Calor Pension Trust Limited

Implementation Statement – April 2021

Introduction

This implementation statement is a new addition to the Trustee Report and Accounts, required by new pensions regulations\(^1\). Calor Pension Trust Ltd, the ‘Trustee’ of the Calor Group Retirement Benefits Plan (the ‘Plan’) has prepared this statement to provide stakeholders with a transparent and accurate review of how we, the Trustee Directors, have acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles during the accounting year.

This statement is intended to improve accountability, highlighting the proactive steps taken by us and our service providers to ensure members’ assets are invested responsibly and for the long-term.

This statement includes details of:

- How we have complied with our stewardship and voting policies as set out in our Statement of Investment Principles (“SIP”);
- Any changes we made to our stewardship and voting policies during the year; and
- Specifically, how our investment managers voted and engaged on our behalf

This statement has been prepared by the Trustee to cover the year ended 5 April 2021.

This statement is publicly available at https://cip-glob-cdn.azureedge.net/-/media/sites/greatbritain/pdfs/pension-statement-of-investment-principles.pdf

Executive Summary

The day to day management of the Plan’s assets is delegated to Cardano Risk Management Limited (the ‘Fiduciary Manager’). In advance of the appointment, we took steps to ensure that the management of assets and the Fiduciary Manager’s policies were aligned with the Trustee’s own policies. We continue to monitor Cardano, as part of our regular interactions with them.

We monitor the voting and engagement activity of our investment managers and through our Fiduciary Manager, challenge their decisions.

We focus our efforts on those managers where voting and engagement is material and the policies of these managers are summarised in this statement, along with some examples of the type of activity which takes place. Some of our managers do not own physical assets, such as equities or corporate bonds, and therefore stewardship is less likely to be relevant or significant. We are comfortable that our Fiduciary Manager has an appropriate approach for all investment managers, and we receive a summary of their assessments once a quarter.

To the best of our knowledge we have complied with our Stewardship Policy during the year.

\(^1\) The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended)
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Section 1 – Our Stewardship Policy

**What is Stewardship?**

“Stewardship” is the responsible allocation, management and oversight of capital to create long-term value for our members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising our right to vote on any shares we own and engaging with the management of any companies or properties in which we have a stake.

The Trustee does not hold any investments directly. All of the shares, bonds and other assets that we own are held through pooled vehicles that are managed by investment managers that our Fiduciary Manager appoints. The reason we do this is:

- It provides a broader range of investment opportunities than would be possible if we were to own the assets directly, particularly given our size;
- This can improve the overall diversification of our investments and help reduce risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing overall governance burden both on the Trustee and the Sponsor.

In practice, therefore, we delegate voting and engagement to the investment managers. However, we remain responsible for setting our voting and engagement policies and ensuring that the investment managers that we, or our Fiduciary Manager, appoint act consistently with them.

**What is our Stewardship Policy?**

We reviewed our Stewardship Policy in September 2020 and made some changes to reflect current regulations and updated codes of practice. Relevant extracts from our Statement of Investment Principles (SIP) are shown below:

**“Undertaking engagement activities in respect of the investments**

*Where relevant, the Trustee prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.*

*The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying*
investments, where this is expected to have meaningful impact (and the Trustee monitors the Fiduciary Manager’s activity in this regard).

“The exercise of the rights (including voting rights) attaching to the investments

The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Plan’s investment managers to discharge their responsibilities in respect of investee companies in accordance with the 2020 UK Stewardship Code published by the Financial Reporting Council.”

“Arrangements with all Investment Managers

...Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with its responsible investment approach.”

How have we implemented our Stewardship Policy?

The Trustee acknowledges that the majority of the investment strategy’s exposure is achieved through derivative instruments, which provides limited opportunity to hold individual stocks and integrate Environmental, Social and Governance (ESG) factors. This in turn impacts the implementation of our policy on voting and engagement. Where investment managers are used, our Fiduciary Manager is responsible for engaging with the investment managers regarding their voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact.

Our Fiduciary Manager has been aligned with our Stewardship Policy throughout the year and has been a signatory to the UN Principles of Responsible Investment since 2011. They are also a signatory to the UK Stewardship Code and have a Tier 1 rating from the Financial Reporting Council.

Several core beliefs help drive our Fiduciary Manager’s approach to engagement. They believe in:

- Focused governance – spending most time on the most material issues
- Transparency – improved reporting allows better quality dialogue, risk awareness and higher engagement impact
- Engagement – through education and close, regular dialogue
- Integration – leads to consistency, clarity of messaging and improved dialogue leading to greater engagement impact
We categorise our managers according to how material voting, and engagement is in their mandate. Some of our managers own few assets such as equities or corporate bonds, and therefore voting or engagement is less likely to be relevant or significant.

