

# PARAGON PENSION PLAN

## Annual Engagement Policy Implementation Statement

### Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 March 2023. This Statement has been produced in accordance with applicable regulations and the guidance published by the Pensions Regulator.

The Trustee considers its policies in relation to:

- a) The strategic management of the assets - this is fundamentally the responsibility of the Trustee, acting on expert advice, and is driven by the investment objectives as set out below. The Trustee reviews the investment policy on a regular basis, although it is not expected to change frequently.
- b) The implementation of the investment strategy - this occurs through the day to day management of the assets which is largely delegated to the Trustee's selected investment managers ("the Managers"). This is outlined in Section 5 of the Plan's SIP, with full details in the Investment Policy Implementation Document ("IPID").

### Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Plan included in the SIP are as follows:

- The Trustee's overall investment policy is guided by an objective of achieving, over the long term, a return on the investments that is consistent with the contribution framework agreed with the Company to eliminate the ongoing (i.e. Technical Provisions "TP") funding deficit by 31 July 2025, to ensure that it can meet its obligations to the beneficiaries of the Plan.
- To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.
- The Trustee appreciates that the Company wishes to avoid significant volatility in its contribution rate, but some volatility will be tolerated if it is deemed necessary in the achievement of other objectives.

Given the nature of the liabilities, the investment time horizon of the Plan is potentially very long-term, i.e. several decades. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Plan's investment horizon significantly.

### Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The SIP was last reviewed in September 2022.

In order to establish these beliefs and produce this policy, the Trustee undertook a survey and investment training provided by the Plan's investment consultant on responsible investment, which

covered ESG factors, stewardship, climate change and ethical investing. The training was provided in June 2019. The Trustee keeps its policies under regular review.

The Trustee is satisfied that its engagement policy was followed during the year. The following summarises how the Trustee's engagement and voting policies were followed and implemented during the year accordingly.

## Engagement

- An investment performance report was reviewed by the Trustee on a quarterly basis - this included ratings (both general and specific ESG) from the investment consultant. The investment performance reports included how each investment manager was delivering against their specific mandates. Through its investment consultant, the Trustee reviewed the mandates of Legal & General Investment Management Limited ("LGIM"), Baillie Gifford & Company ("BG"), Insight Investment Management Limited ("Insight"), BlueBay Asset Management ("BlueBay"), Shenkman Capital Management ("Shenkman"), and Kohlberg Kravis Roberts ("KKR") (together the "Investment Managers") in relation to ESG factors including climate change. The Plan's managers remained generally highly rated by Mercer during the period.
- The Trustee also undertook an annual ESG rating benchmarking exercise in December 2022. This exercise assessed the average ESG rating of the Plan's holdings and compared the rating of each fund to other funds in the same asset class universe. From the latest review, the Trustee concluded that the Plan's managers have an above average ESG rating compared to the wider universe.
- In February 2022, the Trustee prepared an ESG investment beliefs statement, setting out the Trustee's beliefs on ESG issues as it relates to investment of the Plan. It is intended to be a reference for the Trustee when incorporating ESG factors into investment decision-making and in the development of a future Responsible Investment Policy. In establishing its beliefs, the Trustee has considered the ESG beliefs of the Sponsoring Employer.
- The Trustee has requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. The majority of the Plan's Investment Managers (representing 92% of the strategic benchmark allocation) confirmed that they are signatories of the UK Stewardship Code 2020. Two of the Plan's managers (Shenkman and KKR) confirmed that they are not signatories to the code, on the basis that as credit investors it is not relevant to the assets they manage, particularly as the code focuses on listed equities.
- The Trustee also receives presentations from each of the Plan's managers periodically. Manager presentations are prioritised based on advice received from the investment consultant and discussions during the quarterly monitoring process described above. The Trustee provides the investment managers with questions prior to these meetings, including questions on ESG-related/engagement issues. It also receives briefing from the Investment Consultant prior to the meeting, based on the Investment Consultant's research reporting, including background to the manager's ESG rating.
- During the Plan year, the Trustee received a presentation from BlueBay regarding the Multi Asset Credit mandate following the format described above. Early in 2023 the Trustee also received a presentation from LGIM. This followed the gilt crisis in Q3/Q4 2022 and subsequent regulatory guidance, which highlighted a need generally in the pensions industry for stronger governance regarding the management and monitoring of Liability Driven Investment ('LDI') portfolios.
- The Trustee also received details of relevant engagement activity for the year from the Plan's investment managers, as part of their regular reporting.

