

# **Appendix 2 - Implementation Statement, covering the Scheme Year from 1 April 2021 to 31 March 2022**

The Trustee of the ESAB Group (UK) Limited Pension & Life Assurance Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-11 below.

This Statement is based on Scheme’s SIP which was in place during the Scheme Year – last updated in September 2019. This Statement should be read in conjunction with the SIP which can be found online.

## **1. Introduction**

No review of the SIP was undertaken during the Scheme Year. The last time the SIP was formally reviewed was in September 2019.

The Trustee has, in its opinion, followed the policies in the Scheme’s SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

## **2. Investment objectives**

The Trustee’s primary objective for the DB Section is to ensure that the Scheme should be able to meet benefit payments as they fall due.

Having purchased a bulk annuity (“buy-in”) policy in August 2019 to cover DB Section members’ guaranteed benefits, the Trustee’s secondary investment objective is to maintain surplus assets in cash until the policy can be assigned to the individual members and the Scheme can be wound up.

The Trustee’s primary objective for the DC Section is to provide members with access to an appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement.

## **3. Investment strategy**

The Trustee, with the help of its advisers and in consultation with the employer, purchased a buy-in policy in August 2019, to cover DB Section members’ guaranteed benefits.

The Scheme’s remaining DB Section assets are held in a cash fund, to cover ongoing and winding-up expenses and any potential additional buy-in premium relating to data corrections.

For the DC Section of the Scheme, the Trustee offers members a range of investment funds. Each member is responsible for specifying one or more funds for the investment of their account, having regard to their attitude to the risks involved.

## **4. Considerations in setting the investment arrangements**

There was no review of the Scheme’s investment strategy completed during the Scheme year. The Trustee last reviewed its investment beliefs, including its beliefs regarding environmental,

social and governance (ESG) factors as part of the updates to the Scheme's SIP in September 2019.

The Trustee is progressing with the wind-up of the Scheme, which includes consolidating the DC section and AVC benefits with the existing buy-in provider (Rothsay Life). This transition is expected to take place in the second half of 2022 and therefore much of the work undertaken during the Scheme year was in relation to the planning of the Scheme wind-up, including consideration of appropriate mapping of members' DC and AVC benefits to similar funds with Rothsay.

## **5. Implementation of the investment arrangements**

The Trustee has not made any changes to their manager arrangements over the period.

The Scheme's investment adviser, LCP, monitors the investment managers on an ongoing basis, through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of with regard to the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification in the funds.

The Trustee was comfortable with all of its investment manager arrangements over the Scheme Year.

The Trustee monitors the performance of the Scheme's investment managers regularly using performance reports provided by the Scheme's managers. There were no material concerns regarding manager performance noted over the period.

During the Scheme Year the Trustee assessed the investment manager's fees as part of the DC value for money assessment. Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur.

## **6. Realisation of investments**

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.

For the DB Section, the buy-in provider is obliged to deliver the cash flow stipulated in the contract, which is designed pay member benefits in full and on time.

For the DC Section, the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

## **7. Financially material considerations and non-financial matters**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In respect of the DB Section, the Trustee does not consider these factors on the basis that the investments now consist of the buy-in policy secured with Rothsay Life and the small remaining investments held in the L&G Cash Fund.

In respect of the DC Section, the Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this,

and from time to time reviews how its managers are taking account of these issues in practice. The Trustee did not review the Scheme's managers' processes over the year as the focus was on working towards the winding-up of the Scheme.

The Trustee does not take into account any non-financial matters in respect of the DB Section or the DC Section in the selection, retention and realisation of investments.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity, but has implicitly delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations, to be carried out in line with the managers' general policies on stewardship, as provided to the Trustee from time to time. The Trustee expects its investment adviser to monitor the voting practices of the managers and report any issues to the Trustee as necessary. There were no such issues reported to the Trustee over the Scheme year.

## **8. Voting and engagement**

This is covered in Section 7 above.

