## **SJ Dixon & Son (Holdings) Limited Pension and Life Assurance Scheme**

## Introduction

On 6 June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”). The Regulations require that the Trustees of the SJ Dixon & Son (Holdings) Limited Pension and Life Assurance Scheme (the “Scheme”) outline how they have ensured compliance with the policies, on the exercise of rights (including voting) and undertaking of engagement activities with investment managers, as set out in the Scheme’s Statement of Investment Principles (“SIP”).

This Statement has been prepared by the Trustees, with the assistance of their appointed Investment Managers Legal & General Investment Management (“LGIM”) and BNY Mellon Newton (“Newton”). It covers both the Defined Benefit (“DB”) and Defined Contribution (“DC”) sections of the Scheme and covers voting and engagement activity over the 12 month period ending 31 December 2020.

References herein to the actions, review work or determinations of the Trustees refer to activity that has been carried out either by the Trustees or its Investment Manager on behalf of the Trustees.

## Executive summary

Over the Scheme year, the Trustees:

* Updated the SIP to: (i) incorporate additional information on the Trustees’ policies in line with the requirements of the Regulations – this applies to both the DB and DC sections of the Scheme.
* Have reviewed the voting and engagement activity of the funds that invest in equities. The Trustees are generally content that the Scheme’s investment managers have appropriately carried out their stewardship duties.
* Are of the opinion that they have complied with the relevant policies and procedures as identified in the SIP.

It should be noted that the funds that do not hold equities have not been reviewed, as these have fewer (if any) voting opportunities. Further detail on each of these matters is presented in the pages that follow.

## Reviews of the SIP over the Scheme year

During the Scheme year, the SIP was updated in October 2020, to incorporate additional information on the Trustees’ policies in line with the requirements of the Regulations. When updating the SIP the Trustees:

* Consulted with SJ Dixon & Son (Holdings) Limited as the Principal Employer. The Trustees of the Scheme did not receive any input or feedback from members of the Scheme in relation to investment matters but any such feedback or comment received in future will be considered.
* In relation to the DC section of the Scheme, the Trustees remained keenly aware that the retirement aspirations of members vary as does their ability and willingness to be exposed to investment risk. For this reason, there are a range of investment funds available from Newton and the Trustees remain willing to take members’ representations into account when considering how monies are invested in the DC section of the Scheme. Members of the DC section should contact the Trustees if more information is required.
* Trustees wish to achieve good member outcomes by using a range of collective investment funds which gives:
* The ability to diversify between one or more collective investment funds to assist in managing investment risk;
* Access to collective investment funds where the charges levied are competitive against the wider retail pension investment market, as it is the return (net of costs), which is important to members; and
* Competitive net investment returns thereby offering overall value for money to DC members.

## Investment Manager’s voting policies and histories

This section of the statement covers both the DB and DC sections of the Scheme.

### Trustees’ voting and stewardship policies

The Trustees ensure ESG factors are being considered by the investment managers (where relevant) and have considered the extent to which the fund managers analyse and integrate ESG risks and opportunities into their investment process.

The Trustees monitor on an ongoing basis the investment managers’ approach to considering and integrating ESG into their investment processes. At this time the Trustees do not impose constraints solely on the basis of ESG factors when selecting investments or managers and have received no member representation in relation to ESG, ethical, green or other specific investment criteria. The Trustees would give consideration to such requests but remain mindful they are ultimately responsible for all of the Scheme’s investments and need to act in the best interests of all members taking due account of professional advice received.

The Trustees have provided the appointed investment managers with full discretion concerning voting and engagement decisions, and expect the investment managers to use their rights wholly in the best economic interests of their investors (including our Scheme members).

As part of this exercise, the Trustees have reviewed the voting activity of funds where there is an increased ability to influence positive practises (namely those that invest in equities). The following funds are held across the DB and DC sections and have been reviewed:

* LGIM Japan Equity Index Fund
* LGIM North America Equity Index Fund
* LGIM Europe (ex UK) Equity Fund
* LGIM Asia Pacific (ex Japan) Developed Equity Index Fund
* BNY Mellon UK Income Fund
* BNY Mellon Multi Asset Global Balanced Fund
* BNY Mellon Continental European Fund
* BNY Mellon UK Equity Fund
* BNY Mellon Oriental Fund

It should be noted that the BNY Mellon funds are managed by Newton Investment Management (“Newton”), and that Newton are responsible for managing ESG factors and own the voting rights.

