

Galderma (UK) Limited Section of the Deloitte Pensions Master Plan

Implementation Statement

For the year ended 31 March 2021

Introduction

This Implementation Statement (the “Statement”) has been prepared by the Section Trustee (the “Trustee”) of the Galderma (UK) Limited Section of the Deloitte Pensions Master Plan (the “Scheme”) to demonstrate how the Trustee has acted on certain policies within its Statement of Investment Principles (“SIP”).

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the Scheme’s SIP over the year. This Implementation Statement covers the Scheme year from 1 April 2020 to 31 March 2021.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit (“DB”) investments held by the Scheme.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP Policies

This Implementation Statement should be read in conjunction with the Scheme’s SIP covering the year under review, which provides details of the Scheme’s investment policies along with details of the Scheme’s governance structure and objectives.

Following the creation of the Section in December 2019, assets were received in March 2020 and invested in a temporary low risk investment strategy whilst the long-term strategy was agreed and finalised. An Investment Summary Statement was put in place ahead of the creation of the Statement of Investment Principles which the Trustee finalised and signed off in September 2020.

The Scheme’s SIP includes policies on:-

How “financially material considerations” including environmental, social and governance (“ESG”) considerations, are taken into account when making investment decisions for the Scheme.

The extent to which non-financial matters are taken into account in the investment decision-making process.

Stewardship and voting policy, including details on monitoring and engaging with the investee companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, risks, corporate governance, ESG, capital structure and the management of actual or potential conflicts of interest).

A policy on monitoring the Scheme’s asset managers, particularly concerning financial arrangements and ESG factors.

A policy covering the duration of arrangements with the Scheme’s investment manager.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to the Scheme year-end and the extent to which the Trustee believes the policies within the SIP have been followed.

The Scheme was invested in pooled funds managed by Legal & General Investment Management (“LGIM”) (the “Investment Manager”) over the Scheme year under review to 31 March 2021.

It is therefore LGIM that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments. The Trustee’s policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme’s interests in the investments.

The Trustee expects LGIM to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

Description of Equity Voting Behaviour

The Scheme invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Scheme sit primarily with LGIM as the Investment Manager. The Scheme's voting behaviour over the Scheme year is summarised below.

The only pooled fund investment held by the Scheme which carried voting rights during the Scheme year was the LGIM All World Equity Index Fund – GBP Currency Hedged Fund (c. £13.8m of Scheme assets as at 31 March 2021).

LGIM manage over £1 trillion in assets, and use their resulting influence, focussing their votes on climate change, income equality, diversity, and ESG integration.

The table below shows LGIM's voting summary covering the Scheme's investment in the LGIM All World Equity Index Fund – GBP Currency Hedged Fund over the year to 31 March 2021. It should be noted that the Scheme invested in the Fund on 10 August 2020. LGIM is developing its reporting but is currently only able to provide voting statistics for 12-month periods to standard quarter-ends, rather than the actual periods invested. Therefore, we have included voting information covering the most relevant 12-month period from 1 April 2020 to 31 March 2021, noting that the Scheme did not hold the investment in the LGIM All World Equity Index Fund from 1 April 2020 to 10 August 2020.

LGIM All World Equity Index Fund – GBP Currency Hedged	1 April 2020 – 31 March 2021
Number of meetings LGIM was eligible to vote at over the year	6,779
Number of resolutions LGIM was eligible to vote on over the year	70,672
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted with management.	83.3%
Of the resolutions voted, percentage that LGIM voted against management.	16.0%
Of the resolutions voted, percentage where LGIM abstained .	0.8%
Percentage of eligible meetings where LGIM voted at least once against management.	5.6%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.2%

Proxy Voting

The Trustee did not employ a proxy-voting service during the Scheme year to 31 March 2021.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Service's ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS').

How Voting and Engagement Policies Have Been Followed

The Trustee intends to review a summary of the voting and engagement activity taken on its behalf on a regular basis. The information published by LGIM on its voting policies has provided the Trustee with comfort that the Scheme's voting and engagement policies have been followed during the Scheme year to 31 March 2021.