## **9. Investment governance, responsibilities, decision-making and fees (Appendix 1 of SIP)**

As mentioned in Section 5, the Trustee assesses the performance of the Scheme's investments on a regular basis, using performance reports provided by the managers.

The performance of the professional advisers is considered on an ongoing basis by the Trustee.

The Trustee has put in place formal objectives for its investment adviser and will review the adviser's performance against these objectives on a regular basis.

## **10. Policy towards risk (Appendix 2 of SIP)**

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustee's policy for some risks, given their nature, is to understand them and to address them if they become necessary, based upon the advice of the Scheme's investment adviser or information provided to the Trustee by the Scheme's investment manager. These include credit risk, equity risk, currency risk and custodian risk.

These risks are mainly applicable to the DC Section of the Scheme, following the purchase of the buy-in policy with Rothesay in August 2019.

## **11. Description of voting behaviour during the Scheme Year**

All of the Scheme's holdings in listed equities are within pooled funds managed by Legal & General Investment Management ("L&G") and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year.

The DB Section's assets had no exposure to equities over the Scheme year. In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Scheme's DC funds that hold equities as follows:

- L&G PMC Global Equity Fixed Weights (50:50) Index Fund
- L&G PMC Multi-Asset Fund
- L&G PMC Retirement Income Multi-Asset Fund

The voting data for the following funds which hold equities have not been included based on materiality grounds as these funds make up less than 1% of the Scheme's total assets:

- L&G PMC UK Equity Index Fund
- L&G PMC European Fund
- L&G PMC International Fund
- L&G PMC Japan Equity Index Fund

At the time of writing, L&G was unable to provide voting data for the following funds which also held equities over the period:

- L&G PMC Managed Fund

None of the Scheme's other pooled funds invested in over the Scheme Year held any assets with voting opportunities.

### **11.1 Description of the voting processes**

L&G's voting and engagement activities are driven by its ESG professionals and their assessment of the requirements in these areas. L&G seeks to achieve the best outcome for all its clients. L&G's voting policies are reviewed annually and take into account feedback from clients. Every year, L&G holds a stakeholder roundtable event where clients and other stakeholders are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead.

All decisions are made by L&G's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant companies.

The Investment Stewardship team use third parties to augment their own research and proprietary ESG assessment tools when making specific voting decisions.

L&G's Investment Stewardship team uses Institutional Shareholder Services' (ISS') 'ProxyExchange' voting platform to electronically vote clients' shares. To ensure its proxy provider votes in accordance with its position on ESG, L&G has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what it considers to be minimum best practice standards which all companies globally should observe, irrespective of local regulation or practice.

L&G retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows L&G to apply a qualitative overlay to its voting judgement. It has strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by the service provider. This includes a regular manual check of the votes inputted into the platform, and an electronic alert service to inform L&G of rejected votes which require further action.

## 11.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the period is provided in the table below.

	Fund 1	Fund 2	Fund 3
Manager name	L&G	L&G	L&G
Fund name	Global Equity Fixed Weights (50:50) Index Fund	Multi-Asset Fund	Retirement Income Multi-Asset Fund
Total size of fund at end of reporting period	£3.8bn	£764m	£1.6bn
Value of Scheme assets at end of reporting period	£1.6m	£1.1m	£0.1m
Number of equity holdings at end of reporting period	2,785	6,367	6,750
Number of meetings eligible to vote	3,175	8,843	10,487
Number of resolutions eligible to vote	39,493	88,741	105,734
% of resolutions voted	99.9%	99.8%	99.8%
Of the resolutions on which voted, % voted with management	82.9%	78.7%	80.0%
Of the resolutions on which voted, % voted against management	17.0%	20.5%	19.3%
Of the resolutions on which voted, % abstained from voting	0.2%	0.8%	0.8%
Of the meetings in which the manager voted, % with at least one vote against management	69.5%	70.0%	67.0%
Of the resolutions on which the manager voted, % voted contrary to	11.7%	12.5%	11.4%

### 11.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the period, provided by L&G, across its funds are set out below.

