

## **State Bank of India (UK) Pension Scheme – year to 31 March 2021**

### **Implementation Statement**

#### **Overview**

The Trustees of the State Bank of India (UK) Pension Scheme ('the Trustee' and 'the Scheme' respectively) have prepared this implementation statement in compliance with the governance standards introduced under The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. Its purpose is to demonstrate how the Trustees have followed the policy on voting, stewardship and engagement as set out in the Scheme's Statement of Investment Principles ('SIP'), dated September 2020. This statement covers the period 1 April 2020 to 31 March 2021.

The Scheme's assets are held in pooled investment funds (via the Mobius Life investment platform) and the day-to-day management of these investments (including the responsibility for voting and engaging with companies) is delegated to the fund managers of the pooled investment funds ('the Fund Managers').

The Fund Managers are Legal & General Investment Management ('LGIM'), Insight Investment ('Insight'), Capital International Management Company Sàrl ('Capital' Group), BNY Mellon Investment Management ('BNYM') and BMO Global Asset Management ('BMO').

As Trustees of the Scheme's assets, we are responsible for the selection and retention of the funds. Reviewing the voting and engagement activities, which we include details on below, is an important exercise to help us ensure they remain appropriate and are consistent with the Fund Managers' stated policies in this regard. We are satisfied with the voting and engagement activities of the Fund Managers, and in particular, that the Fund Managers are using their position as stakeholder to engage constructively with investee companies; however, we will engage with the Fund Managers should we have any concerns about the voting and/or engagement activities carried out on our behalf. The Trustees had no cause to challenge the Fund Managers' voting and/or engagement activities during the year to 31 March 2021.

During the year to 31 March 2021, the Trustees updated the SIP to ensure they met new regulations that came into effect from 1 October 2020.

#### **Voting and engagement**

Details on voting and engagement activities provided by LGIM, Insight, Capital Group, BNYM and BMO are set out below. In order to produce this statement we have asked the Fund Managers a series of questions on their policies, actions and for examples relating to their voting and engagement activities. We have then reviewed these and summarised their responses for the purposes of this statement.

LGIM, Insight and Capital Group have provided information relating to the Dynamic Diversified Fund, Broad Opportunities Fund and Emerging Markets Total Opportunities Fund respectively, as these fund holds equities for which the Fund Managers have voting rights.

The BNYM Global Dynamic Bond Fund does not hold equities and given that bonds do not confer voting rights, there was no voting carried out in relation to this fund. However, BNYM does undertake engagement activities in respect of its bond holdings and we have included examples below.

The BMO LDI Funds do not hold equities and given that these investments do not confer voting rights, there was no voting carried out in relation to these funds. However, BMO does undertake engagement activities with counterparty banks on relevant issues, where applicable, and we have included examples below. BMO report on this on a semi-annual basis, therefore the information provided covers the year to 31 December 2020.

### **LGIM - voting and engagement activities**

The following is based on the information that LGIM have provided in response to our questions and provides an illustration as to how they co-ordinate their voting and engagement activities with companies.

*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.*

*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 also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account. In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA).*

### **LGIM Dynamic Diversified Fund**

LGIM were eligible to vote on 83,262 resolutions. They voted on 99.9% of these. Votes: For 84%, Against 15%, Abstained <1%. In <1% of occasions LGIM voted against the recommendation provided by a proxy advisor (ISS).

LGIM provided the following examples in response to our request to provide details of their most significant votes:

## **1. AMAZON**

Date: 27/05/2020

*Of 12 shareholder proposals, we voted to support 10. We looked into the individual merits of each individual proposal, and there are two main areas which drove our decision-making: disclosure to encourage a better understanding of process and performance of material issues and governance structures that benefit long-term shareholders.*

*In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics:*

- *Governance: Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings*
- *Environment: Details about the data transparency committed to in their 'Climate Pledge'*
- *Social: Establishment of workplace culture, employee health and safety*

*The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of \$2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear. We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.*

*Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. Our engagement with the company continues as we push it to disclose more and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.*

## **2. EXXONMOBIL**

Date: 27/05/2020

Resolution: Elect Director Darren W. Woods

Vote: Against

*In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, we announced that we will be removing ExxonMobil from our Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, we also announced we will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, our voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.*

*93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods.*

*Approximately 30% of shareholders supported the proposals for independence and lobbying.*

*We believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company.*

*Our voting intentions were the subject of over 40 articles in major news outlets across the world, including Reuters, Bloomberg, Les Échos and Nikkei, with a number of asset owners in Europe and North America also declaring their intentions to vote against the company.*

