Engagement Policy Implementation Statement

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 Trustee produce an annual implementation statement which outlines the following:

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

This document sets out the details, as outlined above. The EPIS for the GE Capital Pension Scheme ("the Scheme") has been prepared by the Trustee of the Scheme ("the Trustee") and covers the Scheme year 1 April 2020 to 31 March 2021.

The identities of the Scheme's investment managers have been anonymised.

Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in force over the majority of the reporting year to 31 March 2021. The full SIP can be found https://www.mygepension.com/assets/uploads/Documents-Forms/GECPS-SIP-Sept-2020.pdf

The Common Investment Fund and Manager 5 are responsible for the fiduciary management of the Scheme's assets. As part of their delegated responsibilities the Trustee expects the Common Investment Fund, Manager 5, and the underlying fund managers to:

- Ensure that (where appropriate) underlying asset managers exercise the trustees' voting rights in relation to the Scheme’s assets;
- take into account social, environmental and corporate governance (“ESG”) considerations in the selection, retention and realisation of investments; and
- Report to the Trustee on stewardship activities undertaken by underlying asset managers as required.

The Trustee receives annual reports on stewardship activity carried out by their fiduciary manager via the Trustees of the Common Investment Fund. These reports include voting and engagement information. Where possible, the transparency provided relating to the exercise of voting rights should include voting actions and rationale with relevance to the Scheme, in particular where: votes were cast against management; votes against management generally were significant; or where votes were abstained.

The Trustees of the Common Investment Fund are responsible for reviewing whether the managers are meeting the Trustee's expectations and providing an annual update to the Trustee for all delegated responsibilities in this regard.

Scheme stewardship activity over the year

Training

Over the year, the Trustee had responsible investment training sessions with their advisors, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

Updating the Stewardship Policy

Throughout the year, the Trustee have been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers. The updated wording in the SIP illustrates how the Trustee recognise the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring report being provided to the Trustee by their fiduciary manager: Manager 5. The reports include ESG ratings and highlight any areas of concern, or where action is required.

Voting and Engagement activity – Global & Emerging Market Equity

The Scheme invest in the following funds through the Common Investment Fund (“CIF”).

Manager	
Manager 1	Global Equity
Manager 2	Global Equity
Manager 3	Global Franchise Strategy
Manager 4	Global Equity
Manager 5	Global Equity
Manager 6	Global Equity

The following sections focus on the voting and engagement practices and activity of the equity managers in line with the Trustee expectations. Voting statistics for these funds are shown in the Appendix.

Manager 1

<u>Voting</u>

Manager 1 engages a third-party service provider, Institutional Shareholder Services (“ISS”), to provide proxy-voting services for client accounts (including Manager 1 Sponsored Funds), including vote analysis, execution, reporting and certain recordkeeping services. ESG principles are taken into account in the service provider’s standard proxy voting policies. In addition, Manager 1 makes enhanced ESG specific proxy voting services available upon request. Proxy voting services are monitored periodically by Manager 1's Client Operations team.

Manager 1 generally follows the recommendations of its proxy provider, ISS, but may override an ISS decision in circumstances where ISS discloses a material conflict of interest, and Manager 1 determines that doing so would be in the best interests of its clients. The third-party voting service is reviewed regularly to ensure proxy voting recommendations are based on current and accurate information and to address any conflicts of interest or other areas of concern from the service provider.

Manager 1 does not currently track significant votes.

Engagement

At a firm level, Manager 1 recognises that engagement is increasingly important to some of its investors, and as a result, has partnered with a leader in responsible investing to provide that service. All engagement activities are fully outsourced through Sustainalytics, offering an established, standardised and systematic engagement framework with a global investor base. The engagement framework is incident and compliance based; driven to remediate and mitigate violations of international norms and standards involving: labour, environment, business ethics and human rights. Historically, Manager 1 did not engage with companies, and due to the timing of this new partnership with Sustainalytics has not been able to provide engagement data for the requested time period but hope to be able to accommodate future requests.

Manager 2

Voting

Manager 2 has a proxy voting committee that is responsible for recommending proxy voting guidelines, establishing and maintaining policies and procedures for proxy voting, and ensuring compliance with these policies and procedures. Manager 2 uses its own bespoke policy, however it utilises ISS' platform to vote.

Manager 2 states that it will normally vote in line with management's recommendations, as it believes "voting with management is generally the same as voting to maximise the expected value of investments" following the extensive assessment of the company's management when choosing to invest.

