

Implementation Statement

A.S. Watson (Health & Beauty UK) Pension Plan

This Implementation Statement has been prepared by the Trustee of the A.S. Watson (Health & Beauty UK) Pension Plan (“the Plan”) and sets out:

- How the Trustee’s policies on exercising rights (including voting rights) and engagement policies have been followed over the year.
- The voting behaviour of the Trustee, or that undertaken on their behalf, over the year to 31 March 2021.

How voting and engagement policies have been followed

The Plan invests entirely in pooled funds, and as such delegates responsibility for carrying out voting and engagement activities to the Plan’s fund managers. The Trustee has taken into consideration the Financial Reporting Council’s UK Stewardship Code. However, the Trustee cannot usually directly influence the managers’ policies on the exercise of investment rights where the Trustee holds assets in pooled funds. This is due to the nature of these investments. The Trustee receives reporting on the voting and engagement policies of the fund managers and considers these as part of manager appointment and review processes.

The Trustee believes that ESG factors are financially material – that is, they have the potential to impact the value of the investments from time to time.

The Trustee monitors the ESG performance of its managers on a regular basis.

The Trustee considers it to be part of their investment managers’ roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

The Trustee was satisfied that the managers’ policies were reasonable and no further remedial action was required during the period. Having reviewed the above in accordance with their policies, the Trustee is comfortable the actions of the fund managers are in alignment with the Plan’s stewardship policies.

Voting Data

Voting only applies to funds that hold equities in their portfolio. The Plan’s equity investments are all held through pooled funds and as such the investment managers for these funds vote on behalf of the Trustee.

The Defined Benefit (“DB”) section’s equity investments are managed by Aberdeen Standard Investments (“ASI”), Schroder Investment Management (“Schroders”) and Barings Asset Management (“Barings”). The Defined Contribution (“DC”) section’s equity investments were managed by Baillie Gifford (“Baillie Gifford”) and Legal and General Investment Management (“LGIM”). The DC section was transferred out of the Plan to the Aviva Master Trust on 26 November 2020. The table below provides a summary of the voting activity undertaken by each manager over the year to 31 March 2021.

Manager	ASI	ASI	Schroders	Barings	Baillie Gifford	Baillie Gifford	LGIM	LGIM	LGIM
Fund name	Vanguard FTSE Developed World ex UK Equity Index	Vanguard FTSE Developed World Hedged Pension Fund	Life Diversified Growth Fund	Dynamic Asset Allocation Fund	50:50 Worldwide Equity Pension Fund and UK Equity Fund	Managed Fund	Multi-Asset (formerly Consensus) Index Fund	Global Equity 50:50 Index Fund	UK Equity Index Fund
Structure	Pooled								
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.								
Number of company meetings the manager was eligible to vote at over the year	2,204	2,362	1,709	93	196	228	11,238	3,641	943
Number of resolutions the manager was eligible to vote on over the year	26,990	30,798	20,461	885	2,525	2,844	114,616	44,680	12,574
% of resolutions the manager voted on	99.0%	99.6%	100.0%	96.6%	100.0%	100.0%	99.8%	100.0%	100.0%
% of resolutions the manager abstained from	0.0%	0.1%	1.2%	0.0%	1.1%	1.3%	0.6%	0.1%	0.0%
% of resolutions voted <i>with</i> management	97.0%	97.2%	91.1%	92.2%	97.4%	97.0%	81.7%	83.6%	92.9%
% of resolutions voted <i>against</i> management	3.0%	2.8%	7.6%	7.8%	1.5%	1.8%	17.7%	16.3%	7.1%
% of resolutions voted contrary to the recommendation of the proxy advisor	0.0%	This information was not provided.	This information was not provided.	0.9%	N/A*	N/A*	0.2%	0.4%	0.8%

*Please note that while Baillie Gifford are cognisant of their proxy advisers' (ISS and Glass Lewis) voting recommendations, all client voting decisions are made in-house and they vote in line with their in-house policy. As such, there are no proxy voting figures for the Baillie Gifford funds.

Significant votes

The Trustee has delegated to the investment manager(s) to define what a “significant vote” is. A summary of the data they have provided is set out in the appendix to this statement.

Fund level engagement

The investment managers may engage with their investee companies on behalf of the Trustee. Whilst the Plan’s credit holdings do not attach any voting rights, the Trustee focuses on how the investment process and profile of the managers is aligned with the Plan’s ESG policies.

The table below provides a summary of the engagement activity undertaken by ASI, Barings, Baillie Gifford, Insight Investment Management (“Insight”), LGIM and Schroder during the year. Muzinich & Co (“Muzinich”) were unable to provide engagement data over the period as they are in the process of developing a new ESG framework which will not be in place until early 2022.