We focus our efforts on any managers where voting and engagement is material. The stewardship policies of these managers are summarised briefly below in their own words:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Stewardship Policy (in Manager’s own words)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro-Orientated Manager</td>
<td>We aim to follow the spirit of the PRI’s Principle 2 in its stewardship practices, where stewardship (or active ownership) is defined as “the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients’ and beneficiaries’ interests depend”. There are several stewardship mechanisms, the two of which most directly relate to us being proxy voting and engagement, although the extent to which we enjoy access to these mechanisms differs.</td>
</tr>
</tbody>
</table>
| Japan-Focussed Equity Manager | We will always endeavour to act in the best interests of its clients as stewards of their capital. Although it does not aspire to be an activist investor, it recognises the importance of regular and responsible engagement with companies in which it invests. As well as review and assessment of third-party research and engagement with country and industry experts, members of the investment team engage in one-on-one meetings and telephone calls with senior management or Investor Relations representatives of companies. The purpose of such engagement includes:  
  - understanding key drivers of growth;  
  - understanding competitive positioning;  
  - assessing the alignment of management goals and strategy with those of shareholders;  
  - assessing corporate governance; and  
  - assessing the environmental, social, governance and sustainability risk profile |
| Long/Short Equity Manager | We aim to combine responsible corporate citizenship with pragmatic and effective portfolio management. In partnership with our retained ESG consultant, ISS, we regularly review the companies in the portfolio so that we can engage with them on important ESG issues and, if necessary, adjust the portfolio holdings. We monitor closely the proposed AGM/EGM resolutions of our companies for opportunities to influence company behaviour by using our vote. When necessary, however, we will express a strong opinion by supporting sustainability and governance proposals, including voting against management when appropriate. |
### Global Equity Manager

We typically vote in favour of routine housekeeping proposals, including election of directors (where no sustainability factors appear relevant). We typically vote against proposals that make it more difficult to replace board members and may vote against companies that do not publicly disclose their carbon and other GHG emissions and do not have a credible plan for their reduction.

We maintain records of votes cast, of reasons for voting against the investee company management’s recommendations or for abstaining. We may attend general meetings of companies in which the Funds have a major holding, or write formally to the directors of such companies, where this is considered appropriate and practicable.

### Emerging Market Debt Manager

Constructive engagement with issuers is the most effective way to improve ESG characteristics over time. For emerging markets sovereigns, environmental, social, and governance (ESG) factors have long been embedded in our country research process used to assess the relative credit strength of all the countries under their research coverage. Our stewardship activities are driven by the E, S, and G factors that they have integrated into our investment philosophy and process. Social stability and the quality of governance – political stability, quality of policies, and strength of institutions – are all critically important factors in assessing both the probability of default and the relative value of government debt. Governance is a key component in our country scoring quantitative model that is used across countries. We use both external data from sources such as the World Bank and Transparency International as well as the internal assessments of our experienced sovereign analysts to evaluate these risks.

In addition, over the course of the year we held pooled funds through a further eleven managers, but either there was no direct exposure to equities, the proportion of equities held was very low (less than 5%) and/or the holding period was very short or derivative based, and we therefore focus less on these managers’ voting and engagement activity. These managers include two equity managers, two macro orientated managers, two credit managers, four multi-strategy managers and one liquidity fund.

The Plan also invests in a series of private market investments. Many of these strategies own controlling stakes in the underlying businesses/properties, meaning that stewardship and engagement is evidenced in a much broader way than in the public sphere. A critical means of value creation for many private strategies is (for example) ensuring that each business has the best governance possible – dictating and controlling the policies and make up of senior leadership (versus merely hoping to impact actions through voting).
Engagement is, therefore, highly relevant in some cases and we include some examples in the relevant section of this report. The private market funds/managers invested in include three private equity managers, two real estate managers and two credit managers.

Compliance with our Stewardship Policy

To the best of our knowledge we have complied with our Stewardship Policy.

Section 2 – How our shares were voted

How our managers voted

<table>
<thead>
<tr>
<th>Manager</th>
<th>Average % Plan assets</th>
<th>Number of potential votes</th>
<th>Proportion of votes cast</th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro Orientated Manager</td>
<td>1.5%</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Japan-Focussed Equity Manager</td>
<td>1.8%</td>
<td>296</td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Long/Short Equity Manager</td>
<td>3.6%</td>
<td>371</td>
<td>27%</td>
<td>94%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Global Equity Manager</td>
<td>3.9%</td>
<td>500</td>
<td>64%</td>
<td>94%</td>
<td>0.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Emerging Market Debt Manager</td>
<td>2.3%</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Please note all data above covers the 12-month period to 31 March 2021 and includes asset managers that were in place as at the accounting year-end only.

