

Bank of Cyprus UK 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') has been followed during the year to 31 March 2022. 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 2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

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

As set out in the SIP¹, the Trustee's primary objectives are as follows:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Sponsoring Company, the cost of current and future benefits which the Scheme provides as set out in the Trust Deed and Rules;
- To limit the risk of the assets failing to meet the liabilities over the long term; and
- To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

In addition, a quantitative objective to achieve, over the long term, a rate of investment return of 1.9% p.a. in excess of long gilt yields.

Review of the SIP

The Scheme's SIP was updated in July 2021 to reflect a number of changes to the investment strategy

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

¹ The SIP is available online at <https://www.bankofcyprus.com/en-gb/group/investor-relations/other-information/bank-of-cyprus-uk-pension-and-life-assurance-scheme/>

the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in July 2021 but no revisions were made to these policies.

The Trustee keeps its ESG policies under regular review within the SIP.

The following work was undertaken during the year to 31 March 2022 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 requested that the Scheme's investment managers confirm compliance with the principles of the UK Stewardship Code. LGIM, Dimensional (mandates terminated in June 2021) and abrdn confirmed that they are signatories of the current UK Stewardship Code 2020 that took effect on 1 January 2020.
- The Trustee has taken into consideration the Mercer research ratings (both general and specific to ESG) assigned to the mandates held by the Scheme, being made aware of any changes to these and of any relevant news that may impact the managers and funds. The ESG ratings for each of the Scheme's investments are reviewed on a quarterly basis and, once every three years, the Trustee will consider them relative to their peers.
- The Trustee also received details of relevant engagement activity for the year from each of the Scheme's investment managers. The Scheme's investment managers engaged with companies over the year on a wide range of different issues including ESG 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 resolutions at companies' Annual General Meetings.

Voting Activity

In producing this Engagement Policy Implementation Statement, one of the Trustee's aims is to enhance their reporting on voting activity. The Trustee has delegated their voting rights to the investment managers. As such, the Trustee does not make direct use of a proxy voting firm but expects the investment managers to report on contentious issues through its quarterly reporting and provide voting reports on request. The investment managers may in turn use the services of proxy voting firm.

Please note that the Trustee does not consider the AVC section to be material, in the context of the total assets of the Scheme, so the voting rights associated with these are not considered in this disclosure.

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

- **Dimensional – Emerging Markets Core Equity Fund and Global Small Companies Fund (Terminated June 2021)**

Dimensional has engaged Institutional Shareholder Services (“ISS”) to provide information on shareholder meeting dates and research on proxy proposals. ISS also provides operational processing of proxy voting based on Dimensional’s Proxy Voting Guidelines through its proprietary voting platform. In addition to ISS, Dimensional may also review research from Glass Lewis and, for Australian securities, Ownership Matters. Third-party research is only one of several inputs into their voting decision against which Dimensional check their own assessments on a given proposal. Dimensional retains final discretion on how to vote.

Emerging Markets Core Equity Fund

Key votes undertaken from 31 March 2021 to 22 June 2021 (termination date) are summarised as below:

- There have been 74 meetings over this period, in which Dimensional was eligible to vote. In these meetings, there were 943 proposals, 100.0% of which Dimensional participated in the vote. Dimensional voted with management on 89.6% of proposals and against management on 9.0%. Dimensional abstained from voting on 1.4% of proposals.

Additionally, Dimensional provided examples of where they have engaged with a company held within the portfolio along with the respective outcome. We show some of these examples below:

- Santam Ltd. – Dimensional voted against the election of a non-independent member of the Remuneration and Nomination Committees because market best practice is for members of the Remuneration and Nomination Committees to be independent. The member was elected. Dimensional continues to monitor the independence of the Remuneration and Nominating Committees and may continue to vote against directors if the members of both committees remain non-independent.
- PLDT Inc. – Dimensional voted against non-independent directors because the level of board independence was below the market requirement. All directors were elected. Dimensional continues to monitor the independence of the board and may continue to vote against directors if the board fails to comply with market requirements.
- Baozun, Inc. – Dimensional voted against a non-independent director because the level of board independence was below the market requirement. The director was elected. Dimensional continues to monitor the independence of the board and may continue to vote against directors if the board fails to comply with market best practice.

Global Small Companies Fund

The key votes undertaken from 31 March 2021 to 21 June 2021 (termination date) for the Global Small Companies Fund are summarised below:

- There have been 2,317 meetings over the year, in which Dimensional was eligible to vote. In these meetings, there were 24,073 proposals, 99.9% of which Dimensional participated in the vote. Dimensional voted with management on 88.0% of proposals and against management on 12.0%.

