

# Implementation Statement for The Hills Group Limited Retirement Benefits Plan (1973)

Covering 1 July 2020 to 30 June 2021

## 1. Background

The Trustees of the Hills Group Limited Retirement Benefits Plan (1973) (“the Plan”) are required to produce a yearly statement to set out how, and the extent to which, the Trustees have followed the Plan’s Statement of Investment Principles (“SIP”) during the previous Plan year, in relation to engagement and voting behaviour during the year, either by or on behalf of the Trustees, or if a proxy voter was used.

This statement should be read in conjunction with the SIP and has been produced in accordance with **The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018** and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

A copy of the most recent SIP can be found at:

<https://www.hills-group.co.uk/wp-content/uploads/2020/10/04B-Hills-Group-SIP-September-2020-Final-draft-with-signatures-1.pdf>

## 2. Voting and Engagement

The Trustees are keen that its managers are a signatory of the UK Stewardship Code, which is the case.

All of the Trustees’ holdings are within pooled funds and the Trustees have delegated to its investment managers the exercise of voting rights. Therefore, the Trustees are not able to direct how votes are exercised and the Trustees have not directly used proxy voting services over the year.

The Plan’s funds are:

- LGIM Global Equity Fixed Weights (50:50) Index Fund
- LGIM World Emerging Markets Equity Index Fund
- BNY Mellon Real Return Fund
- LGIM Over 5 Year Index-Linked Gilts Index Fund
- Aberdeen Standard Investments High Yield Bond Fund
- Aberdeen Standard Investments Investment Grade Corporate Bond Fund

The Trustee was unable to include voting data for the underlined funds as they are predominantly fixed income and do not hold physical equities.

### **3. Description of investment manager's voting processes**

#### **LGIM**

LGIM describe their voting process as follows:

“LGIM’s voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) 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 we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

All decisions are made by LGIM’s Investment Stewardship team and in accordance with our 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 company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

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 we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions.

To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We retain the ability in all markets to override any vote decisions, which are based on our 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 us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.

For more information, please refer to our policy document on the topic:  
[https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf)

The Investment Stewardship team works in coordination with investment and client teams. Where different views arise, our conflicts of interests policy may be activated to ensure we can operate independently. Where necessary, matters arising from this meeting can be escalated to the LGIM CEO and, under the Conflicts of Interest policy.

It is vital that the proxy voting service are regularly monitored and LGIM do this through quarterly due diligence meetings with ISS. Representatives from a range of departments attend these meetings, including the client relationship manager, research manager and custom voting manager. The meetings have a standing agenda, which includes setting out our expectations, an analysis of any issues we have experienced when voting during the previous quarter, the quality of the ISS research delivered, general service level, personnel changes, the management of any potential conflicts of interest and a review of the effectiveness of the monitoring process and voting statistics. The meetings will also review any action points arising from the previous quarterly meeting.

LGIM has its own internal Risk Management System (RMS) to provide effective oversight of key processes. This includes LGIM's voting activities and related client reporting. If an item is not confirmed as completed on RMS, the issue is escalated to line managers and senior directors within the organisation. On a weekly basis, senior members of the Investment Stewardship team confirm on LGIM's internal RMS that votes have been cast correctly on the voting platform and record any issues experienced. This is then reviewed by the Director of Investment Stewardship who confirms the votes have been cast correctly on a monthly basis. Annually, as part of our formal RMS processes the Director of Investment Stewardship confirms that a formal review of LGIM's proxy provider has been conducted and that they have the capacity and competency to analyse proxy issues and make impartial recommendations.”

### **BNY Mellon**

BNY Mellon describe their voting process as follows:

“Our head of responsible investment (RI) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. We do not maintain a strict proxy voting policy. Instead, we prefer to take into account a company's individual circumstances, our investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, we may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). For the avoidance of doubt, all voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence.

It is also only in these circumstances when we may register an abstention given our stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures we do not provide confusing messages to companies.

Research ahead of voting decisions; regional distinction

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

Voting decisions take into account local market best practice, rules and regulations while also supporting our investment rationale. For example, when voting on the election of

directors in Japan, we are unlikely to vote against a board chair should the board not be majority independent given that only recently the corporate governance code has recommended boards appoint independent directors. However, in the UK, where majority independent boards are well established and expected by investors, we are likely to vote against the chair and non-independent directors. This being said, we frequently vote against executive pay at US companies despite it being accepted US market practice of granting significant awards of free shares as we believe executive pay should be aligned with performance.”