*We voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction.*

### **3. BARCLAYS**

Date: 07/05/2020

Resolution: Approve Barclays' Commitment in Tackling Climate Change

Vote: For (supported by 99.9% of shareholders)

*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.*

*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.*

*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.*

### **4. QANTAS AIRWAYS LIMITED**

Date: 23/10/2020

Resolution A: Approve participation of Alan Joyce in the Long-Term Incentive Plan

Resolution B: Approve Remuneration Report

Votes: Against resolution A and for resolution B

*The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as we wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package.*

*In collaboration with our Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express our concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. We supported the remuneration report (resolution B) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, our concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against resolution A to signal our concerns.*

### **Insight - voting and engagement activities**

The following is based on the information that Insight have provided in response to our questions and provides an illustration as to how they co-ordinate their voting and engagement activities with companies.

*Insight retains the services of Minerva Analytics for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva Analytics provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote. Where contentious issues are identified, these are escalated to Insight for further review and direction.*

*The corporate structure of closed-end investment companies held in the strategy includes an independent board which is responsible for providing an overall oversight function on behalf of all shareholders. This governance framework includes a range of aspects including setting out investment objectives, and on an ongoing basis ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework, that is with an independent board*

*acting on behalf of shareholders, generally limits contentious issues that can arise with other listed entities.*

### **Insight Broad Opportunities Fund**

Insight were eligible to vote on 154 resolutions. They voted on 100% of these and voted in support of all those resolutions.

Insight provided details on engagement at a firm level:

*A key element of stewardship is proactive engagement with companies to ensure accurate analysis and to influence them to improve their practices. This engagement with issuers is a key part of our credit analysis and monitoring, and complements our approach to responsible investment. Given the size and depth of our credit analyst resource, one of the key inputs into our ESG analysis is the direct information which we receive from companies via engagements that take place with them*

*As a matter of policy, all our credit analysts regularly meet with issuers to discuss ESG-related and non-ESG related issues. Each analyst identifies the engagement issues relevant for each specific issuer. Insight will use ESG ratings and our proprietary carbon model to engage so-called 'laggard' companies. Meetings with company management provides the most effective and timely opportunity to raise these issues. If Insight does not already have regular meetings with a company's management, our investment teams are encouraged, in the first instance, to request a meeting with them. Where this is not possible, or additional action is deemed appropriate in order to further the interests of our clients, we may consider raising the issues with the company's broker or, if appropriate, the chairman. Further to this if we do not receive a response from the issuer regarding engagement then we will lead on a wider collaborative initiative, via the PRI or by engaging with other investors, to achieve greater influence over the issuer.*

*Additionally, as a global asset manager, we have an important role in financial markets. We believe that we must take a proactive role in ensuring the long-term sustainability of the markets – this is in our clients' long-term interests, as well as that of wider society. Long-term initiatives include:*

- *Active engagement with other industry members to ensure our clients' rights and considerations are fully represented, including:*
  - *Joining the Working Group on Sterling Risk-Free Rates.*
  - *Participation in climate change related collaborative engagements as an active member of the Climate Action 100+ initiative.*
  - *Collaborating with peers on a range of issues, such as credit risk and ratings with the PRI initiative.*
  - *Encouraging issuers to submit their carbon emissions to CDP initiative.*
- *Development of new sources of repo liquidity - a key issue for pension funds seeking to manage risk efficiently and effectively.*
- *Challenging the pressure on derivatives users, including pension funds, to post only cash as variation margin on their derivatives transactions - a key issue for pension funds seeking to manage risk effectively over the long term.*
- *Supporting the transition to a low carbon economy by investing in 43 green bonds, and encouraging banks to consider green bond issuance, and through our Advisory Council role with the Green and Social Bond Principles.*

*These engagements inform the overall credit analyst views of the companies and provide a platform not only for both increased transparency around ESG issues, but also ongoing engagement to change company behaviour, where appropriate.*

Insight provided engagement examples at a strategy level. There were 33 engagements over the year to 31 March 2021. Of these engagements, 12 included Board engagements and 23 included ESG discussions. The following examples illustrate the engagement activities carried out:

#### **1. GREENCOAT UK WIND PLC**

Date of engagement: 2020

*Objective: The half-year report disclosed that a serious health and safety incident had occurred at an underlying wind farm. Insight engaged with the company to discuss the details of the incident and what remedial actions were planned, including preventative actions to minimise the chance of a recurrence.*