Voting example

An example of a significant vote against management relevant to the Global Equity Fund took place in June 2020 whereby Manager 2 voted against management in relation to executive officers' compensation at a telecommunications company. Manager 2, along with c. 35% of shareholders voted against management regarding its remuneration policy, as it believed the CEO's compensation was excessive, and that half of it was time based, rather than performance based.

Engagement example

In November 2020, Manager 2 engaged with a computer software company regarding a shareholder resolution requesting that the company provide a gender pay gap report. After considering the case, Manager 2 decided to vote with management's recommendation against this resolution, but engaged with the company directly to communicate the importance that it attaches to this issue; which Manager 2 has stated it will continue to monitor to ensure that the issue is being adequately managed. Manager 2 did not support the shareholders' resolution as it believed it was not in the best financial interest of shareholders, and it stated that the company is already reporting in line with other technology companies and undertaking sufficient initiatives to ensure gender equality in the workplace.

Manager 3

Manager 3 considers voting as one of its key responsibilities as a long-term shareholder and as an important means of holding managements accountable. Manager 3 votes at all company meetings. The lead analyst for each company is responsible for voting that company’s proxies and conducting engagement work, ensuring Manager 3’s investment and ESG views are fully reflected in all its stewardship activities. The manager receives company research, global issuer analysis and voting recommendations from ISS. This is used in conjunction with the manager’s company-specific research to inform its proxy voting decisions. While the manager uses ISS' research and analysis to inform its decision, the manager is not obligated to follow ISS' recommendations.

Voting Example

In April 2020, Manager 3 voted against an advisory vote to ratify the compensation awarded to named executive officers of a large global technology firm. This vote was deemed to be significant as it was against management.

Despite the recent introduction of performance share units, the manager continued to have significant concerns around the magnitude of pay, as well as overall levels of pay that are not closely linked to performance. In particular the newly appointed CEO at that time received outsized equity awards totalling nearly $250 million, which were mainly time-based, and disclosure around the rationale for an award of this magnitude was limited. In addition, the manager felt that such sizable award opportunities should carry more rigorous performance criteria.

Despite the manager's concerns the advisory vote was passed and the compensation awarded to the company's named executive officers was ratified. However the manager will continue to monitor material risks related to this topic going forward.

Engagement Example

In June 2020, Manager 3 wrote a letter to a computer hardware company's CEO to encourage the company to implement a compensation scheme which would provide stronger alignment between shareholders and management. In particular, it urged the company to remove the role of earnings per share in its framework so that buybacks can no longer be used as a tool to meet management targets, and suggested a framework which would be more weighted towards revenue growth, margins, and free cash flow. Manager 3 followed up on this topic in a meeting with the CEO in August and then again in a meeting in September with the CFO.

The manager noted that the company had not taken any action at that time of writing, although management seemed potentially receptive to the manager's suggestions at the time. Following these engagement activities, Manager 3's planned course of action was to engage on this issue with other senior executives at the company. However, Manager 3 subsequently fully redeemed from the position in January 2021 due to concerns about the vitality of the business.

Manager 4

Voting

Manager 4 votes on behalf of its clients in accordance with its own Proxy Voting Guidelines which govern, under each category, whether to vote For, Against or Abstain. These guidelines are approved collectively by the Portfolio Managers and they are reviewed semi-annually. Portfolio Managers maintain final decision-making responsibilities for all votes, based on the detailed knowledge of the companies in which Manager 4 invests. Proxy voting decisions are the result of careful judgement in order to ensure the best possible outcome to generate long-term shareholder value. The Portfolio Manager will vote against any agenda that threatens this position, in particular, concerns over inappropriate management remuneration or incentives, changes in capital structure and mergers or acquisitions which are seen as detrimental to the investment held.

Manager 4 appointed Glass Lewis in Q1 2020 to aid the administration of proxy voting and provide additional support in this area.

Voting Example

An example of a significant vote over the period was with an abstain vote in relation to a large multinational company on executive compensation. Manager 4 pays careful consideration to the compensation policies of the companies in which it invests. In assessing its compensation policies, it focuses more on how incentives are structured rather than the actual quantum of compensation. In other words, Manager 4 can be comfortable with large rewards; provided that the incentives are aligned with shareholders' interests and its principles. In the case for this company, Manager 4 did not believe that the company's compensation policy was aligned with the long-term best interests of the shareholders. Manager 4 engaged with the company's compensation committee before the vote to signal its intentions to abstain. The outcome of the vote was the resolution was approved. This is a significant vote on the basis that it is the only instance of an abstain vote by the manager over the reporting year.

Engagement

Given the concentrated nature of Manager 4's portfolios and the fact that it builds up large, long-term, stakes in the businesses in which it invests, Manager 4 is able to prioritise all engagement activities and considers them all to be significant.