### Voting statistics

The table below sets out the key statistics on voting eligibility and action over the Scheme year.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Statistic | LGIM Japan Equity Index Fund | LGIM North America Equity Index Fund | LGIM Europe (ex UK) Equity Index Fund | LGIM Asia Pacific (ex Japan( Equity Index Fund | Newton UK Income Fund | Newton Multi Asset Global Balanced Fund | Newton Continental European Fund | Newton UK Equity Fund | Newton Oriental Fund |
| Number of equity holdings | 513 | 240 | 458 | 618 | 43 | 60 | 48 | 51 | 41 |
| Meetings eligible to vote at | 547 | 804 | 635 | 680 | 48 | 64 | 48 | 59 | 46 |
| Resolutions eligible to vote on | 6,538 | 9,634 | 10,402 | 4,944 | 920 | 1,032 | 941 | 1,131 | 335 |
| Proportion of eligible resolutions voted on | 100.0% | 100.0% | 99.9% | 100.0% | 100.0% | 98.7% | 94.0% | 100.0% | 100.0% |
| Votes with management | 86.7% | 72.3% | 84.2% | 77.4% | 96.6% | 86.5% | 88.1% | 96.8% | 86.6% |
| Votes against management | 13.3% | 27.7% | 15.5% | 22.6% | 3.4% | 13.5% | 11.9% | 3.2% | 13.4% |
| Votes abstained from | 0.0% | 0.0% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Meetings where at least one vote was against management | 5.6% | 7.7% | 4.5% | 8.4% | 25.0% | 41.0% | 48.0% | 19.0% | 41.0% |
| Votes contrary to the recommendation of the proxy adviser | 0.2% | 0.3% | 0.3% | 0.1% | 4.5% | 9.2% | 5.9% | 4.4% | 7.5% |

Source: Scheme’s underlying investment managers. Totals may not sum to zero due to rounding.

The Trustees are satisfied with the level of voting activity that has been undertaken. The Trustees have raised a query with LGIM concerning the percentage of meetings, for which they did vote, where at least one vote was against management. At the time of writing, the Trustees were awaiting a response from LGIM.

At the time of writing, Newton were not able to provide voting information for the Newton Continental European Fund and the Newton Oriental Fund due to data not being available. Newton have agreed to forward the information to Trustees as soon as it is ready. The Trustees will review this information when it is received and raise any queries they have with Newton.

### Significant votes

The Trustees have reviewed the significant votes cast by the investment managers and are generally satisfied with their voting behaviour. A cross section of the most significant votes cast is contained in Appendix 2.

## Conflicts of interest

This section reviews whether the managers are affected by the following conflicts of interest, and how these are managed.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;
2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;
3. The asset management firm’s stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;
4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer; and
5. Differences between the stewardship policies of managers and their clients.

### LGIM

LGIM has refrained from directly commenting on which of the conflicts of interest, detailed above, it is impacted by. Instead, LGIM refers investors to its conflicts of interest policies, which include several examples of conflicts and how these might be managed. The Trustee:

* Has received a copy of the conflicts of interest policy; and
* Has queried LGIM’s position not to directly comment on the five conflicts of interest detailed above.

### Newton

Newton has confirmed that the five conflicts of interest, detailed above, did not impact any of the funds held by the Scheme over the period under review. Newton has also confirmed that it is “not currently aware” of any material conflict of interest that would impair its ability to act as the manager to any of the funds held by the Scheme.

## Implementation of policies contained within the Scheme’s SIP – DC section

This section sets out the various policies within the Scheme’s SIP (that was in place as at 31 December 2020 – i.e. the end of the Scheme year) and the actions that the Trustees have taken in respect of them over the year to this date. We have noted a few actions that were taken following the Scheme year-end that we feel are of relevance.

