

Annual Engagement Policy Implementation Statement (to 31 December 2020)

Thames and Hudson Limited Pension Fund

1. Introduction

This Engagement Policy Implementation Statement ('the Statement') sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees have been followed during the year to 31 December 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

Summarised below are the actions taken by the Trustees to meet the policies in the Fund's engagement policy set out in the SIP has been followed over the year and describes the voting behaviour on or on behalf of the Trustees.

Mercer Limited (Mercer) in the UK has been appointed as discretionary investment manager by the Trustees. Pursuant to that appointment, scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

2. Policy on ESG, Stewardship and Climate Change

The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

As noted in the SIP, the Trustees believe that ESG factors 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Fund's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

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

Policy Updates

- The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustees on a regular basis.
- As part of the annual review, the Mercer [Sustainable Investment Policy](#) was updated in August 2020. The Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive.

Climate Change Reporting and Carbon Footprinting

- Mercer undertake climate scenario modeling and stress testing on the Mercer multi sector funds used by the Fund on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 March 2020. The results of the climate scenario modelling and carbon footprinting are within the [TCFD compliant Climate Change Management Report](#). The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2° C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.
- Carbon Footprint analysis of all equity funds is completed on a six monthly basis. From 31 December 2019 the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give the Mercer and MGIE investment teams additional information to drive engagement with managers.
- Since Q3 2020 carbon footprinting metrics for Mercer active equity funds have been included in the quarterly reporting reviewed by the Trustees, and a comparison of these against the metrics of their representative benchmarks. Over 2020 there has been a 15% reduction in the WACI across the Mercer discretionary equity funds and, as at 31 December 2020, 100% of the active equity funds used by the Fund have a carbon intensity lower than the benchmark. In the Q4 report, this analysis was extended to include Mercer passive equity funds.

ESG Rating Review

- ESG ratings assigned by Mercer (and its affiliates') global manager research team, are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. Since Q3 2020 the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.

Update to Exclusions

- As an overarching principle, Mercer, as the Trustees discretionary investment manager, prefer an engagement rather than a divestment approach. However Mercer recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainable themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.
- In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

Diversity

- From 31 December 2020 Gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader investment policy.

3. Voting Activity

The Trustees' investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. All voting rights are exercised by the Scheme's 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. As such the Trustees do not use the direct services of a proxy voter. The MGIE [Engagement Policy](#) outlines this framework.