

Marston's PLC Pension and Life Assurance Scheme – Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee, has been followed during the year to 30 September 2020. This statement 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 guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the engagement policies in place in the context of the investment objectives they have set.

The Trustee's principal objective, included in the SIP, is for the Scheme to achieve a fully funded status on the Technical Provisions basis in a reasonable timeframe.

In seeking to achieve this principal objective, the Trustee also considers a number of secondary objectives:

- First, the Trustee seeks to invest funds in order to meet the current and future benefits which the Scheme provides; these include investment of Employer contributions.
- Second, it is an objective to achieve growth in the value of investments greater than the growth of liabilities over the long term. This requires an investment approach which invests in return seeking assets but at the same time aims to protect against changes in the value of liabilities. The Trustee aims to achieve this by holding a diversified portfolio of growth and defensive assets including annuity contracts as well as receiving support from the Employer.
- Third, benchmarks and targets are established for each asset class, as set out in the IPID.

The Trustee has agreed that the long-term funding and investment objective for the Scheme is to target becoming fully funded on a gilts + 0.5% p.a. basis.

The Trustee's investment strategy is to invest in a diversified range of investments that will deliver the expected return required to meet the above objectives and to support the Technical Provisions discount rate whilst being expected to improve the funding level over time.

The Trustee will hold investments such as equities, corporate bonds, government bonds and derivatives in order to deliver the required expected returns in a risk controlled way. The Trustee will also invest in annuity contracts (buy-in policies) to reduce liability risks including longevity risk.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in June 2020.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. The Trustee keeps their policies under regular review with the SIP subject to review at least triennially.

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Engagement

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has given the Investment Managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers, through the use of ESG ratings provided by the Scheme's investment consultant.

In July 2019, the Trustees undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. The Trustee went on to review their equity portfolio mandates following a discussion during the February 2020 Investment Committee meeting, where they agreed that the level of ESG integration within the Scheme's equity portfolio should be improved. As a result of the equity portfolio review, the Trustee decided to disinvest from the BlackRock Global Developed Fundamental Indexation Fund, and invested the proceeds into the BlackRock ACS World Multifactor ESG Equity Tracker Fund. The Trustee retained circa 50% of the BlackRock equity exposure in the BlackRock Global Developed Fundamental Indexation (GBP Hedged) Fund, partly due to BlackRock not yet having launched the GBP hedged version of the ACS World Multifactor ESG Equity Tracker Fund. The Trustee will review this allocation further in the next year.

The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. All managers confirmed that they are signatories of the current UK Stewardship Code and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

The investment consultant's performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific ESG). All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustee continues to monitor. When implementing a new manager the Trustee considers the ESG rating of the manager. The investment performance report includes how each investment manager is delivering against their specific mandates.

The Scheme's investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). The Scheme's managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate or not their support for the resolution to the company's management. Summaries provided by the investment managers are set out below:

BlackRock

BlackRock advocates for sound corporate governance and sustainable business practices that result in long-term value creation for their clients. The BlackRock Investment Stewardship team engages companies to provide feedback on their practices and inform BlackRock's voting. They focus on a range of issues that fall within each of the ESG categories where they assess whether there is potential for material long-term financial impact on a company's performance. They engage with companies held in index and active portfolios alike to encourage them to adopt the robust business practices consistent with sustainable long-term performance.

Engagement is core to BlackRock's stewardship program as it helps them assess a company's approach to governance, including the management of relevant environmental and social factors. To that end, they conduct approximately 3,000 engagements a year on a range of ESG issues likely to impact their client's long-term economic interests. BlackRock meet with executives and board directors, communicate with the company's advisors, and engage with other shareholders where appropriate.

They have been a signatory of the UN Principles of Responsible Investment (UN PRI) since 2008 and as such make sure that ESG factors are incorporated and adhered to in their approach to investment and engagement.

BlackRock are also a founding member of the Task Force on Climate-related Financial Disclosures (TCFD) and since 2017 have been working to increase the transparency of their climate related disclosures. One of BlackRock's most recent steps towards furthering a global approach to combating climate change was taken in January 2020 through their decision to join Climate Action 100+, a group which engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement.

Insight

Insight's purpose is to build a better future for their clients. To achieve this, they work to support stable and resilient social, environmental and economic systems and efficient, well-managed financial markets. These, in turn, will help them to achieve their clients' target investment outcomes.

Insight believe integrating ESG issues into their investment processes, and in their dialogue with issuers and other stakeholders, supports better investment decisions and can have the potential to help clients achieve their desired outcomes.

In 2019, 82% of 1,151 engagements included ESG issues – up from 54% of 1,311 engagements in 2018. Insight was appointed to the ICMA's (International Capital Market Association) Advisory Council for the Green and Social Bond Principles, globally the most prominent group guiding the development of impact bond guidelines.

