Schroders
solutions

# Dewhurst plc Pension Fund and Life Assurance Scheme (‘Scheme”)

30 June 2022 Implementation Statement

December 2022

**Schroders' Solutions Disclaimer:**

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Schemes (Investment) Regulations 2005. It is important that the Trustees of the Scheme understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts Trustees at risk of breaching your legal duties.

This is a Trustee document and the Trustees must review the Implementation Statement draft, provided by its investment adviser, and confirm that they have considered the content prepared and reviewed any associated documentation such as voting policies.

# 1. Introduction

**1.1** The Trustees are required to make publicly available online a statement ("the Implementation Statement") covering the Dewhurst plc Pension Fund and Life Assurance Pension Scheme, (the 'Scheme') in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was lasty amended in 2020 and the Trustees are looking to update the SIP next year, 2023 following a strategy review .

This Implementation Statement covers the Scheme year from 31 May 2021 to 31 May 2022 (the "Scheme Year").

It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustees during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A copy of this Implementation Statement is available on the following website: www.dewhurst-group.com

# 2. How the Trustee's policies on exercising voting rights and engagements have been followed over the Scheme Year

The Scheme invests in assets with voting rights attached, and other assets with no voting rights. The Trustee's policies on exercising voting rights and engagement are set out in the SIP. The Trustees made no changes to the voting and engagement policies contained in the SIP during the year. They will keep these policies under review.

The Trustees retain the Fiduciary Management[1] service of **Schroders IS Limited**, formerly known as **River and Mercantile Investments Limited**, as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as "**Underlying Investment Managers**"). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then. It is a signatory to the UK Stewardship code. Its external recognition includes an A+ rating for UN Principles for Responsible Investment, A- rating for Carbon Disclosure Project, Advanced ESG recognition from Morningstar and Best Investor Engagement recognition from IR Society Best Practice Award for 2021.

Investments with the Underlying Investment Managers are generally made via pooled investment funds, where the Scheme's investments are pooled with those of other investors. With a pooled investment fund, the direct control of the process of engaging with the companies that issue the underlying securities lies with the Underlying Investment Manager.

A copy of the SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's policies on corporate governance and other financially material considerations when providing Fiduciary Management services. In particular, the Trustees require that the Fiduciary Manager considers stewardship activity including voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers.

The Trustees believe it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. Similarly, the Trustees have not sought to set their own voting policy, a position they do not intend to change at this time.

The Trustees have received trainings on the latest regulatory update from Depart for Work and Pensions and determined their stewardship priorities by aligning them with their Fiduciary Manager's engagement themes over the Scheme Year. The Trustees believe the Fiduciary Manager's engagement themes/priorities are issues which are material to the long-term value of the investments. The Trustees believe that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme. These issues also reflect expectations and trends across a range of stakeholders including employees, customers, communities, suppliers and regulators. By strengthening relationships with this range of stakeholders, business models become more sustainable.

[1] The Fiduciary Manager was acquired by Schroders Group on 1 February 2022, so two sets of engagement priorities/themes were applicable to the Scheme during the Scheme Year. Details of both sets of engagement themes can be found in the next section. Going forward, the Fiduciary Manager's engagement priorities will be aligned with the priorities of the broader Schroders Group.

The Trustees believe the current approach to stewardship is in members' and beneficiaries' best interest, as the voting and engagement carried out by both Fiduciary Manager and Underlying Investment Managers is expected to improve ESG related risk management and climate risk, and ultimately this is expected improve the financial outcome for the Scheme's members.

Over the Scheme Year, the Fiduciary Manager provided the Trustees with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustees are satisfied with the Fiduciary Manager's activity in this area.

On behalf of the Trustees, monitoring of voting and engagement policy by Underlying Investment Managers in relation to the Scheme's investments was carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers. In addition, the Trustees with the help of the Fiduciary Manager, monitor the performance of the Underlying Investment Managers against the agreed performance objectives at Trustee meetings held during the Scheme Year.

The Trustees reviewed the Fiduciary Manager's Annual ESG report and ensured it was satisfied with the actions taken on its behalf in relation to ESG integration within the investments and stewardship activity.

**Following activity during the Scheme Year and by preparing this Implementation Statement, the Trustees believe that it has acted in accordance with the Statement of Investment Principles over the Scheme Year.**

The Trustees have identified areas in which it can enhance its stewardship activities in the following scheme year by:

- Identifying ESG beliefs and areas of priority to aid in stewardship and focus engagement.
- Reviewing the Fiduciary Manager's (Schroders Solutions) latest ESG-related policies.
- Continuing to review the Fiduciary Manager on its ESG integration and its own stewardship activities over the year.

