World Duty Free Group UK Pension Plan
Engagement Policy Implementation Statement

Introduction
On 6 June 2019, the Government published the Occupational Pension Plan's (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustee 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 Trustee (including the most significant votes cast by the Trustee or on their behalf) during the Plan year and state any use of the services of a proxy voter during that year.

This document sets out the actions undertaken by the Trustee of the World Duty Free Group UK Pension Plan (the "Trustee", the "Plan"), its service providers and investment managers, to implement the stewardship policy as set out in the Statement of Investment Principles ("SIP"). The document includes voting and engagement information that has been gathered from the asset managers. The Plan also holds a bulk annuity policy; however, this does not exercise voting rights on the Plan's behalf due to the nature of the investment, and hence its engagement has not been included.

The EPIS has been prepared by the Trustee and covers the Plan year 6 April 2020 to 5 April 2021.

Plan activity over the year
Updating the Stewardship Policy
In line with regulatory requirements to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee reviewed and expanded the SIP in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Plan's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

This has been made available on the following website;

The Stewardship policy
The Trustee expanded its stewardship policy in September 2020. In summary, the policy in place from this date stated that the Trustee would:

- review the stewardship activities of its fund managers on a regular basis, covering both engagement and voting actions.
- engage with its fund managers as necessary for more information, to ensure that robust, active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee states within the SIP it expects the following from its fund managers:

- transparency from on their voting and engagement activity and, where relevant, to provide a summary of their voting actions on an annual basis.
- The transparency offered for engagement activity should include the objectives of the engagement action and the ultimate outcome.
Engagement – Aon Investments Limited (AIL)

The Trustee is invested in the Aon Managed Growth Strategy, managed by AIL. AIL appoint underlying asset managers to achieve an overall target return. The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL’s four-tier ESG ratings system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustee has reviewed the AIL Annual Stewardship Report and is content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which it invests.

AIL have undertaken a considerable amount of engagement activity over the period, some examples of which have been outlined within this statement. AIL held around 35 ESG specific “deep-dive” meetings in 2020 predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL’s clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken over the previous year, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward. Meetings have been ongoing through the beginning of 2021.

Aon Solutions UK Limited (“Aon”) also actively engage with asset managers and this is used to support AIL in their fiduciary services. Over the period, Aon’s Engagement Programme maintained a dialogue with one its leading global asset managers on behalf of many of their clients which invest with the manager. This culminated towards the end of 2020 in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular the manager’s ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- Aon’s analysis of the manager’s voting actions over the period showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that they had markedly changed their voting policies in the second half of 2020, and reassured Aon that moving forward, vote decisions would better align with their stated positions on such ESG matters. Aon expect to see this reflected in voting actions by mid-2021.
- Aon expressed concern that given the level of potential influence the manager had, the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged Aon concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

Aon welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

Voting and engagement – equity investments

Over the year, the Plan was invested in the following equity funds:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund (through the Aon Managed Growth Strategy)
The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Plan, or a vote where more than 15% of votes were cast against management.

LGIM Multi Factor Equity Fund ("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 seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, 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.

Amazon:
In May 2020, LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders, meaning they were not passed.

Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. LGIM’s engagement with the company continues as they push it to disclose more and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.

Pearson:
In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson. Pearson issued a series of profit warnings under its previous CEO. Despite this, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company’s remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.

This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board on the board’s succession plans and progress for the new CEO. They also discussed the shortcomings of the company’s current remuneration policy.

LGIM 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 expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

33% of shareholders voted against the co-investments plan and therefore, by default, the appointment of the new CEO. While this resulted in the co-investments plan being passed, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement going forward.

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:

An example of engagement over 2020 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 Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it 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:

BlackRock Emerging Markets Equity Fund ("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 have 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.

Yanzhou Coal Mining Company

On 9 December 2020, BlackRock voted against the management proposal and recommendation that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group in seven business entities for a total cash consideration of CNY 18.4 billion. The key assets to be acquired include a coal liquefaction project, a supporting coal mine and a coal-fired power plant, as well as other ancillary facilities.

BlackRock duly noted Yanzhou Coal's rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believes it is in their clients’ best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of potential stranded asset risk.
With respect to the latter, BlackRock are cautious about the potential stranded asset risks at Yanzhou Coal following the asset purchase. The transaction was announced shortly after China pledged to achieve carbon neutrality by 2060 with carbon emissions peaking by 2030. Yet Yanzhou Coal as a state-owned enterprise did not articulate how the acquisition of these coal-related assets aligns with China’s stated goals, including the new Nationally Determined Contributions to be updated at the next UN Climate Change Conference of the Parties ("COP 26"). In particular, concerns remain about Yanzhou Coal’s decision to acquire a coal-fired power plant as part of this transaction. The coal-fired power sector in China is already facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. The sector is expected to become even more challenged as more provinces anticipate grid parity for renewable energy. Therefore, such an acquisition could well exacerbate the company’s stranded asset risks and delay progress to achieve the company’s decarbonization targets.

BlackRock have communicated the above concerns with management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures (TCFD). BlackRock Investment Stewardship team will continue to closely monitor Yanzhou Coal’s progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here:


Indofood CBP

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 is from the 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 is US$2.998 billion in cash.