In regards to the Broad Opportunities Fund in which the Scheme invests, Insight have introduced ESG surveys for issuers to appraise ESG performance. Insight have also provided the following wording in their latest Responsible Horizons Report:

'Our flagship multi-asset approach, Insight's broad opportunities strategy, dynamically invests across a wide range of asset classes including equities, fixed income and real assets. We make extensive use of derivatives and index instruments to gain market exposures. Where appropriate, we take ESG risks into account when making investment decisions. For direct investments we have an engagement program: we raise ESG issues and actively encourage management to improve practices, and we exercise our stewardship responsibilities by actively voting on our shareholdings.

As we make significant use of derivative instruments in the strategy, we have long been proponents of the development of these markets to help enhance responsible investment. The recent expansion of exchange-traded futures and funds on potentially suitable indices could become attractive as access instruments for our strategy. Our aim is to be early adopters of such instruments. Currently we are close to introducing ESG-screened derivatives in the strategy.

To access certain fixed income exposures, our strategy can invest in Insight-managed pooled vehicles. For such capabilities, ESG considerations are a fundamental part of our corporate and sovereign research and engagement processes.

We have also introduced proprietary ESG scores for all infrastructure holdings. We developed an internal questionnaire with the ESG team and, consistent with other investment desks, use the questionnaire to close information gaps and better inform the investment team on sustainability risks.

With regards to our direct holdings in infrastructure, we exercise our stewardship role through engagement with investee management and company boards to discuss governance, strategy and other relevant issues, and we actively vote on our shareholdings. Over 2019 we had 27 contacts, including seven where we engaged with company boards. We also voted on 138 proposals across 11 holdings.

Beyond this, we have found attractive investment opportunities in energy generation from renewable sources. Our strategy's renewable energy holdings provide an important source of potential returns with underlying portfolio exposures to operational investments in mature renewable technologies including wind, solar, hydropower and anaerobic digestion. The strategy's exposure to renewable energy helps to power an increasing number of homes with clean energy, avoid CO2 emissions and support local communities. Moreover, some portfolio holdings assist with waste recycling, reducing landfill and treating water resources.

Lastly, we are working towards a transparency report which would highlight the strategy's ESG scores implied from our indirect market exposures. The report is expected to be available in the near future.'

M&G Investments

M&G's long term approach means that there is a wide spectrum of both financial and non-financial factors that they need to understand when considering the long-term prospects for the business. This includes traditional governance issues, like remuneration and board composition, as well as environmental and social factors where these are material to risk and return.

As a responsible investor, M&G have increasingly widened their research and engagement activities across equity, multi-asset and fixed income issuers, to focus on more non-financial environmental and social topics, such as climate change, plastics, diversity and cyber security. These factors represent both risks and opportunities, and the team need to ensure they are being taken account of in their investment processes.

M&G's approach to climate change is at the forefront of their stewardship framework. Climate change is clearly the most high profile ESG topic, and they are approaching this both internally and externally through the assessment of their portfolios' carbon footprint, and their engagements with companies.

In 2019, M&G voted at 1,788 meetings; at 673 meetings M&G voted against at least one resolution. Over the same period, M&G's Fixed Income teams undertook 91 ESG-specific engagements, with the topics of leadership and governance, the environment and business model and innovation being the three main topics covered.

M&G has also provided the Trustee with engagement examples in relation to the Illiquid Credit Strategies in which the Scheme invests, one of which is set out below:

Engagement objective – to provide credit to non-prime US consumers and disintermediate the pay-day lending model in the US. M&G engaged with a credit-building consumer loans company at the time of due diligence to seek information on their lending practices to see if they had any traits of predatory lending (or if responses proved positive, traits of social lending). After conducting their research, M&G did not

find any characteristics normally associated with predatory or payday lenders. The company offers one simple and transparent product, with much lower interest rates, making them one of the lowest cost, non-prime lenders operating in the US. Credit education was always provided to borrowers and provides tailored budgets for each customer. Providing affordable credit to undeserved borrowers can help to improve their lives in a number of ways. For example, helping consumers finance their education, invest in their small business, pay essential bills or refinance other expensive (interest-bearing) debt and improve their credit scores. This was a positive engagement result for M&G.

Ruffer

Ruffer interpret responsible investment as the incorporation of ESG considerations throughout their research and investment processes, while behaving as active stewards of their clients' assets. They recognise that ESG considerations are important drivers of investment performance, representing both sources of value and investment risks. Therefore, incorporating these considerations into their investment approach forms an essential part of their responsibility to their clients. Ruffer believe that investing responsibly will lead to better long-term outcomes for clients.

Ruffer became a signatory to the Principles for Responsible Investment (PRI) in January 2016 in order to demonstrate their commitment to integrating ESG into their investment approach.

Ruffer believes that engagement is an effective tool to achieve meaningful change and are committed to engaging with companies in which their clients' assets are invested on a wide range of topics. Engagement gives Ruffer an opportunity to improve their understanding of investee companies, which enhances their investment decisions. By engaging with a company to achieve specific goals, they are improving their understanding of the material ESG risks it faces, challenging its behaviour in relation to ESG considerations and in turn increasing its awareness of regulatory and societal changes. This is likely to result in superior outcomes and returns for Ruffer's clients.