Manager	Insight	ASI	Schroder	Barings	Baillie Gifford	Baillie Gifford	LGIM
Fund name	Global ABS Fund	Both ASI funds	Diversified Growth Fund	Dynamic Asset Allocation Fund	50:50 Worldwide Equity Pension Fund and UK Equity Fund	Managed Fund	All LGIM funds
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	221	This information was not provided.	362	82	162	179	This information was not provided.
Number of engagements undertaken at a firm level in the year	1,218	2,271	1,564	This information was not provided.	This information was not provided.	This information was not provided.	974
Examples of engagements undertaken with holdings in the fund	Engagements with Pinebridge, Silverstone and La Trobe to provide ESG ratings to securities.	Deliveroo: engaged to improve labour practices HSBC: engaged on climate change Lundin: engaged on remuneration	Google: Human Capital Management Nestle: Transparency & Disclosure/Remuneration and Supply Chain Management Schneider Electric: Board Structure/Remuneration/Governance Oversight	Barings engaged with a chemicals company around carbon issues. They also engaged with a gold company on compliance with ESG standards in supply chain.	Amazon: discussed response to Covid-19 pandemic and additional measures taken to protect staff. Alphabet: engagement focused on the ethical deployment of AI across the company.	Adidas: Governance issues The Weir Group: Energy and water usage Experian: Data security	Engaged with a range of companies on issues including: ESG disclosures, Remuneration and Climate Change

How the SIP has been followed over the year

N.B. this part of the Implementation Statement refers to the DC Section only, as required by legislation. The DC Section was transferred out of the Plan from LGIM to Aviva Master Trust on 26 November 2020.

In the Trustee's opinion, the Statement of Investment Principles ("SIP") was followed over the year in the following ways:

- The Trustee monitored the performance of the manager funds to ensure that the funds were meeting their stated objectives. Their Investment Consultants provided updates at Trustee meetings to assist with this process.
- The Trustee held the view that the funds invested in by the Plan (before the transfer of the DC section to Aviva) were managed in accordance with their views on financially material factors. There are no longer any DC Section assets within the Plan following the transfer-out.
- The Plan's Statement of Investment Principles is reviewed alongside any changes to underlying funds or investment strategy. The SIP was last updated in March 2021 to reflect the transfer of the Plan's DC Section assets out of the plan.
- The Trustee made no new manager appointments over the year.

Summary

Based on the information received, the Trustee is satisfied that the fund managers have acted in accordance with the Plan's stewardship policies.

Where information is not included, it has been requested but has not been provided in a useable format or at all by the investment manager. The Trustee's investment consultants are in discussion with the managers around how this data will be provided for future statements.

Appendix – Significant Votes

The tables below summarise significant votes across all funds held by the Plan during the year.

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Vote 6
Funds affected	Both ASI funds	Both ASI funds	Both ASI funds	Schroder Life Diversified Growth Fund	Schroder Life Diversified Growth Fund	Schroder Life Diversified Growth Fund
Company name	Netflix, Inc.	Facebook, Inc	Snap-on, Inc.	Hewlett Packard Enterprise Company	Zurich Insurance Group AG	Hewlett Packard Enterprise Company
Date of vote	04/06/2020	27/05/2020	23/04/2020	01/04/2020	01/04/2020	01/04/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	This information was not provided.					
Summary of the resolution	Elect Director Mathias Dopfner	Require independent board chair	Advisory vote to ratify named executive officers' compensation	Elect Director Mary Agnes Wilderotter	Transact Other Business (Voting)	Approve Remuneration Policy
How the manager voted	Withhold	For	Against	Against	Against	Against
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	This information was not provided.					
Rationale for the voting decision	Misaligned with proxy voting policy—low "Say on Pay" support.	Support warranted—ongoing, unmitigated concerns regarding independence.	Misaligned with proxy voting policy - concerns with pay-for-performance alignment, structure, and disclosure.	Chair of the audit committee and considered over boarded	Other business not disclosed	Increases in opportunity and pensions not being reduced in line with wider workforce before next policy.
Outcome of the vote	This information was not provided.					
Implications of the outcome	This information was not provided.					
Criteria on which the vote is considered "significant"	Vanguard held a meaningful ownership position, conveyed their perspective on an important governance topic, or communicated their view of positive progress.			Votes were against management.		