As set out in the SIP, the Trustee expects LGIM to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	✓	LGIM's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration. LGIM has clear voting policies covering each of these topics and has acted on them throughout the Scheme year on behalf of the Trustee.
Risks	✓	LGIM has clear voting policies on ensuring that companies manage risk effectively and have robust internal controls. As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors.
Social and Environmental impact	✓	LGIM has written to over 500 companies with poor climate scores relative to their size and for those that don't meet minimum standards during the 2021 AGM season, LGIM will look to sanction through voting. If these minimum standards are not met over time, LGIM may look to divest until progress is shown. Over 2020, LGIM announced that it had reinstated investments in Subaru following evidence of progress against emission targets and climate exposure. During 2020, to promote ethnic diversity at the board level, LGIM sent letters to engage with 35 of the largest UK companies and 44 of the largest in the US on why they have no ethnic diversity. LGIM stated it would expect at least one member at the board level to be from a minority background by 2021 and has started to vote against the chair of the board or of the nomination committee if this is not the case.
Corporate Governance	✓	LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. Over the year LGIM voted against 411 companies that combined the roles. Over 2021, LGIM has stated they will oppose Directors in Germany from being elected for longer than 4 years to hold Directors to more accountability than in the past.
Conflicts of Interest	✓	Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with company performance.
Capital Structure	✓	LGIM has policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance. For example, LGIM has a policy that newly issued shares should not expose minority shareholders to excessive dilution.

Significant Votes

LGIM has provided examples of what it believes to be the most significant votes cast on the Trustee's behalf during the period.

Two of the most significant votes related to the remuneration of executive at two airline related companies. LGIM voted in favour of the proposed remuneration package presented to shareholders by Qantas Airways Limited, with LGIM stating that the decision to cut executive salaries, cancel short term incentive plans and defer vesting of the long-term incentive plan an appropriate measure given the financial impact on dividends, termination of employees and accepted government assistance that occurred over 2020. Conversely, LGIM voted against the remuneration package of International Consolidated Airlines Group, alongside 28.4% of the shareholder base, who had similarly accepted government support and made staff reductions but had retained a higher level of bonus payments to the current executives.

LGIM also voted for a report on the wind-down of coal operations at Whitehaven Coal given the uncertain role of the energy source as countries move to carbon neutrality by 2050. LGIM advocates a managed decline of fossil fuel companies with capital returned to investors which they believe will help reach these global targets. LGIM also voted in support of improving company policies on climate change. For example, LGIM supported a resolution for Proctor & Gamble to do more to ensure that their business does not result in deforestation as it is a priority for LGIM to ensure that clients' assets are not contributing to deforestation.

Engagement with Investee Companies (Non-Equity Investments)

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the Scheme's fixed income investments held with LGIM in Buy and Maintain Credit Funds (c. £3.3m of Scheme assets as at 31 March 2021). However, the Trustee expects LGIM to engage on its behalf to aim to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

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 clients. LGIM's voting policies are reviewed annually and take into account client feedback.

While engagements are not yet available at a fund level, they are published at a firm level each quarter. LGIM is working to be able to provide engagement information at a fund specific level.

Over the 12 months to 31 March 2021, LGIM undertook 974 engagements with 874 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 427 on environmental topics;
- 241 on social topics;
- 470 on governance issues; and
- 279 on other topics including finance and strategy.

The Trustee will monitor LGIM's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

The remainder of the Scheme's assets (c. £7.6m of assets as at 31 March 2021) are invested in leveraged nominal and index-linked government bonds with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Scheme's liabilities. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

How Voting and Engagement Policies Have Been Followed

Having reviewed the actions taken by LGIM over the Scheme year, the Trustee believes that its policies on stewardship and engagement have been implemented appropriately over the year and in line with its views. The Trustee will continue to monitor the actions taken on its behalf each year, and press for improved engagement information and ESG reporting metrics from LGIM on a fund specific level.

If LGIM deviates substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with LGIM, and if the Trustee still believes the difference between its policies and LGIM's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.

Trustee and Employer Future Action

The Trustee and the Employer have decided to undertake a review during 2021 of fund offerings to better align to both their ESG beliefs.

This Implementation Statement was signed by the Section Trustee of the Galderma (UK) Limited Section of the Deloitte Pensions Master Plan on 28 September 2021.