Similar to the above, Dimensional provided examples of where they have engaged with a company held within the portfolio along with the respective outcome. We show some of these examples below:

- Shenandoah Telecommunications Company – Dimensional voted against members of the Audit Committee for failure to remedy the underlying material weakness in internal controls identified by company management in FY2019 and FY2020. The failure of the Audit Committee to remedy the issue in a timely manner raises concerns over the efficacy of oversight by the Audit Committee. The members were elected. Dimensional continues to monitor the Company and its internal control mechanisms and may continue to vote against Audit Committee members if concerns remain.
 - Argan SA – Dimensional voted against the non-independent Chairman of the Remuneration and Nominating Committees because market best practice is for the Chairman to be independent. The Chairman was elected. Dimensional continues to monitor the independence of the Remuneration and Nominating Committee Chair and may continue to vote against directors if the Chair of both committees remains non-independent.
 - Coltene Holding AG – Dimensional voted against the incumbent audit firm due to excessive non-audit fees paid to the auditor raising doubts over independence of the auditor. The proposal was approved. Dimensional continues to monitor the ratio of audit fees to non-audit fees paid to the auditor.
- **LGIM – World Developed Equity Index Fund (Hedged)**

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 they do not outsource any part of the strategic decisions. Their use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The LGIM Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what they consider are minimum best practice standards which they believe all companies globally should observe, irrespective of local regulation or practice. They retain the ability in all markets to override any vote decisions, which are based on their custom voting policy.

In determining significant votes, LGIM takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year engagement policy.

The voting policy of the manager has been considered by the Trustee and the Trustee deem it to be consistent with their investment beliefs.

Key votes undertaken over the year to 31 March 2022 are summarised as below:

- There have been 2,440 meetings over the year, in which LGIM was eligible to vote. In these meetings, there were 30,430 proposals, 99.9% of which LGIM participated in the vote. LGIM voted with management on 80.2% of proposals, against management on 19.6% and abstained from voting on 0.3%.

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

- Apple Inc. – a vote 'for' was cast to conduct a civil rights audit. A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies. The resolution was approved. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
- Microsoft Corporation – LGIM voted against for the election of a Director as they expect companies to separate the roles of Chair and CEO due to risk management and oversight. The Director was elected. LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.
- NVIDIA Corporation – LGIM voted against the election of a Director as there were concerns related to the lack of women on boards. LGIM views gender diversity as a financially material issue for their clients, with implications on the assets they manage on their behalf. The resolution was approved. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
- AT&T – a vote 'against' a Ratifying Named Executive Officers' Compensation was cast as they identified serious issues with the structure and quantum of AT&T's executive remuneration. The awards and payments made by AT&T did not meet LGIM's expectations of fair and balanced remuneration both in respect to their magnitude and the lack of performance criteria. The

resolution received sufficient support from the shareholders. LGIM will continue to seek to engage with the company and monitor progress.

- **abrdn – Diversified Growth Fund**

abrdn employs ISS as a service provider to deliver their voting decisions efficiently to companies. ISS provides voting recommendations based on their own customised voting policy which reflects abrdn's guidelines and expectations. abrdn remains conscious always that all voting decisions are their own on behalf of their clients.

Key votes undertaken over the year to 31 March 2022 are summarised as below:

- There have been 618 meetings over the year, in which abrdn was eligible to vote. In these meetings, there were 8,414 proposals, 98.0% of which abrdn participated in the vote. abrdn voted with management on 86.8% of proposals, against management on 12.5% and abstained from voting on 0.7%.

abrdn provided examples of where they have engaged with a company they are invested in within the portfolio. We show some of these examples below:

- Akzo Nobel NV – a vote 'against' a Ratifying Named Executive Officers' Compensation was cast as they were concerned with CEO's variable remuneration outcomes in view of the receipt of government support.
- BP Plc – abrdn voted against the approval of the company climate change targets. BP announced its net zero by 2050 ambition in February 2020 and has since established interim reduction targets for absolute emissions and carbon intensity. With targets set, the climate strategy is entering the implementation phase. The company's positive response to Climate Action 100+ requests for a Paris aligned climate strategy and improved disclosure have already addressed the purpose of this resolution and made it more feasible for shareholders to monitor progress. This resolution is substantially the same as one submitted by the proponent in 2019 and does not take into consideration the changes that have occurred in the intervening period. abrdn therefore consider it preferable for the company to pursue implementation of the existing climate strategy and will continue to monitor its progress.
- Campbell Soup Company – a vote 'for' was cast to reduce supermajority vote requirement. abrdn voted in favour because the elimination of the supermajority vote requirement would enhance shareholder rights.

Prepared by the Trustee of the Bank of Cyprus UK Pension and Life Assurance Scheme in June 2022.