#### 4. Summary of voting behaviour over the year

A summary of the investment manager’s voting behaviour over the period is provided in the tables below:

	Summary Info
Manager name	Legal & General Investment Management
Fund name	Global Equity Fixed Weights (50:50) Index Fund
Approximate value of Trustees’ assets	c.£10.8m as at 30 June 2021
Number of Equity holdings	2998
Number of meetings eligible to vote	3254
Number of resolutions eligible to vote	40659
% of resolutions voted	99.77%
% of resolutions voted with management	83.97%
% of resolutions voted against management	15.91%
% of resolutions abstained	0.11%
% of meetings with at least one vote against managements	5.43%
% of resolutions voted contrary to the proxy adviser recommendation	11.18%

	Summary Info
Manager name	Legal & General Investment Management
Fund name	World Emerging Markets Equity Index Fund
Approximate value of Trustees’ assets	c.£2.1m as at 30 June 2021
Number of Equity holdings	1610
Number of meetings eligible to vote	3907
Number of resolutions eligible to vote	35672
% of resolutions voted	99.79%
% of resolutions voted with management	84.09%
% of resolutions voted against management	14.07%
% of resolutions abstained	1.84%
% of meetings with at least one vote against managements	47.63%
% of resolutions voted contrary to the proxy adviser recommendation	5.72%

	Summary Info
Manager name	BNY Mellon
Fund name	Real Return Fund
Approximate value of Trustees’ assets	c.£4.9m as at 30 June 2021
Number of meetings eligible to vote	115
Number of resolutions eligible to vote	1585
% of resolutions voted	98.6%

% of resolutions voted with management	84.8%
% of resolutions voted against management	15.2%
% of resolutions abstained	0.0%
% of meetings with at least one vote against managements	43.0%
% of resolutions voted contrary to the proxy adviser recommendation	11.6%

## 5. Most significant votes over the year

### LGIM

LGIM define their process for determining the “most significant” votes as follows:

As regulation on vote reporting has recently evolved with the introduction of the concept of ‘significant vote’ by the EU Shareholder Rights Directive II, LGIM wants to ensure they continue to help their clients in fulfilling their reporting obligations. LGIM also believe public transparency of their vote activity is critical for their clients and interested parties to hold LGIM to account.

For many years, LGIM has regularly produced case studies and/or summaries of LGIM’s vote positions to clients for what they deemed were ‘material votes’. LGIM are evolving their approach in line with the new regulation and are committed to provide their clients access to ‘significant vote’ information.

In determining significant votes, LGIM’s Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). 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 note 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 an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

LGIM will provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications.

Given the similar holdings within each of the funds with their respective currency hedged version of the funds, significant votes cast in each fund were the same for both unhedged and hedged fund versions.

### BNY Mellon

BNY Mellon define their process for determining the “most significant” votes as follows:

“We regard material issues as all votes against management, including where we support shareholder resolutions that the company’s management are recommending voting against. As active managers, we invest in companies that we believe will support the long term performance objectives of our clients. By doing so, we are making a positive statement about the business, the management of risks and the quality of management. Voting

against management, therefore, is a strong statement that we think there are areas for improvement. As such, by not supporting management, we think that this is material, which is different to a passive investor where there is no automatic assumption of a positive intent in ownership. As such, we report publicly our rationale for each instance where we have voted against the recommendation of the underlying company's management. At the fund level, we consider each instance of voting against management to be significant but if required to prioritise these instances, we take an objective approach that includes the fund's weighting in each security. This reflects our investment process and ensures the prioritised list includes those instances that could be most impactful to the long term value to the fund as well as those that may have an immediate impact to the fund."