*Outcome: The company has reviewed relevant systems and procedures to ensure that relevant enhancements are actioned. The company subsequently shared relevant learnings from the incident across its portfolio and at appropriate industry forums, thus helping to minimise the potential for similar incidents elsewhere.*

#### **2. HICL INFRASTRUCTURE**

Date of engagement: 2020

*Objective: Review of portfolio cash flow generation and reduction in cash dividend coverage highlighted in the Annual and Interim Reports. Dividends are a key component in the expected total returns from the portfolio's listed infrastructure exposures. Therefore, significant changes in the underlying cashflow generation capability have the potential to affect expected returns.*

*Outcome: We discussed the cash flow generation potential from underlying investments and agreed with the company's rationale for not increasing target dividends for FY 20/21. The decline in the dividend cash cover was expected to be a timing issue and the company was expected to return to fully covered cash dividends. This conclusion was reiterated following a meeting with the Chairperson of the company's Board.*

### **Capital Group - voting and engagement activities**

The following is based on the information that Capital Group have provided in response to our questions and provides an illustration as to how they co-ordinate their voting and engagement activities with companies.

*Capital Group do not follow proxy advisors' recommendations. Each proxy ballot is reviewed by the Governance and Proxy (GAP) team at Capital Group who facilitate the proxy voting process. They rely primarily on their own proprietary research in evaluating companies although, to provide supplementary*

*analysis of resolutions at shareholder meetings, they will often review proxy research from third party vendors.*

*We prefer to engage with companies privately – given our size, fundamental research-based approach to investing and global footprint, we find that constructive engagement is most effective when we directly tackle key issues with companies and their boards.*

*We typically collaborate with other asset managers through our industry memberships on initiatives to improve the framework for universal investors. For example, the UK Investor Forum – which we are founding members of – helps collective engagement. Through such organisations, we can have a collective impact in certain situations where we believe this will achieve better outcomes for our clients.*

*For example, we have worked with the Investor Forum to engage with a UK media company regarding its chairman succession plan and the development of a new remuneration policy. This engagement was driven by a large vote against its existing remuneration report in 2020, and various shareholders have communicated, via the Forum, their desire for demonstrable change and action in light of the recent dissent at the AGM. This demonstrates our desire to identify and participate in collaborative engagements where we feel we can help deliver positive outcomes for our shareholders and for stakeholders across the financial ecosystem.*

#### **Capital Group Emerging Markets Total Opportunities Fund**

Capital Group participated in all of the available votes for the companies in which they invest. Votes: For 88%, Against 8%, Abstained 4%

Capital Group provided the following examples in response to our request to provide details of their most significant votes:

##### **1. SMC CORP (JAPAN)**

Date: 26/06/2020

Resolution: Director Elections

Vote: Against

*Capital Group voted against management in relation to Director Elections proposals because the number of independent directors is too low.*

##### **2. VALARIS**

Date: 26/11/2020

Resolution: Approve financial assistance to subsidiaries

Vote: Against

*Capital Group voted against management in relation to approving financial assistance to subsidiaries. We engaged with the company ahead of the AGM on this specific topic. We explained our rationale for voting against this proposal as we would like the company to disclose more information on the related party transactions, especially on the limit of the financial assistance that can be potentially given to subsidiaries or related companies.*

### **3. ABBOTT LABORATORIES**

Date: 24/04/2020

Resolution: Shareholder proposal to Adopt Simple Majority Vote

Vote: For

*Management put forward a shareholder proposal to adopt simple majority vote. Capital Group voted against the proposal. Capital Group's rationale is that the existing supermajority vote requirement impedes shareholder action on ballot items that may be critical to shareholder interests.*

Below are two examples of where Capital Group have engaged with the management of the companies in which they invest:

#### **1. BARRICK GOLD**

*This Canadian mining company has a history of human rights breaches relating to violence by its security forces from 2010 to 2017. A key reason for Capital Group avoiding this investment previously was the company's failure to invest in a social license to operate at the time. Management changed in 2018, and the new team came with a track record of respecting human rights. Prior to investing, our analyst spent 10 days in Africa, meeting new management, employees, local communities, and other stakeholders, to evaluate whether change would be meaningful. Change in how human rights issues were managed by the company was fundamental in our decision to invest in 2018.*

