

Edrington UK Distribution Limited Pension
Scheme

**Annual Implementation
Statement – Scheme year
ending 31 October 2021**

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1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Edrington UK Distribution Limited Pension Scheme (“the Scheme”) covering the scheme year (“the year”) to 31 October 2021.

The purpose of this statement is to set out:

- Set out how, and the extent to which, in the opinion of the Trustees, the Scheme’s engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year;
- Describe the voting behaviour by, or on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) during the year and state any use of services of a proxy voter during that year.

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some responsibilities. In particular, the Trustees have appointed a Fiduciary Manager, Towers Watson Limited, to manage the Scheme’s DB assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustees. So far as is practicable, the Fiduciary Manager considers the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following website:
<https://uk.edrington.com/terms-conditions/>

2. Voting and engagement

As set out above, the Trustees have delegated responsibility to the Fiduciary Manager to implement the Trustee’s agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act.

The Fiduciary Manager is therefore responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance (“ESG”) factors are allowed for in the portfolio.

Consistent with the Trustee’s view that ESG factors can have a significant impact on investment returns, particularly over the long-term, the Fiduciary Manager believes that sustainable investment (SI) forms the cornerstone of successful long-term investment and has fully embedded the consideration of ESG factors in its processes.

The Fiduciary Manager’s process for selecting, monitoring and de-selecting managers explicitly and formally includes an assessment of a manager’s approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Fiduciary Manager engages with investment managers to improve their processes.

The policies and processes described above have impacted the Scheme’s investments in numerous ways. Some examples of this are outlined below:

The Core Diversified Fund has the following portfolio construction philosophy in relation to ESG and SI:

- To avoid uncompensated financial risks embedded in investments that look weak on sustainability grounds, particularly within the climate area, and where possible to take advantage of investments that are likely to benefit from sustainability tailwinds.

- To invest with a positive impact where available without compromising on return target, noting that this typically reduces portfolio risk.
- To track the impact of the Fund's investing and our path towards a Paris compliant portfolio and a portfolio with more embedded diversity at the asset managers that the fund employs. The manager aims to do this through long-term investing, which includes pricing in not yet digested externalities. The manager also accesses each investment opportunity in a way which maximises value, giving consideration to ESG as a key factor which can impact value. Furthermore, WTW believes diverse teams make better decisions and thus they seek to ensure diversity and inclusion both in their own team and in the teams and mix of investors they commit capital to.

Through its investment in the Core Diversified Fund, amongst other positive-impact assets, the Scheme has exposure to:

- A Global Prime Real Estate strategy which has introduced ESG and climate filters as an explicit screen in the investment process following direct engagement with the manager. This has led to a significant exposure improvement and enhanced the ESG rating of the overall portfolio.

Company level engagement and rights attached to investments (including voting):

The Trustees have delegated responsibility for the selection, retention, and realisation of investments to the Fiduciary Manager, and in turn to the Scheme's investment managers. The day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) are delegated to the Scheme's investment managers.

Through the engagement undertaken by the Fiduciary Manager, the Trustees expect investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Fiduciary Manager considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis. The Fiduciary Manager engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the Year.

The Scheme is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Scheme's equity managers as here, there is a right to vote as an ultimate owner of a stock. Responses received are provided in the table below. Where managers provided multiple examples of "significant votes", the top three have been shown below.

Further information on the voting and engagement activities of the managers is provided in the table below.

The Scheme's equity holdings are accessed via the TWIM Core Diversified Fund, which includes:

- Smart Beta adaptive cap fund
- Smart Beta multifactor equity fund
- Passive global REITs fund
- Smart Beta index listed infrastructure fund

The Fiduciary Manager's view is that managers continue to demonstrate good / leading practice vs. peers, in particular in their willingness to take visible stances on topics they believe important. This is supported by an effective approach to conflict management, high transparency, and effective communications. The Fiduciary Manager continues to engage with the manager on the level of stewardship team resourcing, in particular given breadth / depth of coverage and rapid growth in AUM, as well as pushing for better / more effective fixed income engagement.

Example voting table – Manager

Voting activity	Number of meetings at which the manager was eligible to vote: 3,706 Percentage of eligible votes cast: 99.8% Percentage of votes with management: 86.3% Percentage of votes against management: 13.1% Percentage of votes abstained from: 0.6%			
Most significant votes cast	Company	SL Green Realty	Goodman Group	China Mengniu Dairy Co
	Approx. size of holdings	0.11%	0.12%	0.14%
	Resolution	Advisory vote to ratify named executive officers' compensation	Advisory vote to ratify named executive officers' compensation	Elect Simon Dominic Stevens; Elect NIU Gensheng
	Decision /Vote	Against	Against	Against
	Rationale for decision	This item does not merit support as SSGA has concerns with the proposed remuneration structure for senior executives at the company	This item does not merit support as SSGA has concerns with the proposed remuneration structure for senior executives at the company	Committee independence; Less than 75% attendance
	Rationale for classifying as significant	Against management	Against management	Against management
Use of proxy voting	For the CDF, through the equity and listed real asset strategies, the manager works with EOS to provide corporate engagement and voting recommendation services to enhance the efforts of the underlying managers where possible. The underlying manager must provide an explanation and note their rationale when they choose to vote differently to the recommendation. The underlying managers also use ISS facilitate voting and provide research. Our China equity manager uses Glass Lewis service where they have created a bespoke policy.			

Industry wide / public policy engagement:

As mentioned in the SIP, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustees). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council, of which WTW are currently the chair. Engagement activities by EOS on public policy over the year included:

- 52 consultation responses or proactive equivalents (such as a letter), and 173 discussions held with relevant regulators and stakeholders during 2020;

- Climate Action 100+, an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, where EOS lead or co-lead 30 engagements and support another 14;
- Working closely with the Principles for Responsible Investment ('PRI'), including leading the engagement with Vale on tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax;
- Close collaboration with significant investor initiatives including Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Being a Tier 1 signatory of the 2012 UK Stewardship Code and submitting its first annual report to the 2021 UK Stewardship Code – subsequently being a member of the revised code in 2021;
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.

3. Conclusion

The Trustees consider that all SIP policies and principles were adhered to during the year.