Manager 4 has provided a number of manager level engagement examples.

Engagement Example

Manager 4 engaged with a fashion company about its supply chain controls following the poor labour practices of another clothing manufacturer, coming to light. The Chairman explained that the business practices uncovered at the other company are largely confined to fast fashion, which relies on selling large volumes of product with thin margins. This is not the case at the company. Nonetheless, the company has a robust supplier vetting programme and a tightly controlled supply chain to protect brand health. For the company, the key risk in the supply chain is subcontractors as it's harder to maintain oversight of them. The company is alert to the risks of complacency and has a framework in place to protect the business from reputational damage. The Chairman drew Manager 4's attention to the company's evolving statement of purpose, which aims to build on its assessment and response to such risks.

Manager 4 concluded that there were no immediate areas of concern and view this increased focus on environmental and social factors as a demonstration of how the company is working to ensure its durability.

Manager 5

Voting

In order to facilitate Manager 5's proxy voting process, Manager 5 retains the proxy service provider ISS. Manager 5 utilizes ISS' services in three ways. First, as Manager 5's proxy voting agent, ISS provides Manager 5 with vote execution and administration services. Second, ISS applies Manager 5's Proxy Voting Guidelines where appropriate. Lastly, ISS provides the highest level of research and analysis related to general corporate governance issues and specific proxy items.

The Stewardship team reviews its Proxy Voting Guidelines with ISS on an annual basis or on a case-by-case basis as needed. ISS affects the proxy votes in accordance with Manager 5's Proxy Voting Guidelines. Voting matters that are nuanced or that require additional analysis are referred to and reviewed by members of the Stewardship team. Members of the Stewardship team evaluate the proxy solicitation to determine how to vote based on facts and circumstances consistent with Manager 5's Proxy Voting Guidelines, which seek to maximize the value of our client accounts.

All voting decisions are exercised exclusively in accordance with Manager 5's in-house policies and/or specific client instructions. Manager 5 states that it has established robust controls and auditing procedures to ensure that votes cast are executed in accordance with Manager 5 instructions. Manager 5 publishes a record of its global voting activity.

Voting Example

Manager 5 voted abstain in 2020 in relation to resolutions at a banking and financial services corporation regarding climate change action and renewable energy, and similarly to another similar resolution on climate change action at another company. For these resolutions, Manager 5 states it abstained on the proposal as the corporation's disclosure and/or practices related to climate change are broadly in line with market standard but could be enhanced. On the other hand, in May 2020, Manager 5 supported the resolution for a report on climate change at an energy company on the basis that the proposal merits support as the company's disclosure and/or practices related to climate change can be improved.

Engagement

Manager 5's Stewardship Team has developed an Issuer Engagement Protocol which complies with the principles of the Shareholder Rights Directive II and a framework to increase the transparency of their engagement philosophy, approach and processes. This protocol is designed to communicate the objectives of Manager 5's engagement activities and to facilitate a better understanding of its preferred terms of engagement with investee companies. Manager 5 monitors the percentage of engagements with companies that have been previously identified as requiring proactive discussions and the percentage of unique engagements to ensure that engagement activity is aligned with the long-term, risk-based approach to stewardship that is fundamental to Manager 5's program. Manager 5 actively seeks direct dialogue with the board and management of companies that have been identified through its screening processes. Manager 5 regularly reviews its Issuer Engagement Protocol to ensure that interactions with companies remain effective and meaningful. This includes reviewing indicators in Manager 5 screening models and assessing emerging ESG issues and trends.

Engagement Example

In October 2020, Manager 5 conducted an off-season ESG engagement with a technology company. For many years, Manager 5 has engaged with companies that run social media platforms to understand how they manage the unique risks created by their products. During the conversation, Manager 5 asked how the company manages hateful and violent content on its popular gaming platform. The company's team committed to engaging with the appropriate teams internally to provide more information. In December 2020, they contacted the manager to share the update that the platform implemented guidelines to limit hateful content and harassment on the site, the policy attracted significant press coverage.

Manager 6

Voting

Manager 6 has engaged and adopted the proxy voting policies of Glass Lewis and use Broadridge Proxy Edge to cast its votes. Manager 6 may choose to vote a proxy against the recommendation of Glass Lewis, if Manager 6 believes such vote is in the best economic interest of its clients. In such cases, this decision will be made by a team who will maintain documentation to support Manager 6's decision.

Voting Example

Manager 6 provided a number of voting examples, however, all vote examples were in line with Glass Lewis' recommendations and the only voting rationale provided was that the vote was in line with the manager proxy voting policy which votes in the client/best economic interest.

