposal on a special resolution to amend the Company's constitution. As seen before, BlackRock is generally not supportive of constitutional amendment resolutions. At the same meeting, BlackRock voted against the support for improvement to Western Australian cultural heritage protection law, as the different requests, taken in their entirety, risk becoming overly prescriptive. BlackRock maintains company management and the board are best positioned to determine whether making public comment on legislation will serve long-term shareholders' economic interests.
- **Costco Wholesale Corporation**: In January 2022, BlackRock voted in favour of electing Director Hamilton E. James, given Costco's updated climate risk disclosure. At the same meeting, BlackRock voted against reporting on GHG emissions reduction targets. BlackRock's reasoning behind this vote was that the request included reduction targets across the "full value chain" by July 2022. Disclosing emissions across the "full value chain", which would include Scope 3 emissions, within such a short timeframe is beyond the manager's current expectations for this type of disclosure at this company, given Costco's business model and emissions profile.

BlackRock Emerging Markets Index Sub-Fund

- **China Tower Corporation Limited**: In January 2022, BlackRock voted against the re-election of the two incumbent directors on China Tower's Nomination Committee due to concerns about the lack of gender diversity on the board. BlackRock stated they are of the view that Nomination Committee members should take a more proactive approach toward achieving a minimal level of gender diversity and ensuring the diversity of perspective and thought in the board room.
- **Samsung Electronics Co.**: In March 2022, BlackRock voted in favour for the proposed director elections based on the company's indication that this was in its final review stage of a revised climate strategy. In the manager's view, long-term investors and the company itself will benefit from greater transparency and clear disclosure of the company's environmental strategy and targets.
- **Petróleo Brasileiro S.A.**: In April 2022, BlackRock supported the nominee to chair Petrobras' Board of Directors. Mr. Andrade Weber was added to the slate relatively late in the process because the previous nominee unexpectedly pulled out of the board nomination process, in the interests of his other business commitments, after being indicted by the Brazilian Federal Prosecutor's office. BlackRock hopes that Mr. Andrade Weber, in his role as chairman of the board, will work with the controlling shareholder to establish a structured, long-term succession plan for key board and executive roles.

Signed by the Trustee of Thorntons Pension Scheme on 5 December 2022