# 3. Voting and Engagement Summary

The process for exercising voting rights and engaging with the managers of assets held on behalf of the Scheme is as follows:

1) Engagement and the exercise of voting rights delegated to the Fiduciary Manager

The Fiduciary Manager exercises voting rights and engages with the Underlying Investment Managers on behalf of the Trustees in line with voting and engagement policies that sets out how the Fiduciary Manager will aim to vote at a general meeting of a pooled fund or how the Fiduciary Manager approaches engagement with Underlying Investment Managers and intended outcomes.

2) The Underlying Investment Managers exercise voting rights in the underlying securities and engages with the company issuing the security in line with the policies voted on by the Fiduciary Manager. One of the Underlying Investment Managers, Bank of New York Mellon ("BNYM"), uses a proxy voting company called Institutional Shareholder Services ("ISS") to exercise these rights on its behalf and monitors ISS's activities accordingly. Similarly, Vanguard Investment Stewardship also uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.

The Trustees have considered the voting behaviour (provided in the Appendix) along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio, and the liability hedging portfolio and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting activity, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustees noted that:

- Each relevant manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activities over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- There are two set of engagement priorities/themes from the Fiduciary Manager which the Trustees considered in this Implementation Statement. Examples were provided in the appendix and they were selected to demonstrate how the Fiduciary Manager & Underlying Investment Managers, on behalf of the Trustees, voted and engaged with the investee companies. Those engagement priorities and themes were set out below:
    - For R&M Solutions engagement priorities up to January 2022 (which will be aligned with Schroder Solutions' going forward given the acquisition of the business):
        - E Climate change: carbon emissions and footprint of our funds
        - S Human capital: employee engagement and satisfaction
        - G Corporate governance: board composition, executive pay / compensation
    - For Schroder Solutions' engagement themes (from February 2022 onwards):
        - Climate: Climate risk and over sight, Climate alignment including decarbonising and minimising emissions, climate adaption and carbon capture and removal
        - Natural Capital and Biodiversity: Nature-related risk and management, circular economy, pollution and waste, sustainable food and water, deforestation

- Human Rights: Overarching approach to human rights, works and communities, customers and consumers
- Human Capital Management: Corporate culture and oversight, investment in the workforce, engagement and representation, health, safety and wellbeing
- Diversity and Inclusion: Board diversity and inclusion, executive & Workforce diversity and inclusion
- Corporate Governance: Board and management, executive remuneration, relationship with shareholders

- For the Scheme, the general themes of the voting and engagement activity carried out by the Underlying Investment Managers were in relation to environmental issues, climate strategy in particular, corporate governance including board composition. Executive pay, board diversity and improving social outcomes were the other main themes identified. These themes are in line with the Fiduciary Manager's engagement priorities/themes set out above. We have included a table which sets out the engagement priorities and relevant voting and engagement examples in the appendix.
- On behalf of the Trustees, the Scheme's Fiduciary Manager have also identified five Underlying Investment Managers who will be the engagement targets over the next scheme year. The main engagement themes include working with those Underlying Investment Managers to create formalised ESG related investment policies and improving the board independence and diversity.
- As a result of the Russia-Ukraine war, the Fiduciary Manager has implemented a no-Russia investments policy and by the end of March 2021, Schroders Solutions had begun removing any Russia exposures from the portfolio and engaging with underlying managers who continue to hold exposures. The Trustees are supportive of this approach and receives updates from the Fiduciary Manager on the success of its engagements in this area. An example where the Fiduciary Manager has been successful with engaging with underlying managers is with a hedge fund manager within the alternatives allocation of the Fiduciary portfolio. As background, following Russia's invasion of Ukraine the Fiduciary Manager have been working closely with the hedge fund manager to agree a way in which clients may remain invested, but without exposure to certain Russian assets. As a result of this recent engagement the manager, the fund now has no exposure to Russia and Belarus and the exclusion of cannabis companies. Additionally, all existing fund terms remain unchanged (fees, liquidity, valuation methodology) – the only transition costs were the negligible costs from the purchase of US Treasuries to replace the exposure.