Ruffer will engage on their own, or with other investors that share their concerns through collaborative initiatives such as Climate Action 100+, which was launched in December 2017 and to which Ruffer was a founding investor signatory.

It is Ruffer's policy to vote on Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) resolutions, including shareholder resolutions as well as corporate actions.

Ruffer has also provided several engagement examples specific to the Scheme's investment holdings, one of which is provided below:

1. *Hennes & Mauritz Group (H&M)* – Ruffer discussed the culture of sustainability at H&M. The company explained that sustainability is one of four key performance indicators on its internal integrated score cards and that there is a 250-strong sustainability team. Ruffer discussed the perception of the company as a sustainable fashion retailer versus its peers, its desire to be an industry leader in this area, and the reputational risks which accompany this. The company explained that customers

increasingly expect products to be made sustainably, but are not necessarily willing to pay more for this. In light of this, Ruffer encouraged the company to focus on the communication surrounding its sustainability efforts.

Voting Activity

The Trustee has delegated their voting rights to the investment managers.

Investment managers are asked to provide voting summary reporting on a regular basis.

When the investment managers present at Trustee meetings, the Trustee asks the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustee does not use the direct services of a proxy voter.

Voting activity is most relevant to the Scheme's equity holdings with BlackRock and the Diversified Growth Fund investments with Insight and Ruffer, where the Scheme has exposure to equities.

Over the last 12 months, some of the key voting activity on behalf of the Trustees was as follows:

BlackRock

BlackRock votes annually at approximately 16,000 shareholder meetings, taking a case-by-case approach to the items put to a shareholder vote. BlackRock analysis is informed by their internally developed proxy voting guidelines, pre-vote engagements, research, and the situational factors at a particular company.

In regards to the Aquila Life Global Developed Fundamental Weighted Index Fund in which the Scheme invests, over the year to 30 September 2020 BlackRock engaged with 664 companies (from a total of 1,271 engagements). BlackRock engaged with 331 companies on more than one occasion over the period.

Most engagements covered multiple topics, with governance being the most prominent engagement theme at 91% of engagements, followed by environmental (55%) and social (42%).

Additionally, BlackRock provided examples of where they have engaged with a company they are invested in within the portfolio along with the respective outcome. We show one of these examples below:

- *H&M Hennes & Mauritz AB ("H&M")* – The company's founding family continue to control approximately 75% of the company's voting rights through a holding investment company. At this year's annual general meeting (AGM), one member of the founding family, who stepped down as CEO in January 2020, succeeded his father as chairman of the company's board. In recent years, BlackRock have expressed their concerns relating to the board governance and executive remuneration by voting against management on these topics.

The board's audit committee chair is not considered independent, either by the company's own assessment or by BlackRock's Investment Stewardship director independence standards, because he represents the holding investment company on the board. BlackRock opposed the election of one of the founding members as chairman of the board in both 2018 and 2019 to hold him accountable for this poor governance practice.

At the 2019 AGM, they also voted against the company's guidelines for executive remuneration for not aligning their practices with market standards and that of many large European issuers. These standards include providing a detailed description of the performance measures used to determine the level of variable pay awarded to executives, and the implementation of a long-term share-based pay plan designed to incentivize good performance over a multi-year period. In the absence of such arrangements, companies should provide a robust explanation for not implementing them. Company A provided no such explanation. The company's lagging remuneration practices may, in BlackRock's view, be tied to the fact that the board lacks a standalone remuneration committee, which is considered standard governance practice across most European markets.

Ruffer

In regards the Diversified Growth mandate in which the Scheme invests, Ruffer attended 38 meetings with companies, voting in 35 of these. A total of 498 votable proposals were presented, of which Ruffer engaged in 429.

Additionally, Ruffer highlighted the bellow significant votes during the year in reference to the Scheme's holdings:

- Walt Disney (as at the date of the vote, the approximate size of the mandate's holding was 1.5% of the Ruffer portfolio)- Ruffer voted for shareholder resolution requesting additional disclosures on lobbying activities;
- Barrick Gold (as at the date of the vote, the approximate size of the mandate's holding was 1.3% of the Ruffer portfolio) – Ruffer voted against the re-election of non-executive directors;
- Lloyd's Bank (as at the date of the vote, the approximate size of the mandate's holding was 1.9% of the Ruffer portfolio) – Ruffer voted against in regards to a remuneration policy;
- Mitsubishi Electric (as at the date of the vote, the approximate size of the mandate's holding was 1.0% of the Ruffer portfolio) - Ruffer voted against a re-election of independent director.

Ruffer also provided the following wording in their latest Climate change framework Report:

"We take the opportunity to vote seriously, as it enables us to encourage boards and management teams to consider and address issues that we are concerned about. When voting we consider companies' explanations and our internal voting guidelines in order to vote in the best interests of our clients."