## Voting Activity

Voting is relevant to the Plan's passively managed equity investments and diversified growth investments only. This specifically relates to the LGIM Equity Portfolio and the Diversified Growth Funds with BG and Insight, which have a combined benchmark allocation of 48% of total Plan assets. The Plan's AVCs have been transferred out of the Plan and therefore no information on AVCs is included in this Statement.

The Trustee has delegated its voting rights to the investment managers. The Trustee does not use the direct services of a proxy voter.

Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. LGIM, BG and Insight have been asked to confirm examples of significant voting activity (including a description of how they define a 'significant' vote) in relation to the pooled funds in which the Plan is invested, over the year to 31 March 2023. They have responded as outlined below.

In Q3 2022, new legislation was published by the Department of Work & Pensions ("DWP") which provided new requirements for pension scheme SIP and Implementation Statements, which has come into effect for the Fund this year. The Trustee is now required to provide a definition of what it considers a "significant vote".

The Trustee has agreed that its definition of a significant vote is *"a vote that relates to and aligns with the Trustee's key priority themes as provided within the Trustee's ESG Investment Beliefs Statement"*. The votes outlined below have been provided to the investment advisor by the Fund's investment managers and have been tailored to prioritise those in which the underlying theme / topic is one that the Trustee has identified as being significant based on the above definition.

A summary of the key voting activity over the financial year can be found below:

### LGIM Equity Portfolio

#### *Proxy Voting*

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 it does not outsource any part of the strategic decisions. To ensure its proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions.

#### *Significant Vote (description)*

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;

- Vote linked to a LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

## UK Equity

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
10,870 resolutions eligible for (99.94% cast)	5.54%	0.00%	<p><b>Company:</b> Royal Dutch Shell Plc</p> <p><b>Summary:</b> Voted “AGAINST” the resolution 20: Approve the Shell Energy Transition Progress Update.</p> <p><b>Rationale:</b> LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, They remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.</p> <p><b>Outcome:</b> Resolution supported by 79.9% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The environmental nature of this resolution is aligned with the Trustee’s key priority theme of “Environmental Sustainability”.</p>

## North America

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
8,543 resolutions eligible for (99.41 cast)	34.55%	0.06%	<p><b>Company:</b> Alphabet Inc.</p> <p><b>Summary:</b> Voted “FOR” the Resolution 7 - Report on Physical Risks of Climate Change.</p> <p><b>Rationale:</b> A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p> <p><b>Outcome:</b> Resolution supported by 17.7% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate our position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The environmental nature of this resolution is aligned with the Trustee’s key priority theme of “Environmental Sustainability”.</p>

## Europe (ex UK)

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
10,391 resolutions eligible for (99.93% cast)	18.53%	0.48%	<p><b>Company:</b> LVMH Moet Hennessy Louis Vuitton SE</p> <p><b>Summary:</b> Voted "AGAINST" the Resolution 5 - Re-elect Bernard Arnault as Director.</p> <p><b>Rationale:</b> LGIM expects companies not to combine the roles of Board Chair and CEO. These two roles are substantially different and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board.</p> <p><b>Outcome:</b> Resolution supported by 92% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The governance nature of this resolution is aligned with the Trustee's key priority theme of "Governance and Strategy".</p>

## Japan

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
6,267 resolutions eligible for (100% cast)	11.25%	0.00%	<p><b>Company:</b> Mitsubishi Corp.</p> <p><b>Summary:</b> Voted “FOR” the Resolution 5 - Amend Articles to Disclose Greenhouse Gas Emission Reduction Targets Aligned with Goals of Paris Agreement</p> <p><b>Rationale:</b> A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p> <p><b>Outcome:</b> Resolution supported by 20.2% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The environmental nature of this resolution is aligned with the Trustee’s key priority theme of “Environmental Sustainability”.</p>

**Asia (ex-Japan)**

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
3,590 resolutions eligible for (100.00% cast)	29.16%	0.00%	<p><b>Company:</b> Rio Tinto Limited</p> <p><b>Summary:</b> Voted “AGAINST” the Resolution 17 - Approve Climate Action Plan</p> <p><b>Rationale:</b> LGIM recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company’s decarbonisation efforts. However, while they acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, LGIM remain concerned with the absence of quantifiable targets for such a material component of the company’s overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.</p> <p><b>Outcome:</b> Resolution supported by 84.3% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The environmental nature of this resolution is aligned with the Trustee’s key priority theme of “Environmental Sustainability”.</p>



## Emerging Markets

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
42,279 resolutions eligible for (99.92% cast)	19.74%	2.07%	<p><b>Company:</b> Meituan</p> <p><b>Summary:</b> Voted “AGAINST” Resolution 2 - Elect Wang Xing as Director</p> <p><b>Rationale:</b> LGIM voted against this resolution because they expect a company to have at least one female on the board. Joint Chair/CEO: A vote against is applied as LGIM expects the roles of Chair and CEO to be separate. These two roles are substantially different and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board. A vote AGAINST the election of Xing Wang and Rongjun Mu is warranted given that their failure to ensure the company's compliance with relevant rules and regulations raise serious concerns on their ability to fulfil fiduciary duties in the company.</p> <p><b>Outcome:</b> Resolution supported by 91.8% of shareholders.</p> <p><b>Implications:</b> LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p><b>Significance:</b> The governance nature of this resolution is aligned with the Trustee's key priority theme of “Governance and Strategy”.</p>

## Baillie Gifford (“BG”) – Diversified Growth Fund

### *Proxy Voting*

Whilst BG is cognisant of proxy advisers' voting recommendations, they do not delegate or outsource any of their stewardship activities or follow or rely upon the recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. They vote in line with their in-house policy and not with the proxy voting providers' policies.

### *Significant Vote (description)*

The list below exemplifies potentially significant voting situations:

- BG's holding had a material impact on the outcome of the meeting;
- The resolution received 20% or more opposition and BG opposed;
- Egregious remuneration;
- Controversial equity issuance;
- Shareholder resolutions that BG supported and received 20% or more support from shareholders;
- Where there has been a significant audit failing;
- Where BG has opposed mergers and acquisitions;
- Where BG has opposed the financial statements/annual report;
- Where BG has opposed the election of directors and executives.

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
1,061 resolutions eligible for (97.93% cast)	3.27%	0.96%	<p><b>Company:</b> CBRE GROUP, INC.</p> <p><b>Summary:</b> Voted "AGAINST" the Shareholder Resolution - Governance</p> <p><b>Rationale:</b> Baillie Gifford opposed a shareholder resolution to lower the threshold for shareholders to call a special meeting as they consider that the existing threshold is appropriate.</p> <p><b>Outcome:</b> The resolutions failed.</p> <p><b>Implications:</b> Baillie Gifford opposed the shareholder resolution to lower the ownership threshold to call a special meeting as they were comfortable with the current 25% threshold in place and do not believe that lowering it would be reasonable. Ahead of voting, they had an engagement call with the company to discuss the proposed agenda. They were satisfied to learn about the company's efforts to engage with their holders, including the proponent, who according to the company, did not have any particular concerns over CBRE but backs a lower threshold out of principle. They intend to follow up with the company later in a year to speak about governance developments.</p>

			<b>Significance:</b> The governance nature of this resolution is aligned with the Trustee’s key priority theme of “Governance and Strategy”.
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## Insight – Broad Opportunities Fund

### *Proxy Voting*

Insight retains the services of Minerva Analytics (Minerva) for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote.

### *Significant Vote (description)*

The strategy invests in listed closed-end investment companies with a focus on cash-generative investments in social infrastructure, renewable energy and asset-backed aviation finance. The corporate structure of closed-end investment companies held in the strategy includes an independent board, which is responsible for providing an overall oversight function on behalf of all shareholders. This governance framework includes a range of aspects including setting out investment objectives, and on an ongoing basis ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework, which is with an independent board acting on behalf of shareholders, generally limits contentious issues that can arise with other listed entities. As a result, examples of significant votes cast that may be comparable to other listed entities are not applicable to the strategy’s exposures.

Votes cast			Significant vote example
Votes in total	Votes against management endorsement	Abstentions	
152 resolutions eligible for (100% cast)	N/A	N/A	See ‘Significant Vote (description)’.