Some details of the voting and engagement from the Scheme's Underlying Investment Managers are set out below:

- Within the Scheme's portfolio, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking assets, the Trustees noted that BNYM prioritised engagement with each of their underlying holdings on the following areas: governance practices, executive compensation, sustainability including climate change, human capital management, and diversity and inclusion.
- An example would be their engagement with an American multinational shipping & receiving supply chain management company. BNYM voted for a shareholder proposal requesting that the company report on its plans to reduce its total contribution to climate change and align its operations consistent with the Paris Agreement Goals. BNYM consider some of the company's peers to have set ambitious targets and they believe by supporting this proposal, it will provide shareholders with more transparency into the company's policy and goal-setting process, especially at a time when this company is looking to expand its airline and vehicle fleets. The BNYM annual proxy voting report (2021, link included in Appendix) was reviewed by the Trustees. The proxy voting report includes details of the significant votes and engagement examples covering a board range of underlying investment companies.
- For the largest mandate within the return-seeking credit assets, engagement on improving public disclosure and operational risk management was noted as a significant example. The manager engaged with a leading financial services company that has approximately $1.9 trillion in assets who is subject to several consent orders and other regulatory actions, requiring the company to undertake certain changes to its business, operations, products, services and risk management practices. The manager's engagement objectives was to improve compliance and operational risk management and

enhance public disclosures regarding risk control improvements. The engagement process focused on prioritising the governance with new leadership from outside the organisation, enhanced audits, procedures and controls to mitigate the chance of improper lending practices. The outcomes of the engagement was largely positive such that a new CEO was hired externally, its operating committee who was the most senior group responsible for running the company, has seen nine of its 18 members hired externally.

- In relation to the liability hedging, the Trustees noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

- **The Trustees are satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers was in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustees will keep the position under review.**

# Appendix 1 – Voting & Engagement statistics

### 1. Voting and engagement by the Fiduciary Manager (Schroders IS, formerly known as R&M) in relation to underlying pooled funds held on behalf of the Trustees

Most of the rights and voting relating to the Scheme's investments relate to underlying securities investment in through pooled funds managed by underlying investment managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustees and we cover these here.

Over the year to 30 June 2022, the Fiduciary Manager voted on 92 resolutions across 22 meetings. The Fiduciary Manager voted against management on 7 resolutions which was 7.6% of total resolutions and abstained on 4 resolutions (4.3% of the total resolutions).

The Schroders IS Investment Research team engaged with underlying investment managers regarding their clients' pooled fund investment on approximately 800 occasions during the 12 months period. The engagement topics covered a range of areas including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

The following provides an ongoing engagement example where the Fiduciary Manager engaged Neuberger Berman ("NB", an underlying credit manager) on the tenure of E&Y as fund auditor. In January 2021, they noted that following the 2019 accounts EY have now been in-place for 20 years as fund auditor. The Fiduciary Manager believe there is some additional protection to investors from rotation of auditors (assuming the quality of the appointed party is maintained). They informed NB that in the absence of any plan to change auditor it is subsequently their intention to vote against E&Y's appointment at the 2021 AGM. In February 2021 NB informed Schroders that it was their intention to put the NBIF audit out to tender later in 2021, with EY being allowed to participate.

The tender process was be completed before the 2022 AGM and that depending on the outcome of the tender process, one of the resolutions was to approve a new auditor. Schroders Solutions had a routine operational due-diligence meeting with NB in their new offices in Victoria. They again raised the issue of auditor tenure. As a direct result of their engagement with them in 2021 the board issued a tender for the audit of the fund. E&Y, KPMG & GT were short listed. A score card was used to assess each firm. E&Y was reselected on the basis of the highest score. A new audit team was assigned to the engagement. Whilst Schroders's engagement did not result in a change of auditor it did result in a full tender process and a change in audit team.

Over the Scheme Year, the Fiduciary Manager also

- engaged all Underlying Investment Managers on their plans relating to net zero and will engage on a regular basis with those who do not have any net zero target or plan to decarbonise;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager is not satisfied with the quality of data currently provided.
- reviewed all Underlying Investment Managers against its updated proprietary ESG manager rating framework and will prioritise its engagement with five managers where ESG-related issues have been identified. The Fiduciary Manager plan to report back to the Trustees in the next Implementation Statement on progress. The top engagement themes are set out in the table below:

| | Top engagement themes |
|---|---|
| Manager A – Equity | ▪ Board independence and diversity<br>▪ Incorporating ESG into employee training and appraisals/remuneration<br>▪ Voting policy and engagement processes |
| Manager B – Alternatives | ▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies<br>▪ Board independence and diversity<br>▪ Formalise voting and engagement policy |
| Manager C – Alternatives | ▪ Integrating ESG into corporate by signing up to voluntary standards and formalising policies<br>▪ Formalise voting and engagement policy<br>▪ Formalise ESG investment policy |
| Manager D – Alternatives | ▪ Formalise diversity policy<br>▪ Formalise voting and engagement policy<br>▪ Formalise ESG investment policy |
| Manager E – Alternatives | ▪ Creation of ESG working group to look into voluntary standards and formalising ESG policies within the business.<br>▪ Formalise diversity policy<br>▪ Formalise ESG investment policy |