*The company continues to be flagged by our monitoring process and we regularly engage with its management as part of our stewardship activities. In September 2020 our investment and ESG professionals met with the company's Group Sustainability Executive, which confirmed progress on human rights issues. We also discussed areas for potential improvement and opportunities for industry collaboration to maximise progress. An improvement in the human rights practices should reduce associated reputational and financial risks.*

#### **2. TOKYO ELECTRON**

*Tokyo Electron is a manufacturer of electronic and semiconductor equipment. Our analysts engaged with the company to discuss their progress in medium term goals on reducing energy consumption and carbon emissions. During the fiscal year 2020, the company has formulated a roadmap for achieving these goals for their key models, and also established guidelines for*

*calculating CO2 emissions. These efforts can help the company adapt to the transition to a low carbon economy, which is key to a company's sustainability.*

## **BNYM - engagement activities**

The following is based on the information that BNYM have provided in response to our questions on voting and engagement and provides an illustration as to how they co-ordinate their voting and engagement activities with companies. Newton are a subsidiary of BNYM and are the entity that manage the Global Dynamic Bond Fund.

*We believe the value of our clients' portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Our understanding of a company's fundamental business enables us to assess the appropriate balance between the strict application of corporate governance policies and taking into account a company's unique situation.*

*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. 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.*

*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.*

### **BNYM Global Dynamic Bond Fund**

The fund does not hold equities and therefore does not have the same voting rights as some other funds. However, Newton's engagement activities are undertaken for all the companies that they hold and so they also engage with the companies whose bonds are held in this fund, for example:

#### **1. ICELAND**

Health and nutrition:

*We wrote to three of our invested companies as part of a collaborative engagement initiative with ShareAction's Healthy Markets campaign. The campaign aims to engage with food retailers and manufacturers to improve the health and nutrition of product portfolios, and to create a healthier food environment. The letters include specific requests for each company, tailored to the risks to which they are most exposed. All letters encourage the companies to engage with the campaign and*

*underlying investors on the topic of health and nutrition. We look forward to receiving acknowledgement of these letters, and to beginning this dialogue. We joined a call with the CFO to discuss corporate governance and to continue our previous conversations regarding sustainability initiatives.*

Board effectiveness:

*Concerns surrounding the structure of the board and lack of independent directors were cited. We explained that the board, company and investors would benefit from the appointment of independent directors that bring additional skills, greater diversity and willingness to challenge management.*

Sustainability:

*The company stated that ‘doing the right thing’ is part of its culture and, as a family business, it feels strongly about such work. For example, the company was one of the first food retailers to introduce an ‘elderly hour’ for shopping, and to ban non-essential artificial flavourings and MSG from its products. These are helping to create a positive brand image. We also discussed health and nutrition. The company explained that frozen food is a good way to freeze in goodness – lots of its products are healthy and nutritious (e.g. fish, fruit and vegetables). Moreover, the perception that the company only sells unhealthy, processed ready meals is slowly changing. Significant opportunities were discussed in relation to plant-based foods. In terms of labelling on packaging, the consensus is that traffic-light labelling is best in class. The company is the only UK food retailer not to use this. We recently used our collaboration with ShareAction on its Healthy Market’s Campaign, which aims to address childhood obesity and improved pack labelling, to push Iceland to address this. We see health and nutrition posing material risks and opportunities to food retailers, particularly as global regulations increase and consumer demand shifts.*

## **2. AMS**

Clean technology:

*In a meeting with the company’s management, we sought to encourage disclosures related to the incorporation of clean technology solutions into the manufacture of the company’s sensors. The company explained that it has improved the energy consumption of its sensors but has not robustly quantified their performance. We suggested that the company enhances its disclosures in relation to the energy consumption of its products.*

### **BMO - engagement activities**

The Dynamic LDI funds contain investments that provide exposure to long dated interest rates / inflation. They do not hold any physical equity investments and are therefore not eligible to vote. However, BMO encourages the counterparty banks to obtain membership of the UN Principles for Responsible Banking and also engages with counterparty banks on relevant issues, for example:

**JP MORGAN CHASE & CO**

*JP Morgan Chase & Co (one of the counterparty banks) announced a timeline for appointing a different director as their lead independent director. BMO have been raising concerns over the independence status of the incumbent appointment for many years due to his significant length of tenure on the board.*

*They also committed to end loans for companies with oil exploration and production activities in the Arctic, and phase out loans for coal mining companies. BMO have been engaging the bank on climate risk management, including its exposure to fossil fuels, extensively. As the largest US bank, this sends a strong signal to the market and an important strategic decision in support of the transition to a low carbon economy.*