Our Fiduciary Manager queried the lower participation rates for our long/short equity and global equity manager. In the former case, this was because the fund held was newly launched and in 2020 the manager was still developing their proxy voting strategy; now that this is in place the number is expected to increase. In the latter case, the manager confirmed that they endeavour to vote on most resolutions but are not able to guarantee voting on all of them. They endeavour to vote in a manner intended to maximise the value of the investments, and therefore as a minimum ensure they vote on the more important resolutions, particularly in relation to governance. They have confirmed that they expect to vote on a higher percentage of resolutions going forward.

Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using a proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
The manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this.

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the FRC’s Stewardship Code.

However, the potential concern is that the manager who has chosen to invest in the company is arguably in the best position to vote and engage with the company, and by failing to do so directly, may be signalling indifference to the management.

The table below outlines the use of proxy voting services by managers in our portfolio for whom we have deemed voting material:

<table>
<thead>
<tr>
<th>Manager</th>
<th>Use of proxy voting service</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro-Orientated Manager</td>
<td>Yes – Broadridge</td>
<td>Broadridge was appointed from February 2020, prior to this no proxy voting service was in place.</td>
</tr>
<tr>
<td>Japan-Focussed Equity Manager</td>
<td>No</td>
<td>This manager uses the custodian’s proxy voting systems to view company management recommendations and cast votes. They have not appointed any proxy advisory firms, nor do they follow their recommendations.</td>
</tr>
<tr>
<td>Long/Short Equity Manager</td>
<td>Yes – ISS</td>
<td>This manager has retained ISS Proxy Exchange to highlight proposed votes at the companies they are invested in for ESG implications. They use ISS’s standard voting policy.</td>
</tr>
<tr>
<td>Global Equity Manager</td>
<td>No</td>
<td>Third-party tools like Proxy Edge and Proxy Vote are used to cast votes, but this manager does not utilise the services of any other third party (e.g. for advice or monitoring) and therefore remains able to exercise its stewardship responsibilities directly.</td>
</tr>
</tbody>
</table>

Please note all data above covers the 12-month period to 31 March 2021 and includes asset managers that were in place as at the accounting year-end only.

Examples of significant votes cast

<table>
<thead>
<tr>
<th>Manager</th>
<th>Significant votes cast</th>
<th>Rationale/ Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan-Focussed Equity Manager</td>
<td>Company: M3 Inc</td>
<td>A strong board is essential for good governance</td>
</tr>
<tr>
<td></td>
<td>This manager voted FOR the appointment of a new Director</td>
<td></td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Long/Short Equity Manager</th>
<th>Company: Northam Platinum, South African mining company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This manager voted AGAINST approving a remuneration policy</td>
</tr>
<tr>
<td></td>
<td>Their view was that “the incentive framework did not have enough performance conditions (25% of the long-term incentive awards were not subject to performance targets) and was needlessly complex with six active incentive programmes. There are generous vesting and pay-out provisions for Executive Directors upon a change of control and termination of good leavers. In the event of a change of control, Executive Directors would be eligible to receive excessive payments which include a lump sum equal to 200% of fixed pay and the average of the two prior years' annual bonus, together with a further pro-rated bonus for the year in which the change of control is triggered. And in the event of a no-fault termination, LTI performance shares will vest in full, regardless of whether performance conditions have been met. All of the above are against best practice.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long/Short Equity Manager</th>
<th>Company: Unilever plc</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This manager voted FOR the proposed changes to Unilever Group's dual-parent structure.</td>
</tr>
<tr>
<td></td>
<td>As proposed, Unilever NV would merge into a single UK domiciled holding company, the current Unilever plc, with Unilever NV shareholders receiving one Unilever plc share for each Unilever NV share held.</td>
</tr>
<tr>
<td></td>
<td>The proposal would result in significant improvements in the governance on the NV side (i.e. submitting resolutions and calling special meetings, cancellation of the special shares) and equality of shareholders rights for all shareholders in the Unilever Group. It would remove complexity and create for the first time an equal voting basis per share for all shareholders.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global Equity Manager</th>
<th>Company: Union Pacific, US transport company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This manager voted FOR a shareholder proposal for a climate assessment report, against the recommendation of management.</td>
</tr>
<tr>
<td></td>
<td>Their view was that a vote against management was justified on the grounds of ESG considerations</td>
</tr>
</tbody>
</table>
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Please note all data above covers the 12 month period to 31 March 2021 and includes asset managers that were in place as at the accounting year-end only.

Section 3 – How our managers have engaged in respect of the investments held

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship.

In the table below, in the managers’ own words, we summarise examples of engagement activity for some of the managers for whom we have deemed engagement material.