We have provided a subset of the significant votes provided by L&G based a balance between votes cast on environmental, governance and social criteria.

#### **Facebook, 26 May 2021, vote: Withheld**

L&G withheld their vote to elect Mark Zuckerberg as a director.

L&G has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 L&G has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 L&G has been voting against all combined board chair/CEO roles. Furthermore, L&G has published a guide for boards on the separation of the roles of chair and CEO (available on L&G's website), and L&G has reinforced its position on leadership structures across its stewardship activities – e.g. via individual corporate engagements and director conferences.

L&G considers this vote to be significant as it is in application of an escalation of its voting policy on the topic of the combination of the board chair and CEO.

#### **Mitsubishi UFJ Financial Group, 29 June 2021, vote: For**

L&G voted for a resolution to disclose the company's business strategy to align its investments with Paris Alignment Goals.

L&G expects companies to be taking sufficient action on the key issue of climate change. Whilst L&G noted the company's recent announcements around net-zero targets and exclusion policies, it thinks that these commitments could be further strengthened and therefore believes the shareholder proposal provides a good directional push.

L&G considers this vote to be significant as it views climate change as a financially material issue for its clients, with implications for the assets it manages on their behalf. This was also a high-profile proposal in Japan, where climate-related shareholder proposals are still rare.

#### **Apple Inc, 4 March 2022, vote: For**

L&G voted for the resolution on a civil rights audit.

L&G voted in favour of this resolution as it supports proposals related to diversity and inclusion policies as it consider these issues to be a material risk to companies.

L&G considers this vote to be significant as it views gender diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf.

#### **Total SE, 28 May 2021, vote: Against**

L&G voted against a resolution (against management) to re-elect Patrick Pouyanne as Director.

L&G has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 L&G has supported shareholder proposals seeking the appointment of independent board chairs,

and since 2020 L&G has been voting against all combined board chair/CEO roles. Furthermore, L&G has published a guide for boards on the separation of the roles of chair and CEO (available on L&G's website), and L&G has reinforced its position on leadership structures across its stewardship activities – e.g. via individual corporate engagements and director conferences.

L&G considers this vote to be significant as it is in application of an escalation of its vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

### **Informa Plc, 3 June 2021, vote: Against**

L&G voted against 3 resolutions (against management) to re-elect Stephen Davidson, Mary McDowell and Helen Owers. L&G also voted against a fourth resolution to approve a remuneration report.

The company's prior three remuneration policy votes – in 2018, June 2020, and at a General Meeting that was called in December 2020 – each received high levels of dissent, with 35% or more of votes cast against. At the December 2020 meeting, the Remuneration Policy and the Equity Revitalisation Plan (EVP) received over 40% of votes against. The EVP was structured to award the CEO restricted shares to a value of 600% of salary. L&G has noted its concerns with the company's remuneration practices for many years. Due to continued dissatisfaction, L&G again voted against the proposed Policy at the December 2020 meeting. However, despite significant shareholder dissent at the 2018 and 2020 meetings, the company implemented the awards under the plan a few weeks after the December meeting.

Additionally, the Remuneration Committee has adjusted the performance conditions for the financial year 2018 long-term incentive plan (LTIP) awards while the plan is running, resulting in awards vesting where they would otherwise have lapsed. Due to consistent problems with the implementation of the company's Remuneration Policy and the most recent events as described above, L&G has voted against the Chair of the Remuneration Committee for the past three years. Given the company has implemented plans that received significant dissent from shareholders without addressing persistent concerns, L&G has taken the decision to escalate their vote further to all incumbent Remuneration Committee members, namely Stephen Davidson (Remuneration Committee Chair), Mary McDowell and Helen Owers.

L&G considers this vote to be significant as L&G took the rare step of publicly pre-declaring it before the shareholder meeting. Publicly pre-declaring its vote intention is an important tool for L&G's engagement activities. L&G can decide to pre-declare its vote intention for a number of reasons, including as part of their escalation strategy, where they consider the vote to be contentious, or as part of a specific engagement programme.