

## **Great Lakes (UK) Limited Pension Plan Annual Engagement Policy Implementation Statement (to 31 12 2020)**

### **Introduction**

This Engagement Policy Implementation Statement ('the 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 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

The Trustee conducted a buy-in insurance policy with Aviva Life & Pensions UK Limited (Aviva) in February 2020. The intention is that, in due course, the buy-in asset will be moved to a buy-out contract and the Plan will be wound up. Over the buy-in period before wind-up, where an exact match between Plan benefits and insured benefits is not possible, a "surplus assets" portfolio has been established to approximately reserve for these additional costs shortly after the main buy-in premium is paid to Aviva. The surplus assets will also be used to reserve for other estimated costs such as Plan expenses and the all risks cover insurance premium. The surplus assets are invested 100% in the MGI UK Cash Fund.

Section 2 of this Statement provides detail of the actions taken by the Trustee to meet the Plan's engagement policies set out in the SIP over the year. Section 3 describes the voting behaviour on behalf of the Trustee along with the relevant statistics over the year.

Mercer Limited (Mercer) in the UK has been appointed as discretionary investment manager by the Trustee for the Plan's surplus assets portfolio. Pursuant to that appointment, Plan monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

Given the nature of the Plan's assets, the Trustee recognises that there is very limited scope for influence on voting activity.

### **Policy on ESG, Stewardship and Climate Change**

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

As noted in the SIP, the Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration, however, recognise that given the investments are entirely in a Cash Fund there is very limited scope to engage in Stewardship activities.

The following work was undertaken by the Trustee's appointed discretionary investment manager during the year relating to ESG factors, stewardship and climate change.

#### **Policy Updates**

- The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustee on a regular basis.
- The Mercer Sustainability Policy is reviewed regularly. In August 2020 the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021 there was a further update in relation to sustainability-related disclosures in the financial services sector ("SFDR") implementation.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive.

### **Voting Activity**

Asset managers appointed to Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in

accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process.

However, the nature of the Plan's investments (cash) means that there are no voting rights to exercise.

The Trustee recognises that they have no direct voting power in respect of the buy-in policy with Aviva. That said, it is noted that Aviva has an extensive range of ESG, Responsible Investment and Stewardship policies (including an ESG Base Exclusion Policy, Responsible Investment Philosophy, Stewardship statement, Voting policy and ESG Asset Class Policies).

### **Trustee's Policies With Respect To Arrangements With, And Evaluation Of The Performance And Remuneration Of, Asset Managers And Portfolio Turnover Costs**

During the Plan year in question, Mercer were engaged as discretionary investment manager. This section summarises the policy in place at that time. Following the Plan year end, assets are entirely invested in cash.

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in the SIP, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in the SIP. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

The SIP provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in the SIP. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers

the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the third party asset managers' fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.