Public market investments

<table>
<thead>
<tr>
<th>Manager</th>
<th>Engagement activity (in Manager’s words)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro-Orientated Manager</td>
<td><strong>Sub-Sahara Sovereign</strong> We have been invested in debt instruments issued by this Sub-Saharan sovereign (“the Sovereign”) since 2018 and in June 2020 we led the formation of the External Bondholder Committee (“the Committee”), which at present comprises of 14 international financial institutions from Europe and US. The Committee in aggregate holds ~40% of the total outstanding Eurobonds and is in close contact with other holders representing a further ~30% of the Eurobonds. The Committee formally published a response to the consent solicitation request in September 2020, which re-iterated the focus on achieving a restructuring outcome which is in line with the G20-endorsed Principles for Stable Capital Flows and Fair Debt Restructuring (“the Principles”) and the most recent October 2020 report on their implementation by the Principles Consultative Group. The Principles include aspects such as: transparency and timely flow of information; open dialogue; good faith actions; and fair treatment among creditor classes. They encourage disclosure of relevant information so that creditors are in a position to make informed assessments of the economic and financial situation, in order to make informed and prudent risk management and investment decisions. Information sharing and close consultations provide incentives for sound policy action in order to build market confidence, thus ensuring stable capital flows and preserving financial stability. The Principles encourage cooperation in an orderly process based on engagement and good-faith negotiations toward a fair resolution of debt-servicing difficulties and avoiding unfair discrimination among affected creditors.</td>
</tr>
<tr>
<td>Long/Short Equity Manager</td>
<td>At a meeting with Glencore senior management (CEO, CFO) in June 2020 we asked them about their plans regarding their exposure to coal. Their answer was that they had a positive outlook on coal and saw a steady demand for it in emerging markets. However, they repeated their previous messages that their production was capped and that no new capacity was planned and that if at any point their exposure to coal becomes a major issue to their investor base they would then consider further limiting their exposure. Recently the</td>
</tr>
</tbody>
</table>
company provided further assurances that their exposure to coal will be declining over the future years through natural attrition (mines coming to the end of their life). A positive bias to more coal exposure by the management would have probably impacted our attitude to related resolutions.

**Emerging Debt Manager**

**Quasi-Sovereign**

As the COVID pandemic continues, we are especially focused on how companies are managing social issues related to health and safety risks in addition to capital raising and corporate governance. For example, companies that are taking proper precautions with regard to protecting the health of their workforce may be better positioned to rebound and return to normal operations as the economy begins to open back up. This effect may take longer to play out in the EM countries/companies as the number of cases continue to increase when most the developed economies have potentially passed the peak levels. As an example, in 2020, we engaged with a Colombia based oil & gas company we hold in your portfolio, to understand the firm’s response to COVID. The company took early actions in February to prioritize worker safety under the strong Board oversight. Prior to Colombian government’s lockdown measures, the firm had already enacted protocols such as work-from-home for employees. As the business is deemed “essential” by the government, the company ensures that only essential workers are involved in production and all of them should have protective gear. The company also has a health clinic that has been authorized by the government to conduct virus tests. We are comfortable with our allocation to this issuer based on the company’s credit fundamentals, valuations, and constructive ESG factors.

**Private market investments**

<table>
<thead>
<tr>
<th>Manager (asset type)</th>
<th>Engagement activity (in managers own words)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity Manager</td>
<td>We invested £4m into a food company developing a facility for a plant-based range of dairy products. The new range is produced from sustainably sourced ingredients (e.g. oats, coconut, rice, etc.). As well as reflecting the growing consumer preference for dairy alternatives, the range supports lower impact lifestyles, as plant-based ingredients typically have a lower carbon footprint and are less resource intensive to produce throughout their lifecycle. To further reduce the environmental impact of products, the firm has also signed up to the Responsible Plastic Management programme which is a voluntary global plastic management assurance programme aiming to reduce plastic waste and pollution. To that end, the company is now looking to move away from plastic to cardboard where possible. They already offer a returnable packaging scheme and, within the new plant-based range, yogurt pots will be made</td>
</tr>
</tbody>
</table>
## Real Estate Manager

We acquired and refurbish some undermanaged and dilapidated residential, retail and industrial units in an up-and-coming Spanish neighbourhood. The business plan aims to address the chronic undersupply of affordable rental accommodation for young professionals in this neighbourhood. The refurbishment programme presented several opportunities to integrate environmentally friendly systems and practices. As an example, the buildings will, where possible, be refurbished rather than demolished thereby eliminating the generation of landfill. They will also be retro-fitted with various energy efficiency enhancing measures such as double glazing and environmental chambers to control humidity.

## Credit Manager

We announced a new Board of Directors at a software and digital solutions company, to reinvigorate the Board dynamic and bring new expertise. The new Board consists of eight members, three of whom are women and one of whom is an underrepresented minority. This represents a significant improvement in diversity.

*Please note all data above covers the 12 month period to 31 March 2021 and includes asset managers that were in place as at the accounting year-end only.*