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## 2. Voting by the Underlying Investment Managers on securities held on behalf of the Trustees

There are c. 30 Underlying Managers used by the Investment Manager. Set out below is the voting statistics for the most material equity holdings during the period that held voting rights, namely BNY Mellon Global Equity and Vanguard FTSE All World ETF Fund. Within other asset classes there are no voting rights. However, engagement activity is very important and so examples of engagement activity for the managers that represent 2.5% or more of the portfolio have also been discussed with the Trustees as described in section 3 above.

### Summary of voting activity – Equity mandates

| | BNYM Global Equity Fund | Vanguard FTSE All World ETF Fund |
|---|---|---|
| Total meetings eligible to vote | 901 | 5,526 |
| Total resolutions eligible to vote | 11,843 | 57,655 |
| % of resolutions did you vote on for which you were eligible? | 97% | 97% |
| % did vote with management? | 92% | 94% |
| % vote against management? | 7% | 5% |
| % abstained | 0% | 1% |
| % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable) | 2% | 0% |

### Note:

– BNYM uses Institutional Shareholder Services, “ISS”, for proxy voting services.

– Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.

– The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.

– BNYM does not use PLSA template. We included votes withhold in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withhold and votes abstained. BNYM also did not vote on 3% of the overall proposals.

– 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 different ways, or a vote of “Abstain” is also considered a vote against management.

## 3. Examples of most significant votes and engagements carried out by the Underlying Managers

| Engagement priorities | Examples |
|---|---|
| Climate change | Origin Energy Limited, Electronic Arts Inc, Costco |
| Human capital | Microsoft, Goldman Sachs |
| Corporate governance | FedEx, EXXON |

### BNYM Global Equity Fund

### NABORS INDUSTRIES LTD.

Mellon met with representatives of Nabors, including the Compensation Committee Chair, the Lead Director and Chief Financial Officer.

Since 2016, the company has seen significant change with a focus on technological developments steered by its CEO.

Compensation:

Nabors' 2021 say-on-pay vote did not receive majority support. Although Mellon supported the plan, due to the lack of overall shareholder support Mellon inquired as to the changes the Compensation Committee were considering.

Overall, the Compensation Committee stated they have three main pillars of focus for compensation: maintain a right-sized C-suite compensation structure and competitive pay across the organisation; named executive officer goals and compensation that reflects multiple year horizons, and targets/goals which reflect a greater commitment to alternative energy and responsible fossil fuel activity.

The company made changes to their plan to include a new 3-year horizon for their performance share units (PSU) units to replace the time-based units, as well as adding in ESG-related metrics to the plan.

Sustainability:

As of 2020, Nabors was one of the first of their peer group to disclose and set goals for Scope 1 and 2 emissions reductions.* In its next sustainability report, the company will disclose its roadmap to the next set of goals as they have already met their current goals. Nabors is also part of the Science-Based Target Initiative (SBTi), which aims provide companies a path to set science-based climate targets to reduce emissions in line with the Paris Agreement goals.

*Scope emissions as defined by the Environment Protection Agency (EPA).

### EQUIFAX, INC.

Mellon met with Equifax on December 9, 2021. Mellon have engaged with Equifax since 2015 to improve compensation practices and continued oversight of data security issues.

Data Security:

Equifax's first annual Security Report covering 2020 was released in May of 2021, and it outlines the remediation path the company took since the 2017 Equifax data breach, as well as how it is positioning itself for the future.

The Equifax security team created a Chief Security Officer network for the business community, and it has created a series of meetings available to customers. The company also engages with international regulators on cybersecurity matters.

### Sustainability:

Equifax reports under the Sustainability Accounting Standards Board (SASB) framework and reported its human capital metrics for the first time, specifically diversity and inclusion metrics which had not previously been collected. It also disclosed equal opportunity employment (EEO-1) data to supplement the SASB disclosure. Equifax discloses its Scope 1, 2 and 3 emissions as well as overall greenhouse gas emissions on its website. Based on these disclosures, Equifax has committed to being NetZero by 2040.