Engagement

As at the time of writing, Manager 6 (via the Fiduciary manager, Manager 5) have not provided information on engagement activity. The adviser, on behalf of the Trustee is following up for the data.

Engagement activity – Fixed Income

The Scheme also invests in a number of fixed income strategies. While the Trustee acknowledge the ability to engage and influence companies may be less direct then in comparison to equity holdings; there is still clearly the opportunity for very material influence by engaging in fixed income assets.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Scheme over the year.

Manager 7

At Manager 7, the firm-wide engagement program also benefits investments in corporate bonds issued by companies. Manager 7's Investment Stewardship team is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, the manager's Global Fixed Income Responsible Investing team may partner with the Investment Stewardship team to reflect on ESG related topics from fixed income investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where the manager holds a significant exposure in fixed income portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by Manager 7 was with a natural gas company. The manager discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on the company's approach to the European regulatory environment, its views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

Manager 8

Manager 8 proactively engages on industry and regulatory issues that have implications for its clients and the wider market. These include the transition from LIBOR, central clearing for European pension schemes, and RPI reform.

Over 2020, the manager engaged with a brewing operations company on cost reduction measures, governance and food safety. The Manager identified various potential ESG risks to the company's business; some heightened by the forced pub closures related to Covid-lockdowns. As part of the manager's process, it engaged with the company to evaluate how the company was planning on mitigating these and other risks. The risks identified were:

- Food quality and safety: there are various food safety sourcing risks for pubs in general.
- Governance:
- Potential governance challenges on both, securitisation and at Plc level.
- The company's board structure proved to be strong and diverse; given interest coverage covenants were waived due to forced pub closures, there is increased focus on other securitisation covenants such as around pub sales, cashflow retention etc. ensuring full compliance.
- Labour management:
- Most employees were furloughed; the company did not plan any job cuts as a result, although they did not provide benefits for staff that are ill, which is understandable given the burden on their business model.
- Labour management: concerns around job losses following forced pub closures.

The manager will continue to monitor the company, however it is comfortable maintaining its position based on the engagement and improvements made. The company is also part of the FTSE4 Good ESG score index, an external metric of key sustainability factors.

Engagement activity – Real Estate

While the Trustee acknowledges the ability to engage and influence companies may be less direct than in real estate in comparison to equity holdings; from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Scheme over the year.

Manager 9

As a real estate investment manager, Manager 9 engages with the buildings it invests in on behalf of clients, rather than companies. The manager seeks to enhance the fund and asset performance of its clients' real estate portfolios through active ESG management. The manager has therefore provided examples that relate to internal engagement and industry engagement rather than engagement with investees.

One such example of engagement at the firm was in regards to improving and increasing reporting of climate-related financial information and improve the resilience of the manager's assets under management. The manager became supporters of the TCFD in 2020. Furthermore, the manager included TCFD disclosures in its 2020 Responsible Investment Report, which is distributed widely to clients, investment consultants, suppliers, employees and the media.

An engagement example specific to the strategy is seen through activity in relation to the objective to ensure a robust and consistent approach to ESG issues in property management across all the manager's portfolios. The manager liaised with property manager leads via email and hosted a roundtable with all its property managers in July, utilising the launch of the BBP Managing Agent Sustainability Toolkit to collaboratively update the manager's RI Managing Agent Guidelines.

In summary

Based on the activity over the year by the Trustee and their service providers, the Trustee are of the opinion that the stewardship policy has been implemented to a medium extent. While there is significant evidence of stewardship activity in most funds, there are also a number of areas where more transparency could be achieved. The Trustee will relay these concerns to the appropriate asset managers as required.

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

Voting Statistics – Global & Emerging Market Equities

For the period from 1 April 2020 – 31 March 2021

	% resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained from
Manager 1	96.5%	9.4%	1.1%
Manager 2	100.0%	5.0%	0.0%
Manager 3	100.0%	9.3%	3.7%
Manager 4*	-	-	-
Manager 5	99.8%	10.4%	0.5%
Manager 6	100.0%	5.0%	0.0%

Source: Investment Managers

*The fund manager has been unable to provide voting statistics for the period covered.

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Copyright © 2021 Aon Solutions UK Limited. All rights reserved. aon.com. Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales No. 4396810. Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN. This document and any enclosures or attachments are prepared on the understanding that they are solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. In this context, "we" includes any Aon Scheme Actuary appointed by you. To protect the confidential and proprietary information included in this document, it may not be disclosed or provided to any third parties without the prior written consent of Aon Solutions UK Limited.

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard. Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

Aon Solutions UK Limited's Delegated Consulting Services (DCS) in the UK are managed by Aon Investments Limited, a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.