|  |  |
| --- | --- |
| SIP policy | Comments |
| **1. Investment processes and governance** | |
| **Investment strategy**  The Trustees are required by law to act prudently and in accordance with investment advice received (from suitably qualified and experienced professionals) when developing or reviewing the investment strategies for Scheme.  The Trustees undertake regular reviews of the Scheme’s DC investment strategy (both at a strategic level and at a fund level) and, aim to achieve good member outcomes by using a range of collective investment funds which give:   * The ability to diversify between one or more collective investment funds to assist in managing investment risk; * Access to collective investment funds where the charges levied are competitive against the wider retail pension investment market, as it is the return (net of costs), which is important to members; * Competitive net investment returns thereby offering overall value for money to DC members;   The Trustees are not able to run bespoke investment strategies for each member of the Scheme to reflect their own needs and aspirations. The Trustees will however be reviewing their options in this regard in the near future. | **Investment strategy**  It became clear during the year that the strategic advice required by the Trustees was not forthcoming from Scottish Widows (Mercer). As a consequence, the Trustees undertook a review of advisers and subsequently Quantum Advisory.  The Trustees will undertake a strategic review of their DC section during 2021. |
| **Performance monitoring**  The Trustees review the performance of the Scheme’s DC investments on a frequent basis. The Trustees may undertake additional reviews as deemed appropriate.  The Trustees consider the extent to which the net of costs investment returns achieved by LGIM and Newton to assess how they are performing against Schemes needs, their rivals and suitable independent benchmarks. The Trustees reserve the right to replace the investment managers if they feel their net returns are not acceptable. | **Performance monitoring**  Regular asset statements were provided by the investment managers. The Trustees will discuss and agree what additional monitoring is required during 2021 alongside their new advisers.  The Trustees considered the overall performance of their investment managers as satisfactory considering the worldwide pandemic during the period under review. |
| **Statement of Investment Principles**  The Trustees review the SIP at least once a year and publish any update(s) to the website. | **Statement of Investment Principles** The SIP was last reviewed, and subsequently updated, during October 2020. Further details are provided in section 3 of this statement. This SIP has been published online. |
| **2. Responsible Investment** | |
| The Trustees ensure ESG factors are being considered by the investment managers (where relevant) and have considered the extent to which the fund managers analyse and integrate ESG risks and opportunities into their investment process.  The Trustees monitor, on an ongoing basis, the investment managers’ approach to considering and integrating ESG into their investment processes.  The Trustees expect the investment managers to use their rights (including voting rights) wholly in the best economic interests of their investors (including our Scheme members). | The Scheme’s investment managers are both signatories to the United Nations Principles for Responsible Investment (“UNPRI”). Newton and LGIM have both been rated A+ by the UNPRI.  The Trustees have reviewed the voting activity of the Scheme’s investment managers in section 4 of this statement and are generally happy with the actions the investment managers have taken. |
| **3. Risk management** | |
| The Trustees have identified a range of risks within the SIP and seek to minimise them by regularly monitoring the investment funds. These risks include:   * Asset allocation risk * Investment manager risk * Concentration/market risk * Liquidity risk * Currency risk * Loss of investment * Inflation risk * Conversion risk * Retirement income risk | The Trustees have not encountered any liquidity issues (inability to redeem assets when they have needed to). |

## Appendix 1 – investment manager voting policies and procedures

### LGIM voting policies and process

LGIM’s Investment Stewardship team make all voting decisions, in accordance with LGIM’s Corporate Governance & Responsible Investment and Conflicts of Interest policy documents.

LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM’s own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (“IVIS”) to supplement the research reports that are received from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with LGIM’s position on ESG, LGIM have put in place a custom voting policy with specific instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any voting decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by the service provider.

### BNY Mellon (“Newton”)’s voting policies and processes

Newton’s head of responsible investment (“RI”) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. They do not maintain a strict proxy voting policy. Instead, Newton prefer to take into account a company's individual circumstances, their investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, they may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). For the avoidance of doubt, all voting decisions are made by Newton. It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (ISS) will take precedence. It is also only in these circumstances when they may register an abstention given their stance of either voting in favour or against any proposed resolutions.

Newton employ a variety of research providers that aid in the vote decision-making process, including proxy advisors such as ISS. They utilise ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

## Appendix 2 – Most significant votes

The tables below set out a cross section of significant votes undertaken by the investment managers of the funds held by the Scheme. Information on further significant votes undertaken by the Scheme’s investment managers has been reviewed by the Trustees.

### LGIM Japan Equity Index Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Olympus Corporation | Fast Retailing Co. Limited. |
| **Date of Vote** | July 2020 | November 2020 |
| **Summary of the resolution** | Governance proposal | Governance proposal |
| **How the firm voted** | Against the proposal | Against the proposal |
| **On which criteria has the vote been deemed as ‘significant?** | This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity. | This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity. |
| **Outcome of the vote** | The vote passed | The vote passed |

Source: Investment Manager. Please note, information on the outcomes of the votes are unavailable.

