Engagement Policy Implementation Statement

The Alcon UK Pension Scheme

This paper has been produced for the Trustees of the Alcon UK Pension Scheme ("the Scheme") as they prepare their Engagement Policy Implementation Statement ("EPIS").

At a glance…

The first part of this document provides information to the Trustees of the Alcon UK Pension Scheme ("the Scheme") in relation to the preparation of their EPIS, including information regarding the regulatory background, data gathered, significant votes and next steps.

The remainder of the document includes the draft EPIS that has been prepared for the Trustees to review.

Regulatory background

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that from 1 October 2020, trustees of defined benefit pension schemes must make an annual statement about how they have ensured that the stewardship policies set out in the Statement of Investment Principles ("SIP") have been met. The EPIS must:

- Explain how and the extent to which pension scheme trustees have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the trustees (including the most significant votes cast) during the scheme year and state any use of a proxy voting service.

Pension scheme trustees must publish the EPIS online before 1 October 2021. Pension scheme trustees are also required to include the EPIS in the annual Report and Accounts.

Why bring you this paper?

This document provides the information relating to preparation of the EPIS, and the initial draft of the EPIS for the year ending 5 April 2021.

Next steps

- Trustees to review details in relation to the preparation of the EPIS.
- The finalised EPIS must be included in the Scheme's Annual Report and Accounts.
- The EPIS will also have to be published on a publicly accessible website by 1 October 2021.

Prepared for: The Trustees
Prepared by: Aon Responsible Investment Team
Date: 8 June 2021

Preparing the EPIS

Data

Aon has gathered information from your investment managers, when preparing this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time we expect industry wide templates to be more widely adopted and more consistent information received from respective managers. We believe it is reasonable to use the information provided for this year's EPIS.

To keep the statement relatively concise we have disclosed detailed stewardship information in a proportionate way.

This statement does not disclose stewardship information on the liability driven investment ("LDI") portfolio due to the limited materiality of stewardship to this asset class. This statement also does not disclose information on the additional voluntary contribution (AVC) platform providers or funds on the grounds of materiality given the relatively small assets under management and that they are currently closed to new entrants and accruals.

Significant votes

The investment managers have provided the voting statistics (where relevant) and examples of "significant" votes. Each of the managers has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or against the recommendation of a third party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

Materiality considerations

This statement does not disclose stewardship information on any investments in gilts, liability driven investments or cash due to the limited materiality of stewardship to those asset classes.

This statement also does not disclose information on the additional voluntary contribution platform providers or funds on the grounds of materiality.

Next steps

The Trustees should review the document to ensure that they are comfortable with the statements being made on their behalf. Once the Trustees have reviewed, they should agree and finalise the EPIS.

The EPIS is required to be included in the Scheme's Report and Accounts. In addition, the Trustees are required to publish a copy of the EPIS on a publicly available website.

Further actions to engage with your investment managers

Having reviewed some of the examples provided we recommend that the Trustees consider engaging with the managers to understand their voting and engagement practices in more detail and how these reconcile with the Trustees' responsible investment policies. For example, this could be done by inviting the manager to a meeting during 2021/22 to discuss responsible investment in more detail.

Your EPIS

The remainder of this document provides the Trustees with the Implementation Statement to be reviewed and agreed.

Engagement Policy Implementation Statement

The Alcon UK Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast) during the scheme year and state any use of a proxy voting services.

The EPIS has been prepared by the Trustees and covers the Scheme year 6 April 2020 to 5 April 2021.

Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in force over most of the reporting year to 5 April 2021. The full SIP can be found online at xxxxxxxxxxxxxxxxxxxxxxxxxxx.

- *The Trustees recognise the importance of their role as a steward of capital and the need to ensure high standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the scheme and its beneficiaries.*
- *The Trustees regularly review the suitability of the Scheme's appointed investment managers and take advice from their investment consultant regarding any changes. If an incumbent manager is found to be falling short of the standards the Trustees expect, the Trustees undertake to engage with the manager and seek a more sustainable position and may look to replace the manager.*
- *The Trustees will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.*

Scheme stewardship activity over the year

In line with regulatory requirements, the SIP was updated in September 2020 with policies covering cost transparency and incentivising managers. The Trustees also reviewed and expanded the stewardship policy. The updated wording illustrates how the Trustees recognise the importance of their role as stewards of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their stewardship policy.

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustees by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. All of the Trustees' investment managers or in the case of AIL, the underlying investment managers, are rated Buy.

The views of the sponsor on the Scheme's investment strategy, including those on ESG and investment manager appointments, are taken into account.

Engagement activity – fixed income

Over the year, the Scheme was invested in fixed income securities through its investment in the Aon Investment Limited's ("AIL") Active Global Fixed Income Fund. AIL selects the underlying fixed income investment managers on behalf of the Trustees.

While equity managers may have more direct influence on the companies they invest in, fixed income managers are becoming increasingly influential in their ability to encourage positive change. The Trustees believe that engagements of this nature are key to reducing Environmental, Social and Governance ("ESG") risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

The following section details some of the engagement activity being carried out by AIL and a subset of the underlying managers over the year.

AIL

AIL have undertaken a considerable amount of engagement activity over the period. AIL held around 35 Environmental, Social and Governance ("ESG") specific "deep-dive" meetings in 2020 with most of their equity and fixed income managers across all delegated funds in which AIL's clients invest. At these meetings, AIL discussed the voting and engagement activities undertaken by the investment managers during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of responsible investment moving forward. Similar meetings have been ongoing through the beginning of 2021.

Aon Solutions UK Limited ("Aon") also actively engage with investment managers and this is used to support AIL in their fiduciary services.

Engagement example:

Aon's Engagement Programme maintained a dialogue with a leading investment manager on behalf of many of their clients which invest with the manager. At the end of 2020 Aon had a discussion with the manager's Global Head of Stewardship about numerous areas of concern regarding stewardship, in particular, the manager's ability to demonstrate commitment to publicly stated climate change goals.

Aon's analysis of the manager's voting actions showed that the manager had not been voting in a manner consistent with their public pledges on sustainability issues. The manager acknowledged that there was a disconnect between voting decisions made in the first half of 2020 and their commitment to sustainability, but that they had markedly changed their voting policies in the second half of 2020. The manager reassured Aon that in future voting decisions would better align with their stated positions on ESG matters. