Engagement Policy Implementation Statement

Coca Cola Bottlers (Ulster) Limited Staff Pension Scheme

This paper has been produced for the Trustees of the Coca Cola Bottlers (Ulster) Limited Staff Pension Scheme as the Trustees prepare their Engagement Policy Implementation Statement (EPIS).

At a glance…

The first part of this document, provides guidance to the Trustees of the Scheme in relation to the preparation of the EPIS, including information regarding the regulatory background, data gathered, significant votes and next steps.

The remainder of the document includes the draft EPIS that has been prepared for the Trustees to review.

Regulatory background

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that from 1 October 2020, the pension scheme trustees of defined benefit schemes outline how they have ensured that the stewardship policies and objectives set out in the Scheme's Statement of Investment Principles ("SIP") have been adhered to, by preparing an EPIS. The EPIS must:

- Explain how and the extent to which pension scheme trustees have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the trustees (including the most significant votes cast by trustees or on their behalf) during the scheme year and state any use of the services of a proxy voter during that year.

Prepared for:	The Trustees of The Coca Cola Bottlers (Ulster) Limited Staff Pension Scheme
Prepared by:	Aon Responsible Investment Team
Date:	9 July 2021

Why bring you this paper?

This document provides the advice relating to preparation of the EPIS, and the initial draft of the EPIS for the year ending 31 December 2020.

Next steps

- Trustees to review details in relation to the preparation of the EPIS.
- The finalised EPIS must be included in the Scheme's Annual Report and Accounts.
- The EPIS will also have to be published on a publicly accessible website.

Pension scheme trustees must publish the EPIS online, before 1 October 2021. Pension scheme trustees are also required to include the EPIS in the annual scheme Report and Accounts.

Preparing the EPIS

Data

Aon has gathered information from your asset managers, when preparing this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time we expect industry wide templates to be more widely adopted and more consistent information received from respective managers. We believe it is reasonable to use the information in this document for the purpose of this year's EPIS.

While information was gathered and reviewed from all managers, to keep the statement relatively concise we have disclosed detailed stewardship information in a proportionate way.

Significant votes

The investment managers have provided the voting statistics (where relevant) and examples of "significant" votes. Each of the managers has their own criteria for determining whether a vote is significant. In terms of what constitutes a significant vote, this can be described as:

- a vote that was contentious that had more than 15% against management; and/or
- against a management recommendation or different from the service provider recommendation; and/or
- vote that is connected to a wider engagement initiative with company management; and/or
- a vote that demonstrates clear and considered rationale; and/or
- a vote that the Trustees consider inappropriate or based on inappropriate rationale; and/or
- a vote that has significant relevance to members of the Scheme.

Materiality considerations

This statement does not disclose stewardship information on any investments in gilts due to the limited materiality of stewardship to those asset classes.

Next steps

The Trustees should review the document to ensure that they are comfortable with the statements being made on their behalf. Once the Trustees have reviewed, they should agree and finalise the EPIS.

The EPIS is required to be included in the Scheme's Report and Accounts. In addition, the Trustees are required to publish a copy of the EPIS on a publicly available website.

Your EPIS

The remainder of this document provides the Trustees with their IS to be reviewed and agreed.

Data collected

In total, 3 managers have been contacted for information.

Of these managers, all provided voting information.

Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustees produce an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The EPIS has been prepared by the Trustees and covers the Scheme year 1 January 2020 to 31 December 2020.

Scheme Stewardship Policy Summary

As part of their delegated responsibilities, the Trustees expect the Plan's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustees' voting rights in relation to the Plan's assets.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the Aon regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Scheme stewardship activity over the year

Training

The Trustees have received responsible investment training sessions with their investment advisor, which provided the Trustees with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring report provided to the Trustees by Aon. The reports include fund ratings by Aon, one input into which is each fund's ESG rating, which is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Manager Appointments

The Trustees have an action plan that includes ESG considerations. A review of fund managers was carried out in early 2021 where the Trustees discussed potential ESG solutions. The Trustees continue to work with the Pension Investment Committee to introduce ESG solutions to the Scheme's investment strategy as and when appropriate.

Discussions with the sponsor to align applicable ESG objectives

The views of the sponsor, where applicable, have been aligned to the Scheme's ESG objectives. For example, this includes manager appointments and changes to the SIP. Furthermore, the Trustees and sponsor have jointly received training, delivered by Aon, on regulatory matters relating to stewardship and responsible investment in a broader context. In 2019, following consultation with the sponsor, the Trustees implemented revised wording and updated the SIP to meet the regulatory requirements.

Voting and Engagement activity – Equity and multi-asset Funds

Over the year, the Scheme invested in the following funds that have equity exposure:

Manager	Fund Name
BlackRock	Dynamic Diversified Growth Fund
Newton Investment Management (subsidiary of BNY Mellon)	Real Return Fund Newton Inst Shares 1
Legal & General Investment Management (LGIM)	World Equity Index Fund
Legal & General Investment Management (LGIM)	World Equity Index Fund – GBP Currency Hedged

This includes both pure equity funds, and multi-asset funds that have exposure to a range of asset classes including equity, fixed income and alternatives (such as real estate and commodities). The following section describes the voting behaviour, including examples of significant votes and engagement activity for the above funds.

All managers use the services of respective proxy voting organisations for various services that may include research, vote recommendations, administration, vote execution.

Details of each investment managers' voting and engagement policies can be found in Appendices I – III below.

In summary

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that the stewardship policy has been implemented effectively. The Trustees note that their applicable asset managers were able to disclose strong evidence of voting and engagement activity over the year.

The Trustees anticipate improvements in disclosures by their investment managers over time in line with the increasing expectations on them and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Appendix I: BlackRock

Voting

Blackrock use ISS's electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

Dynamic Diversified Growth Fund over year to 31 December 2020	
Number of resolutions eligible to vote on over the year to 31/12/2020	12,609
% of resolutions voted on for which the fund was eligible	96.83%
Of the resolutions on which the fund voted, % that were voted against management	5.64%
Of the resolutions on which the fund voted, % that were abstained from	0.91%

Voting example

In August 2020, at an Extraordinary General Meeting, BlackRock voted against the management proposal and recommendation that shareholders vote to approve the acquisition of the total issued share capital of Pinehill Company Limited. The purchase was from the Indofood CBP ("ICBP") affiliate party Pinehill Corpora Ltd (Pinehill Corpora), which is 57.3% controlled by the President Director of ICBP, Mr. Anthoni Salim. Pinehill Corpora owns 51% of Pinehill, with the remaining portion being owned by Steele Lake Ltd. The total consideration for the transaction was US$2.998 billion in cash.

The proposed acquisition had merit from a strategic perspective. ICBP has in-depth knowledge of Pinehill's Indomie (Instant noodles) business and Pinehill's established footprint in its current markets could provide ICBP a strong platform for overseas growth. Nevertheless, BlackRock believed it was in their clients' best long-term economic interests to vote against the proposed acquisition due to the following concerns: 1) The valuation and terms of the transaction; and 2) The Board's oversight in relation to the inherent conflict of interest.

BlackRock identified several concerns regarding the proposed terms of the transaction. For example, the use of trailing price-to-earnings (PE) as a benchmark for the forward earnings of the target company is questionable from a valuation methodology perspective. Had the valuation of Pinehill been determined by forward earnings of appropriate comparable companies at the time the transaction was announced, it would have yielded a more accurate valuation. If Pinehill's last reported earnings in 2019 were used on a like-for-like trailing PE basis, the proposed acquisition price values Pinehill at 38.6x (after adjusting for foreign exchange and interest expenses), which is double the average multiple that buyers had paid for packaged foods companies in Africa, Middle East, and European emerging markets in the past five years. As a consequence, BlackRock felt its clients, as shareholders in ICPB would be significantly overpaying to acquire the assets from Pinehill.

More detail on the vote rationale can be found at the vote bulletin here:
https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-icbp-aug-2020.pdf

Engagement

Blackrock's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Appendix II: Newton Investment Management (subsidiary of BNY Mellon)

Voting

Newton employ a variety of research providers that aid them in the vote decision-making process. They use Institutional Shareholder Services (ISS) for the purpose of administering proxy voting (notification and lodgement of votes), as well as its research reports on individual company meetings. Only in the event where Newton recognise a potential material conflict of interest do they follow the voting recommendations of ISS.

Newton's voting decisions are approved by either the deputy Chief Investment Officer or a senior investment team member. Newton make all voting decisions other than in the event of a material potential conflict of interest, which is the only circumstance in which Newton may register an abstention.

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. In place of a uniform proxy voting policy, Newton prefer to take into account a number of considerations: a company's individual circumstances, their investment rationale, engagement activities, guidelines and best practices.

Real Return Fund Newton Inst Shares 1 over year to 31 December 2020	
Number of resolutions eligible to vote on over the year to 31/12/2020	1179
% of resolutions voted on for which the fund was eligible	99.20%
Of the resolutions on which the fund voted, % that were voted against management	14.50%
Of the resolutions on which the fund voted, % that were abstained from	0%

Voting Example

In August 2020, Newton voted against management of LEG Immobilien AG. The vote was against the proposed pay arrangements due to their lack of alignment with performance. The executive long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. The outcome of the vote came to 22.2% against approval of the proposed policy. Newton believe that it is likely that the company will seek to address concerns in an effort to avoid similarly high opposition.

Newton categorise a significant vote as those where over 20% of votes were in opposition to the resolution.

Engagement

Newton consider engaging for information and change to be equally legitimate activities.

Research findings, around a lack of information being available publicly or a particular policy, provision or practice that is considered suboptimal, lead Newton to engaging with companies prior to determining their ESG scores and determining suitability for inclusion in their investment strategies. However, Newton have also found that some issues are more appropriate to be raised following the initial investment being made and this is a key factor in prioritisation of engagement issues. Newton further prioritise engagements based on assessments made by their responsible investment analysts (who will consider the materiality of issues to be raised and likelihood of success) as well as areas that are a current focus for Newton e.g. climate change, cobalt mining etc. Reactive engagement is often at the company's request and include subjects such as executive pay, guidance on reporting and ESG factors.

Engagement Example

An example of engagement took place in 2020 with Alcon involving corporate reporting. Following the company's demerger Newton requested reporting beyond high level information in relation to ESG policies, priorities, practices, targets and performance. Newton also sought for better alignment of executive pay arrangements with the long-term interests of shareholders. The engagement was led by Newton's head of responsible investment, with support from their global industry analyst for the company. Newton held an engagement meeting with a variety of individuals from the company that represented legal, general counsel, company secretary, investor relations and human resources.

The engagement achieved Newton's first two objectives of raising the issues and setting-out expectations. In relation to the third objective, being the company to enact changes, Newton consider this to be partially achieved given the enhancements that the company has made to its reporting of ESG matters; which Newton expect to be enhanced further during 2021.

Newton expect to continue engaging with company should they retain an invested interest and the company enhances its disclosures. Greater insight into ESG performance achieved through the enhanced disclosures may give rise for targeted engagement on specific matters. The engagement undertaken, along with additional research conducted as part of Newton's ESG Quality Review of the company meant that the RI team deemed the company to be suitable for investment by Newton's sustainable funds.

Appendix III: Legal & General Investment Management (LGIM)

Voting

LGIM make use of the Institutional Shareholder Services ("ISS")'s proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what they consider to be the minimum best practice standards all companies should observe. LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

World Equity Index Fund over year to 31 December 2020	
Number of resolutions eligible to vote on over the year to 31/12/2020	39,613
% of resolutions voted on for which the fund was eligible	99.50%
Of the resolutions on which the fund voted, % that were voted against management	17.92%
Of the resolutions on which the fund voted, % that were abstained from?	0.53%

Voting Example

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against a resolution to amend the directors' remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new CEO would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrated the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant on the basis that Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and LGIM's outstanding concerns, this vote was deemed to be significant.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,

5. Voting, and

6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here.

Engagement example

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

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