The proposed acquisition has 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 believes it is 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, are significantly overpaying to acquire the assets from Pinehill.

More detail on the vote rationale can be found at the vote bulletin here:


Evraz

In June 2020, BlackRock voted against the re-election of Karl Gruber as Director for the company’s lack of progress on climate-related reporting. Evraz plc (Evraz) is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company’s principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate own 57% of the company.
BlackRock began their multi-year engagement in November 2017. They wrote a letter to Evraz CEO and chairman of the board, asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Since sending their letter, Evraz have taken positive steps. For example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO2e per ton of crude steel cast, which, while meeting the company’s target, remains above the average in the steel industry (average of 1.83 tons of CO2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company’s limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting that fell short of their expectations of large carbon emitters with a previous history of engagement with BlackRock on this topic.


Engagement
The BlackRock Investment Stewardship Team’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, BlackRock Investment Stewardship (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.


Engagement – Fixed Income
While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in their ability to encourage positive change. Some examples provided by the most material fixed income funds the Plan invests in are outlined below.

Robeco
The Plan is invested in two fixed income funds with Robeco through the AIL Managed Growth Strategy.

Robeco is particularly focused on improving business conduct and function of the companies they invest in. They carry out extensive baseline research on the companies they invest in, measure changes in company performance relative to engagement objectives and allow three years for engagement. Any cases closed unsuccessfully are considered for potential exclusion.

In line with this focus, over the last few years, Robeco has engaged with senior employees of a multinational oil company various times. The focus of the engagement was that if the world fails to limit global warming to well below 2 degrees Celsius, then the world, and therefore industries, will be increasingly exposed to significant transitional and physical risks, both acute and chronic.

The company announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Robeco was supportive but continued to push the company to set short term targets and link these to remuneration packages. In addition to announcing their long-term goal, the manager
agreed a joint statement with the company who agreed to start setting shorter term targets. The manager believes the company now leads the sector in terms of their planning and positioning for the energy transition.

Another example of an engagement taken by the company was in relation to the Social Impact of Artificial Intelligence (AI) at Alphabet Inc. The engagement started in 2019 and is expected to continue till 2022.

Robeco stated that the benefits of AI are promising. However, various social issues have surfaced showing that AI’s ethical development and deployment cannot be guaranteed unless these concerns are appropriately addressed by users. As a leading technology company, Alphabet Inc. is exposed to financially material risks from its development and use of AI. Following persistent efforts to enter a constructive dialogue with the company, engagement remained challenging. In escalation, Robeco co-led the filing of a shareholder proposal at Alphabet’s AGM asking for a Human Rights Risk Oversight committee to be established, comprised of independent directors with relevant experience.

Some 16% of shareholders voted in favour of the resolution, which is a substantial part of the non-controlling shareholder votes. In response, Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with our request to formalize board oversight, and is a first step towards getting this in place on specific sustainability related issues, such as human rights.

Over the course of the engagement, Robeco states it will continue to employ escalated forms of engagement to bring companies to the table on this important issue. The findings of this engagement form an important input for their fundamental investment teams, as policy developments lead to tangible ESG improvements.

**BlackRock**

BlackRock believe bond investors, with their often-multiyear perspective, are well-positioned to engage collaboratively with management to endorse and promote sound ESG practices. Such engagement enhances BlackRock’s credit analysis, by providing them with more comprehensive credit profiles of their borrowers.

BlackRock’s firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship (BIS) is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock’s Global Fixed Income (GFI) Responsible Investing (GFI-RI) team may partner with the BIS team both to reflect ESG related topics from GFI investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in GFI portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by the GHI-RI team was that with Exxon. In their discussion with the company, they discussed several engagement topics such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the GFI-RI team including, the company’s approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

The Trustee believes that engagements of this nature are key to reducing ESG risks within the Plan’s portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.
Engagement Activity – Alternatives

Liquid Alternatives – Insurance Linked Securities

Leadenhall

Leadenhall Capital Partners (who manage an Insurance Linked Securities Fund within the AIL Managed Growth strategy) assesses adherence to ESG principles by considering specific factors, examples may include:

- Environmental impact including pollution prevention (via underwriting standards) and remediation (via providing capital for protection), reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards
- Social impact including human rights, welfare and community impact issues
- Governance issues including board structure, remuneration, accounting quality and corporate culture

Pricing for climate change risk is an inherent part of Leadenhall’s analysis of potential investments. MS Amlin, part of Leadenhall’s parent group (MS&AD) and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. They are a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall perform a detailed review of their investment counterparties policies and controls including those concerning their explicit ESG and CSR frameworks. Where appropriate they will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

Summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that most of their applicable asset managers were able to disclose strong evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement.
## Appendix – Voting Statistics

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<th>LGIM Multi Factor Equity Fund</th>
<th>BlackRock Emerging Markets Equity Fund</th>
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<tbody>
<tr>
<td>% resolutions voted on for which the fund was eligible</td>
<td>99.90%</td>
<td>96.77%</td>
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<tr>
<td>% that were voted against management</td>
<td>17.99%</td>
<td>9.21%</td>
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<tr>
<td>% that were abstained from</td>
<td>0.23%</td>
<td>2.77%</td>
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