

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 2021. 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 SIP, 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 2.5% p.a. in excess of long gilt yields.

Review of the SIP

The Scheme's SIP was updated in September 2020.

The changes made to the SIP, in September 2020, were driven by new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How arrangements with the asset managers incentivise the asset managers to align their investment strategy and decisions with the Trustees' policies in SIP.

- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of arrangements with the asset managers.

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 September 2020.

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

The following work was undertaken during the year to 31 March 2021 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 and Aberdeen confirmed that they are currently signatories to the UK Stewardship Code and intend 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 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 first review is due to be completed during 2021.
- 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**

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 over the year to 31 March 2021 are summarised as below:

- There have been 378 meetings over the year, in which Dimensional was eligible to vote. In these meetings, there were 4,668 proposals, 69.2% of which Dimensional participated in the vote. Dimensional voted with management on 91.0% of proposals and against management on 8.5%.

Additionally, Dimensional 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:

- Shinhan Financial Group Co., Ltd. – Dimensional voted against the directors for failure to dismiss board members indicted in an ongoing investigation into embezzlement of company funds.
- Old Mutual Ltd. - Dimensional voted against the non-independent member of the Audit Committee because market best practice is for the Audit Committee to be made up of

independent directors. Dimensional continues to monitor the composition of the Audit Committee. Dimensional may continue to vote against directors if concerns remain.

- Tsogo Sun Gaming Ltd. - Dimensional voted against an election of a Director as significant remuneration concerns have been identified and the Committee failed to respond to significant shareholder dissent on prior remuneration vote.

- **Global Small Companies Fund**

The key votes undertaken over the year to 31 March 2021 for the Global Small Companies Fund are summarised below:

- There have been 3,244 meetings over the year, in which Dimensional was eligible to vote. In these meetings, there were 32,028 proposals, 98.6% of which Dimensional participated in the vote. Dimensional voted with management on 87.8% of proposals and against management on 12.0%.

Similar to the above, Dimensional 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:

- Ferrexpo Plc – Dimensional voted against a director after engaging with the Company to express their concerns with his continued service on the board following indictments for embezzlement and money laundering at one of his former companies. They also voted against members of the board including the Senior Independent Director and board Chair after its failure to remove said director from the board following these indictments.
- Recylex SA – Dimensional voted against the approval of Financial Statements, Allocation of Income and Discharge Directors as the external auditor had issued a qualified opinion with regards to the Company’s financial statements.
- Fluent, Inc. – 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. 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.

- **LGIM – World Developed Equity Index Fund (Hedged)**

LGIM relies on the service of a proxy advisor, ISS, but have developed and implemented their custom policies and guidelines to oversee any issues. LGIM retains the oversight and the decisions made on the voting rights.

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 ESG priority engagement themes.

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 2021 are summarised as below:

- There have been 2,823 meetings over the year, in which LGIM was eligible to vote. In these meetings, there were 35,043 proposals, 99.8% of which LGIM participated in the vote. LGIM voted with management on 81.1% of proposals, against management on 18.7% and voted contrary to the recommendation of the proxy advisor on 0.4%.

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:

- Pearson – LGIM voted against the amendment to the remuneration policy as Pearson issued a series of profit warnings under its previous CEO.
- The Procter & Gamble Company (P&G) - a vote 'for' was cast to support the effort to eliminate deforestation.
- Whitehaven Coal – a vote 'for' was cast to approve capital protection. Shareholders were asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.
- Olympus Corporation – LGIM voted against for the election of a Director as there were concerns to the lack of women on boards. LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. Therefore, LGIM opposed the election of this director in order to signal that the company needed to act on this issue.
- Medtronic plc – a vote 'against' an Ratifying Named Executive Officers' Compensation was cast as they were not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met.

- **Aberdeen Standard Investments (“ASI”) – Diversified Growth Fund**

ASI 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 ASI's guidelines and expectations. ASI remains conscious always that all voting decisions are their own on behalf of their clients. In addition to the ISS service for UK company general meetings ASI also uses research provided by the Institutional Voting Information Service (“IVIS”) which uses the guidelines of the Investment Association (IA) as the basis of their research.

Key votes undertaken over the year to 31 March 2021 are summarised as below:

- There have been 403 meetings over the year, in which ASI was eligible to vote. In these meetings, there were 4,959 proposals, 98.2% of which ASI participated in the vote. ASI voted with management on 87.1% of proposals, against management on 12.9% and voted contrary to the recommendation of the proxy advisor on 2.9%.

Aberdeen Standard Investments are currently unable to provide engagement information at a fund level and they view all their votes as significant.

Prepared by the Trustee of the Bank of Cyprus UK Pension and Life Assurance Scheme in June 2021.