### Human Capital Management:

The CEO implemented the Rooney Rule, which requires at least one woman and one underrepresented minority be considered when hiring for every open role within the company.

### Compensation:

Mellon has a long history of engaging with Equifax on compensation structure design. As a result of their discussions, Equifax aligned its compensation to have a more performance-based long-term incentive plan (LTIP), in line with our guidelines. Equifax noted that Mellon's feedback over years of engagement was a catalyst of change for its compensation structure.

## CORNING INCORPORATED

Mellon met with representatives of Corning, including the Chief Financial Officer, on November 16, 2021.

### Human Capital Management:

Corning is guided by seven core values: quality, integrity, performance, leadership, innovation, independence, and the individual.

The company has achieved 100% gender pay equity globally, it has a 96% global retention rate, and has established an Office of Racial Equity & Social Unity.

With a focus on recruitment, the company is partnering with various Historically Black Colleges & Universities (HBCUs) across the US, especially in North Carolina and upstate New York.

The company is focused on training their supervisors to establish development plans in order to enhance employee retention and development for diverse employees. Human capital management is an important focus for Mellon, especially internal talent development and retention of employees, as well as ensuring diversity at all levels of the company.

### Board of Directors:

Mellon focuses on a diverse board as well as a diverse skillset amongst directors. Additionally, average board tenure is a focus as we believe an average tenure of 12 years or less ensures the board is able to combine new ideas with institutional knowledge while retaining independence. Currently, the average tenure of the Corning board is 11 years.

Mellon inquired about their board refreshment program and for clearer disclosure on this process in the future. At the time of Mellon's engagement, 70% of the board were diverse in terms of ethnicity and gender.

### Microsoft

In November 2021, BNYM supported a shareholder proposal that requested a report on effectiveness of workplace sexual harassment policies. Given Microsoft faces a litany of potential controversies in recent years, BNYM believe a transparent report allows shareholders to more adequately assess if the company is addressing these risks effectively. The proposal passed with majority support, forcing Microsoft to report on the effectiveness of workplace sexual harassment policies.

### UBIQUITI INC.

In December 2021, we withheld support from the longest tenured member of the Nominating & Governance Committee director up for election due to a lack of gender diversity on the board. Due to the Ubiquiti's classified board structure, we were unable to withhold support from the Committee Chairperson. We believe the Nominating & Governance Committee Chair is responsible for ensuring board diversity.

### Electronic Arts Inc

BNYM inquired as to whether or not Electronic Arts will be including Scope 3 emissions in their reporting and also will they be setting TCFD disclosure targets. Electronic Arts responded that they recently hired new talent to comply with the environmental disclosures and will be explaining the disclosures over the coming months.

### Vanguard FTSE All-World ETF Fund

### J Sainsbury Plc

At the annual meeting on 7 July 2022, Vanguard funds did not support a shareholder proposal directing the company to become accredited by the Living Wage Foundation, an organisation that sets out a framework for pay linked to a regional cost-of-living assessment. The proposal received 17% support from shareholders.

Vanguard has engaged over several years with the Sainsbury's board and executive management. Vanguard's recent discussions included the board's oversight of HCM and its role in navigating the cost-of-living crisis with respect to stakeholders, including its workforce and customers. The proposal in question directed the company to be accredited as a Living Wage Employer by July 2023. The resolution further asked the company to conduct an analysis (also by July 2023) of third-party contractors that earn below the real Living Wage and to work with external partners to increase all subcontracted workers to the real Living Wage rate by 2026. In assessing this shareholder proposal, Vanguard sought to understand the company's current practices, including its disclosure of the board's oversight framework for these issues. Vanguard observed that Sainsbury's pay practices met or were above the real Living Wage. In addition, a majority of its outsourced employees were paid a living wage. Beyond direct pay, Sainsbury's reviewed and improved other employee benefits. For example, the company extended its terms of employee discounts to provide additional assistance and support during the current economic challenges.

Vanguard reviewed the implications of signing up to an independent external pay benchmark when Sainsbury's has already made commitments involving wages that include factoring in the real Living Wage, the National Living Wage, and benchmarking pay competitively to peers annually. The company operates in a sector where margins are low and workforce pay is a key cost consideration. Vanguard determined that the proposal's requests (which were binding) were too prescriptive and that the setting of wages should fall under the company's operational decisions, which are best left to the board and executive management. Additionally, through ongoing dialogue with the company, Vanguard did not conclude that the proposal addressed a material gap or failure of oversight by the board.

