Engagement Policy Implementation Statement (EPIS) guide

Piramal Healthcare UK Pension Fund (the 'Fund')

This page introduces the regulatory requirement and the draft EPIS on the next page.

Requirements for the Engagement Policy Implementation Statement (“EPIS”)

New regulations that apply from 1 October 2020 have set out the following requirements for trustees of defined benefit pension schemes regarding the production of an EPIS. Trustees must produce a statement which:

- Sets out the extent to which the Statement of Investment Principles (“SIP”) has been followed during the year, any changes or reviews carried out in relation to the SIP and explain the reasons.
- Explains how and the extent to which they have followed their engagement policy.
- 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 year and state any use of the services of a proxy voter during that year.
- Trustees must publish their EPIS online (by 1 October 2021) and in the annual Trustee Report and Accounts.

Data

We have gathered information from your asset managers to support the production of 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 are working with the managers to improve the data they provide, but we believe it is reasonable to use the information in this document for the purpose of this year's EPIS.

This statement does not disclose stewardship information on the Liability Driven Investment (LDI) portfolio nor the Sterling Liquidity Fund due to the limited materiality of stewardship to the investments within those asset classes.

Prepared for: Piramal Healthcare UK Pension Fund Trustee Limited
Prepared by: Aon
Date: 7 July 2021

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For professional clients only.

Your Engagement Policy Implementation Statement

This document sets out the actions undertaken by the Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles. The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

This is the engagement policy implementation statement the Trustee has prepared and covers the year ending 31 December 2020.

SIP Review

The SIP was updated during September 2019, ahead of new regulatory changes that effect on 1 October 2019. The SIP remained in place throughout the period October 2019 to September 2020, without change.

The SIP was then updated in September 2020 to take account of further regulatory changes which are required to expand for policies on how asset managers are remunerated, and their goals aligned with those of the Trustee. In particular, the Trustee outlines its policies regarding how it incentivises asset managers to achieve its long-term objectives, its policies on cost transparency and its policies on voting and stewardship.

How the Trustee has met policies set out in the SIP

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee identified a number of risks which have the potential to cause a deterioration in the Fund's funding level and therefore contribute to funding risk. These are as follows:

Overriding principle	Actions taken by the Trustee
The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk").	The Trustee and its advisers considered this mismatching risk when setting the investment strategy and monitors the LDI portfolio (which hedges 100% of interest rate and inflation risk as a proportion of low-risk liabilities) on an ongoing basis.
The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities ("cash flow risk").	The Trustee and its advisers have received regular updates from the administration team regarding the Fund's cashflow position and whether a disinvestment from the Fund's assets will be required to meet upcoming cashflow requirements. This is well managed, taking into account the timing of future payments to minimise the probability that this risk occurs.

The failure by the asset managers to achieve the rate of investment return assumed by the Trustee ("manager risk").	This risk is considered by the Trustee and its advisers both upon the initial appointment of the asset managers and on an ongoing basis thereafter. The Trustee receives quarterly reporting on each of the Fund's managers performance and on any relevant updates.
The failure to spread investment risk ("risk of lack of diversification").	The Trustee and its advisers considered this risk when setting the Fund's investment strategy. The Trustee has appointed two fiduciary managers that have been in place over the entirety of 2020 that assist in providing diversification from investing in a number of underlying managers and asset classes.
The possibility of failure of the Fund's sponsoring employers ("covenant risk").	The Trustee and its advisers considered this risk when setting investment strategy and has consulted with the sponsoring employer as to the suitability of the proposed strategy.
The risk of fraud, poor advice or acts of negligence ("operational risk").	The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received. The Trustee has provided the Fund's investment advisor with a set of objectives as per the relevant CMA order, some of which assess the quality of advice and operational performance of the advisor.

The Trustee also regularly monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies, including those on non-financial matters. Over 2020, the Trustee inserted a comment in the SIP to review the carbon intensity of the portfolio and, where appropriate, the Trustee will engage with managers who have a relatively high carbon intensity portfolio. As this was not in the SIP that was in force for the majority of the year, the Trustee intends to monitor the carbon intensity of the portfolio more thoroughly in 2021 once information on the carbon intensity of each of the Fund's investments becomes more readily available.

The Trustee has set a long-term asset allocation strategy chosen to meet the objectives set out in the SIP. This can be seen below:

Asset Class	**Target Weighting %**	**Range %**
Return seeking assets	**30.0**	**25.0 – 35.0**
Multi-strategy Growth Fund	30.0	25.0– 35.0
Income producing assets	**15.0**	**10.0 – 20.0**
Direct Lending	15.0	10.0 – 20.0
Risk reducing assets	**55.0**	**45.0 – 65.0**
Low Risk Bond Fund	20.0	15.0 – 25.0
LDI	35.0	20.0 – 50.0

On 31 December 2020, the weightings for the Low Risk Bond Fund and Direct Lending allocations were both out of their strategic ranges. The Low Risk Bond Fund and Direct Lending Funds were underweight and overweight respectively. The Fund has committed a set amount of capital to the Direct Lending allocation; however, these monies are not invested with the respective manager until suitable investment opportunities are available. As a result, the amount invested in these funds will change as monies are invested and once investments are realised and monies are returned. The Trustee expects the Direct Lending allocation to decrease in the medium to long term as this investment begins to distribute cash as the investment period comes to an end. These distributions are used to meet cashflow requirements from the Fund and hence the investment has to date had no negative impact on the Fund's ability to meet cashflow requirements and is not expected to in the future. The Trustee monitors the availability of liquid assets and asset allocation on a quarterly basis.