### LGIM North American Equity Index Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Medtronic plc | The Procter & Gamble Company (P&G) |
| **Date of Vote** | December 2020 | October 2020 |
| **Summary of the resolution** | Renumeration proposal. | Climate proposal |
| **How the firm voted** | Against the proposal | For the proposal |
| **On which criteria has the vote been deemed as ‘significant?** | LGIM believe it is contrary to best practice in general and pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment. | It is aligned with LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest. |
| **Outcome of the vote** | The vote passed | The vote passed |

Source: Investment Manager

### LGIM European (ex UK) Equity Fund

|  |  |
| --- | --- |
| Company Name | Lagardere |
| **Date of Vote** | May 2020 |
| **Summary of the resolution** | Governance proposal |
| **How the firm voted** | For the shareholder proposals and against the proposals of management |
| **On which criteria has the vote been deemed as ‘significant?** | LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board. |
| **Outcome of the vote** | The vote did not pass |

Source: Investment Manager

### LGIM Asia Pacific (ex Japan) Developed Equity Index

|  |  |  |
| --- | --- | --- |
| Company Name | Qantas Airways Limited | Whitehaven Coal |
| **Date of Vote** | October 2020 | October 2020 |
| **Summary of the resolution** | Renumeration proposal | Capital protection proposal |
| **How the firm voted** | Against the proposal | For the proposal |
| **On which criteria has the vote been deemed as ‘significant?** | It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package. | The vote received media scrutiny and is emblematic of a growing wave of green shareholder activism. |
| **Outcome of the vote** | The vote passed | The vote did not pass |

Source: Investment Manager

### BNY Mellon UK Equity Fund

|  |  |  |
| --- | --- | --- |
| Company Name | AstraZeneca Plc | Moneysupermarket.com Group Plc |
| **Date of Vote** | April 2020 | May 2020 |
| **Summary of the resolution** | Renumeration proposal | Renumeration proposal; |
| **How the firm voted** | Against the proposal | Against the proposal |
| **On which criteria has the vote been deemed as ‘significant?** | This vote highlights a key area of public interest and recently evolved best practice surrounding pension provisions. It also shows a departure from the UK's well established principles-based approach where sufficient explanations are expected. | This vote highlights a key area of public interest and recently evolved best practice surrounding pension provisions. |
| **Outcome of the vote** | The vote passed | The vote passed |

Source: Investment Manager

### BNY Mellon Multi Asset Global Balanced Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Microsoft Corporation | Mastercard Incorporated |
| **Date of Vote** | December 2020 | June 2020 |
| **Summary of the resolution** | Governance and renumeration proposals | Governance and renumeration proposals |
| **How the firm voted** | Against the proposals | Against the proposals |
| **On which criteria has the vote been deemed as ‘significant?** | The company is recognised as a leader among its US peers in terms of its approach to corporate governance. It's executive pay structure is also better than most but there exists fundamental improvements that should be made. | The company's approach was a breach of the UK's corporate governance code, including the absence of an explanation justifying the move. |
| **Outcome of the vote** | The votes passed. | The votes passed. |

Source: Investment Manager

### BNY Mellon Continental European Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Nestle SA | Sanofi |
| **Date of Vote** | April 2020 | April 2020 |
| **Summary of the resolution** | Vote to Ratify Ernst & Young AG as Auditors, Vote to Transact Other Business | Advisory Vote to Ratify Named Executive Officers' Compensation |
| **How the firm voted** | Against | Against |
| **On which criteria has the vote been deemed as ‘significant?** | The continuation in the Swiss market of proposing for approval 'transact other business' highlights a significant insight into the country's fundamental approach to protecting the interests of minority investors. | This was considered a significant vote given that few companies receive a majority vote against pay-related resolutions. |
| **Outcome of the vote** | 58.1% AGAINST | 58.1% AGAINST |

Source: Investment Manager

### BNY Mellon UK Income Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Unilever | Sanofi |
| **Date of Vote** | April 2020 | April 2020 |
| **Summary of the resolution** | Renumeration proposal | Renumeration proposal |
| **How the firm voted** | Against the proposal | Against the proposal |
| **On which criteria has the vote been deemed as ‘significant?** | Newton considered this a significant vote given the attention the subject receives from investors and wider stakeholders and that certain elements of the pay structure is not in line with established UK best practice. | This was considered a significant vote given that few companies receive a majority vote against pay-related resolutions. |
| **Outcome of the vote** | The vote passed | The vote did not pass |

Source: Investment Manager

### BNY Mellon Oriental Fund

|  |  |  |
| --- | --- | --- |
| Company Name | Bangkok Bank Public Company Limited | Singapore Technologies Engineering Ltd. |
| **Date of Vote** | March 2020 | May 2020 |
| **Summary of the resolution** | Approve Acquisition of All Shares in PT Bank Permata Tbk, Other business | Two resolutions that sought approval of restricted stock plan |
| **How the firm voted** | Against | Against |
| **On which criteria has the vote been deemed as ‘significant?** | The significance of this vote is that it highlights how the lack of supporting information provided by a company can determine voting activity. | This meeting provides an example of how protected a company and its management can be when it has a controlling shareholder. |
| **Outcome of the vote** | Not available. | 4.2%, 5.1% AGAINST Restricted Stock Plan. |

Source: Investment Manager