The Goldman Sachs Group, Inc. At the annual meeting for Goldman Sachs, the U.S.- based financial services company, Vanguard did not support a shareholder proposal to adopt a policy that would proactively ensure that Goldman Sachs' underwriting and lending did not contribute to new fossil fuel development. The proposal failed with 11.2% support.

In advance of Goldman Sachs' 2022 annual meeting, members of Vanguard's Investment Stewardship team engaged with two of the company's independent directors and members of the company's management team. During the engagement, Vanguard discussed the board's oversight of climate-related risk. In our assessment, the directors demonstrated their grasp of climate matters and spoke credibly to their oversight of climate-related risks and opportunities, principally through the board's Public Responsibilities Committee and Risk Committee.

This year, a shareholder proposal asked that the company adopt a policy that would prohibit Goldman Sachs from financing new fossil fuel development, citing the United Nations Environment Program Finance Initiative and the International Energy Agency's Net Zero Emissions by 2050 scenario. The shareholder proponent noted that the IEA scenario specifically states that "no fossil fuel exploration is required and no new oil and natural gas fields are required" to meet the agency's targets for net zero emissions by 2050.

Early in 2021, Goldman Sachs publicly committed to align to a net zero by 2050 pathway in support of the goals of the Paris Agreement. With this commitment, the company has agreed to offer more disclosure about certain financed emissions and emissions targets for higher-impact sectors. Later in 2021, Goldman Sachs joined the industry-led, U.N.-convened Net-Zero Banking Alliance. Ultimately, the company's board of directors has oversight of this commitment.

In its December 2021 TCFD report, the company outlined a prioritized set of targets for 2030. The report detailed the company's oversight of climate-related risk, including a detailed explanation of its governance framework, and ambitions to closely partner with clients aiming to decarbonize.

These disclosures effectively show shareholders how Goldman Sachs has chosen to mitigate climate risk. The company has also disclosed that it has dedicated sustainability councils, embedded in each of the company's business areas, with a mandate to provide clients with solutions to climate transition challenges.

Our research and analysis, combined with our engagement, and the company's strong disclosures led us to determine that Goldman Sachs was actively assessing climate risk and that the board's oversight model appeared effective. We also assessed the proposal's request to be overly prescriptive in dictating company strategy. Vanguard did not support the proposal.

### COSTCO

Costco is an American Multinational corporation which operates a chain of membership-only warehouse clubs. At the annual meeting for Costco on the 20 January 2022, Vanguard supported a shareholder proposal

requesting that the board adopt short-, medium-, and long-term science-based greenhouse gas emissions reduction targets, inclusive of its full value chain, to achieve net zero emissions by 2050 and to effectuate appropriate reductions prior to 2030. The proposal passed with 70% support.

Vanguard expects companies and their boards to exhibit three key elements of sound climate risk governance:

- Oversight: A climate-competent board that demonstrates awareness of climate risks and fosters healthy debate on climate topics, challenges management assumptions, and makes thoughtful and informed decisions regarding these risks.
- Mitigation: Robust risk oversight and mitigation measures, including setting targets aligned with the goals of the Paris Agreement and an expected net zero transition and integrating climate risk considerations into strategic business planning and capital allocation decisions.
- Disclosure: Effective and comprehensive disclosures, both qualitative and quantitative, to show progress over time, preferably written in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

Where climate change is a material risk to a company's business strategy, Vanguard expect the board to be climate-competent and reflect the necessary skills to independently oversee its company's risks and strategy related to the expected energy transition. Vanguard encourage companies to disclose material risks, including climate-related risks, and their mitigation strategies. As Vanguard have previously communicated, robust climate risk mitigation measures include setting targets aligned with the goals of the Paris Agreement or applicable subsequent agreements and disclosing how the company will deliver shareholder value considering climate risk.

# Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement polices for both Investment Manager and Underlying Investment Managers can be found here:

| Investment Manager & Underlying Investment Manager | Voting & Engagement Policy |
|---|---|
| Schroders Solutions | https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf |
| Bank of New York Mellon | BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below:<br>https://www.mellon.com/insights/insights-articles/2021-proxy-voting-report.html |
| Vanguard | **Disclosure of rationale of voting** can be found: https://global.vanguard.com/portal/site/portal/investment-stewardship/perspectives-commentary |
| Leadenhall | https://www.leadenhallcp.com/esg |
| Neuberger | https://www.nb.com/en/global/esg/engagement |
| CBRE | **CBRE Global ESG policy:** https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/cbreim-global-esg-policy.pdf |