Fund Stewardship Policy Summary

The extract below is the Fund's stewardship policy (found within the SIP) applicable over the majority of the reporting year. The SIP and stewardship policy have since been updated in September 2020 and the latest version can be found here:

https://www.piramalpharmasolutions.com/storage/app/uploads/public/5f7/a95/c00/5f7a95c009299269869405.pdf

As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:

▪ Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and

▪ exercise the Trustee's voting rights in relation to the Fund's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser regarding any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

Fund stewardship activity over the year

Training

Over the year, the Trustee had Responsible Investment ("RI") training sessions with its DB Investment Consultant which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of environmental, social and governance ("ESG") factors in investment decision making.

The first training session was provided to the Trustee in February 2020 where the Trustee was made aware of the upcoming regulatory changes. A decision was taken for the Fund's investment managers to undertake an RI questionnaire, with the purpose being to better understand each managers RI policies, and how the Trustee views are taken into account in relation to RI and ESG factors.

In June 2020, the Trustee received further training and reviewed the responses from the Fund's managers to the survey, which were in line with expectations. In September, the Trustee discussed the final responses to the survey once all the responses had been completed and agreed to review the Fund's RI policy at the November 2020 meeting.

Updating the Stewardship Policy

In line with regulatory requirements to expand the SIP for policies such as asset manager remuneration, the Trustee also reviewed and expanded the stewardship policy 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 reviews the suitability of the Fund's investment managers and other considerations relating to voting and methods to achieve their stewardship policy.

Ongoing Monitoring

The Trustee received quarterly investment reports from its investment advisor, Aon. The reports outlined the valuation of all investments held, monitored the performance of these investments, and recorded any transactions encountered during each period under review. Investment returns were compared with appropriate performance objectives and monitored the relative performance of these investments. The asset allocation was also monitored and compared to the strategic asset allocation for each section. The Trustee also appoints Barnett Waddingham as a third-party evaluator to provide an independent view of the fiduciary allocations (TWIM and AIL), which takes place on an annual basis.

The Trustee discusses stewardship activity, as well as other ESG and non-financial matters, with their asset managers when the opportunity arises via quarterly meetings. The Trustee aims to meet with their asset managers at least once every two years but will engage more frequently if required.

Discussions with the sponsor to align applicable ESG objectives

The views of the sponsor, where applicable, have been aligned to the Fund's ESG objectives. For example, this includes manager appointments and changes to the SIP. In September 2020, following consultation with the sponsor, the Trustee implemented revised wording and updated the SIP to meet the regulatory requirements.

Voting and Engagement – Willis Towers Watson (WTW)

Over the year the Fund was invested in a diversified growth fund, the Partners Fund managed by Willis Towers Watson ("WTW"). WTW state they only select partners with strong sustainability and environment, social and governance (ESG) credentials. Longer-term, sustainable performance can only be delivered where providers can show they are adding demonstrable value to stakeholders and society more widely and show a commitment to continue to develop and improve practices over time. This is a vital consideration for WTW in assessing potential managers, and each within the Partners Fund has been assessed for its sustainability activities and credentials as an integral part of the WTW overall manager research process.

<u>Voting</u>

As the Partners Fund is a diversified growth fund, voting rights are reflected differently in each segment of the portfolio. In equities, voting rights are virtually all essentially exercised via the underlying managers, namely the Towers Watson Global Equity Focus Fund (GEFF) (see below) and the emerging markets managers.

In GEFF, voting rights for its holdings are delegated to the underlying managers which are expected to exercise the voting rights at all times. Furthermore, WTW have engaged with Hermes EOS to provide voting recommendation to enhance engagement and achieve responsible ownership. Where they choose to vote differently to the Hermes EOS recommendation, the underlying managers' rationale must be noted and if required, can be discussed further with Hermes EOS. The underlying managers hold the ultimate voting authority. We are not aware of any changes in the voting policy over the year based on the latest information the manager has provided. WTW engage with Hermes EOS who provide proxy engagement and voting services.

The table below shows the voting statistics for the equity managers[1] within the WTW Partners Fund for the 12-month period to end June 2020. (Data to 31 December 2020 was not available as at time of writing but will be reviewed once available).

% resolutions voted	98%
% of resolutions voted against management	6%
% resolutions abstained	8%

An example of significant vote in the Fund was when the underlying equity manager supported a shareholder proposal put forward against the management of Amazon in May 2020. The resolution was in relation to a shareholder proposal for reports on lobbying payments and policy. The manager voted in favour of the proposal as they expected it would enhance transparency and they consider this ESG factor to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.

Examples of significant votes are based on the managers' criteria. The manager would generally expect a significant vote to constitute:

- a vote that was contentious that had more than 15% against management; and/or
- a vote where the investment manager voted against a management recommendation or different from the service provider recommendation; and/or
- a 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.

Engagement

WTW partner with Hermes EOS, a best-in-class stewardship services provider for public policy engagement, as well as corporate engagement and voting advice for the WTW Global Equity Focus Fund, in which the WTW Partners Fund is invested. WTW receive regular reports on their activities and engagements, and have a seat on their client advisory board, bearing the ability to encourage action on particular topics. WTW also sit on numerous investor advisory boards across many of our private market holdings.

Where managers are falling behind best practice or demonstrate weakness, WTW engage with the manager to improve and influence their actions. The manager has 12 months to enact changes and failure to show improved processes will trigger a review of our preferred rating and immediate removal from our line-up.

An example of engagement was that as part of WTW regular monitoring, they observed a highly rated manager showing signs of falling behind industry standards for corporate governance, leading to concerns surrounding its

[1] SSGA was not able to provide data for the SSGA Global Emerging Markets Index Equity Fund.

risk management process. WTW discussed their views on good corporate governance with the manager and examined a number of portfolio holdings to understand how it implemented its corporate governance framework. Ultimately, they observed negative behavioural biases creeping into the decision-making process and felt that, in conjunction with poor performance, some processes were reactionary and not in-keeping with the intended investment approach. These issues were key in leading WTW to downgrade their rating of the manager which triggered an immediate sale from the Fund.

Engagement – Aon Investments Limited (AIL)

The Trustee has appointed Aon Investments Limited (AIL) as fiduciary manager on a low-risk bonds portfolio. 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 fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system.[2] This means that all of 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 2019 AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings 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 during the 2019 calendar year, highlighting areas of improvement, and discussing manager strategy in the area of RI moving forward.

An example of an engagement carried out by AIL was with a US-based fixed income manager that lacked an RI policy, a metric for scoring securities on ESG criteria, nor public commitments to invest responsibly. Following AIL's engagement with the manager on these issues, they quickly acted by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities. AIL have made tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to RI by becoming a signatory to the Principles for Responsible Investment (PRI)[3], the world's leading proponent of ESG and a global standard setter for better practice.

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. A high-profile example of this is from Robeco, (a corporate bond fund manager within the AIL strategy), that have ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Whilst Robeco was supportive of this step, they were not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a two-year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.

The Trustee believes that engagements of this nature are key to managing ESG risks within the Fund's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

Engagement – Hayfin Direct Lending Funds

While stewardship is arguably less applicable to illiquid private credit than other asset classes, the Trustee and investment adviser would expect the manager would still raise feedback to issuers and other stakeholders as appropriate to enhance the value of the portfolio and thus the concept of engagement should still apply.

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[2] More information on the Aon ESG Ratings Process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment -GuideESGRatings.aspx

[3] https://www.unpri.org/

The following information is from the publicly available PRI transparency report[4]. Hayfin state that analysis of ESG is critical to manage risk and potentially enhance returns. They pursue a policy of integration rather than positive or negative screening. This means they thoroughly analyse material ESG risks, as they do other credit risks, throughout the investment process for every investment, but do not place restrictions or actively target industries due to ESG reasons. If they are comfortable with the ESG risks of an investment, they are permitted to proceed, regardless of the industry.

Every private credit deal team completes an ESG section within the Investment Committee memo. They are required to meet with the ESG Subcommittee prior to presenting to Hayfin's full Investment Committee. The subcommittee ensures that the ESG analysis is thorough, and that analysis/learning from prior deals is shared/applied to current deals. Since the subcommittee was created, the quality of our ESG analysis has notably improved.

By gross capital invested, Hayfin have engaged with 54% of companies over the past year. However, they state they are unable to disclose further details about specific examples. For 2021 Hayfin are planning to enhance their level of ESG-related client reporting to include ESG issues, case studies and incident disclosure in our quarterly reporting.

In summary

Over the year, various regular monitoring processes as well as ad hoc engagement carried out has demonstrated the Trustee has effectively implemented the stewardship policy in practice.

From the information reviewed, the Trustee is of the opinion that the appointed fiduciary managers have demonstrated a willingness and ability to engage appropriately. However, there is a need for more transparency from Hayfin on specific examples of engagement and this is an area the Trustee will continue to monitor moving forward, to be certain that all the managers are implementing voting and engagement activity in a manner consistent with the Trustee's policy and expectations.

[4] https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/CEE566AA-2C64-48BA-BFE8-88700B46EC74/2548e56da8f543a383b48979ce205aaa/html/2/?lang=en&a=1

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