**Examples of Significant votes for LGIM's Global Equity Fixed Weights (50:50) Index Fund**

Company name	Lagardere	Barclays
Date of vote	05-May-20	07-May-20
Summary of the resolution	Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments).	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution
How you voted	LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G).	LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.
Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where we were able to speak to the proposed new SB Chair, and also Lagardere, where we spoke to the incumbent SB Chair. This allowed us to gain direct perspectives from the individual charged with ensuring their	The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.

	board includes the right individuals to challenge management.	
Outcome of the vote	Even though shareholders did not give majority support to Amber's candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data)	Resolution 29 - supported by 99.9% of shareholders Resolution30 - supported by 23.9% of shareholders (source: Company website)
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.	The hard work is just beginning. Our focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. We plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.
On which criteria (as explained in the cover email) have you assessed this vote to be "most significant"?	LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.	Since the beginning of the year there has been significant client interest in our voting intentions and engagement activities in relation to the 2020 Barclays AGM. We thank our clients for their patience and understanding while we undertook sensitive discussions and negotiations in private. We consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as our clients.

There were 4 Significant votes over the period which are available on request.

### **Examples of Significant votes for LGIM's World Emerging Markets Equity Index Fund**

Company name	Shandong Hualu-Hengsheng Chemical Co., Ltd.	Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.
Date of vote	2021-04-22	2021-04-21
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.005940	0.015280
Summary of the resolution	Resolution 12.1 Elect Chang Huaichun as Director	Resolution 16.1 Elect Li Jinzhao as Director

How you voted	LGIM voted against the resolution (against management)	LGIM voted against the resolution (against management)
Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	LGIM 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 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.	LGIM 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 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.
Outcome of the vote	93.9% of shareholders supported the resolution.	98.9% of shareholders supported the resolution.
Implications of the outcome were there any lessons learned and what likely future steps will you take in response to the outcome?	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
On which criteria (as explained in the cover email) have you assessed this vote to be "most significant"?	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

There were 87 Significant votes over the period which are available on request.

### **Examples of Significant votes for BNY Mellon's Real Return Fund**

<b>Company name</b>	AstraZeneca Plc	ConocoPhillips
<b>Date of vote</b>	11-May-21	11-May-21
<b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>	1.45	1.37
<b>Summary of the resolution</b>	Elect Director x4, Approve Remuneration Policy, Amend Restricted Stock Plan	Elect DirectorX6, Ratify Auditors, Advisory Vote to Ratify Named Executive Officers' Compensation, Emission Reduction Targets
<b>How you voted</b>	AGAINST	AGAINST
<b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>	No	No



<b>Rationale for the voting decision</b>	<p>Votes were instructed against the remuneration policy, a new performance share plan, and members of the remuneration committee. We did not consider that the company had provided the necessary justification for significant increase in the variable pay awards that were granted to senior executives.</p>	<p>We voted against the remuneration report owing to a significant proportion of the long-term pay awards not being subject to the achievement of performance hurdles. As a result, we also voted against the members of the compensation committee.</p> <p>We also voted against the appointment of the company's auditor given that it had been in place since 1949, raising concerns regarding the firm's ability to act objectively and independently.</p> <p>Finally, we supported a shareholder resolution requesting that the company introduce Paris-aligned scope 1, 2 and 3 targets. We felt that the company would benefit from enhancements to its management of climate risk.</p>
<b>Outcome of the vote</b>	<p>3.4%, 1.3%, 2%, 26% AGAINST Elect Director, 39.8% AGAINST Approve Remuneration Policy, 38.3% AGAINST Amend Restricted Stock Plan</p>	<p>3.3%, 2.9%, 2.6%, 1.9%, 2%, 2.6% AGAINST Elect Directors, 4.3% AGAINST Ratify Auditors, 7.3% AGAINST Advisory Vote to Ratify Name+K5d Executive Officers' Compensation, 59.3% FOR Emission Reduction Targets</p>
<b>Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?</b>	<p>UK best practice recognises that shareholder dissent in excess of 20% on remuneration-related proposals is significant and should result in proactive steps being taken by the company. In this case, with almost 40% of votes against pay proposals, the company is expected to consult with shareholders to determine and address underlying concerns.</p>	<p>Few investors shared our concerns relating to the executive pay arrangements. However, we expect that scrutiny and action, particularly by US-based investors will increase in this area. Of particular note is the vote outcome that saw a majority of shareholders support the shareholder proposal surrounding emission targets. This outcome cannot be ignored by the company.</p>
<b>On which criteria have you assessed this vote to be "most significant"?</b>	<p>The level of shareholder dissent merits this vote as significant.</p>	<p>We determined this vote as significant owing to the rarity of a shareholder proposal achieving majority support.</p>

There were 10 Significant votes over the period which are available on request.