	Vote 7	Vote 8	Vote 9	Vote 10	Vote 11	Vote 12
Funds affected	Barings Dynamic Asset Allocation Fund	Barings Dynamic Asset Allocation Fund	Barings Dynamic Asset Allocation Fund	All three Baillie Gifford funds	All three Baillie Gifford funds	All three Baillie Gifford funds
Company name	East Japan Railway Company	Nissan chemical corporation	Eurovestec	British American Tobacco	Amazon	Facebook
Date of vote	23/06/2020	25/06/2020	08/03/2021	30/04/2020	27/05/2020	27/05/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	<0.5%	<0.5%	<0.5%	N/A	N/A	N/A
Summary of the resolution	Appointment of director	Appoint a director Kinoshita, Kojiro	Authorise issue of Equity	Remuneration - Report	Shareholder Resolution - Governance	Shareholder Resolution - Governance
How the manager voted	Against	Against	For	Against	For	For
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes	Yes	Yes	Yes	Yes	Yes
Rationale for the voting decision	Board is not sufficiently independent	Insufficient gender diversity/no diversity policy	Happy with managers recommendation	Concerns regarding the potential size of the pay award.	Baillie Gifford believe greater transparency would enable shareholders to better assess alignment with Amazon's values.	Baillie Gifford believe that simple majority voting is best practice for director elections.
Outcome of the vote	Pass	Pass	Pass	Pass	Fail	Fail

	Vote 7	Vote 8	Vote 9	Vote 10	Vote 11	Vote 12
Implications of the outcome		This information was not provided.		Baillie Gifford opposed remuneration due to concern that pay is not aligned with performance. They will continue to engage on this matter.	Baillie Gifford supported the higher level of issuance authority to provide additional flexibility in the current environment. They will monitor this at next year's AGM.	Majority voting raises the threshold for re-election and therefore greater accountability. Baillie Gifford will continue to assess similar proposals in the future.
Criteria on which the vote is considered "significant"		This information was not provided.		Baillie Gifford opposed remuneration.	Baillie Gifford deviated from their usual approach. They previously opposed the authority to issue two-thirds of issued share capital with pre-emption rights. However, they supported the higher level of issuance authority this year to provide additional flexibility in the current environment.	It was submitted by shareholders and received greater than 20% support.

	Vote 13	Vote 14	Vote 15
Funds affected	LGIM Consensus Index; LGIM Global Equity 50:50 Index; and LGIM UK Equity Index	LGIM Consensus Index; LGIM Global Equity 50:50 Index; and LGIM UK Equity Index	LGIM Consensus Index; LGIM Global Equity 50:50 Index; and LGIM UK Equity Index
Company name	SIG plc.	Hollywood Bowl Group	Plus500 Ltd.
Date of vote	09/07/2020	27/01/2021	16/09/2020
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	N/A	N/A	N/A
Summary of the resolution	Approve one-off payment to Steve Francis proposed at the company's special shareholder meeting held on 9 July 2020.	Resolution 2: approve remuneration report Resolution 3: re-elect Nick Backhouse as director Resolution 7: re-elect Ivan Schofield as director Resolution 8: re-elect Claire Tiney as director	Approve Special Bonus Payment to CFO Elad Even-Chen at the company's special shareholder meeting held on 16 September 2020.
How the manager voted	LGIM voted against the resolution.	LGIM voted against the remuneration report and escalated their concerns by a vote against all the members of the remuneration committee	LGIM voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets.
If the vote was against management, did the manager communicate their intent to the company ahead of the vote?	Yes, via the LGIM website.	Yes, via the LGIM website.	Yes. Given their concerns, LGIM directly notified the company of its vote intentions before the shareholder meeting.
Rationale for the voting decision	LGIM does not generally support one-off payments. They believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility.	The remuneration committee did not consult with LGIM before retrospectively reducing the performance period of the LTIP. LGIM applied their policy and sanctioned this practice by a vote against the remuneration report.	LGIM does not support one-off discretionary bonuses as these are not within the approved policy to reward the achievement of pre-set targets. Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years.

Vote 13

Vote 14

Vote 15

Outcome of the vote

Pass. However, 44% of shareholders did not support it. LGIM believes that with this level of dissent the company should not go ahead with the payment.

48% of shareholders opposed the remuneration report and 16% opposed the re-election of the chair of the remuneration committee. The other members of the remuneration committee were only opposed by 4% of shareholders in both cases.

Given the level of shareholder dissent, the resolution was withdrawn ahead of the AGM. The company stated that: 'The board and the remuneration committee consider that a bonus is appropriate given the outstanding efforts of [the CFO]. As such, Plus500 intends to again propose the resolution for shareholder approval at the EGM to cover 2021 director pay.'

Implications of the outcome

LGIM intend to engage with the company over the coming year to find out why this payment was deemed appropriate and whether they made the payment despite the significant opposition.

LGIM will continue to monitor the company.

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Criteria on which the vote is considered "significant"

The vote is high-profile and controversial.

LGIM took the rare step of escalating our vote against all members of the remuneration committee given the seriousness of their concerns. This highlights the importance of ensuring that executive remuneration remains in line with stakeholder experience.

There was a high level of media interest regarding the withdrawal of the resolution. When combined with the other shortcomings of this company relative to expectations, this is a significant vote.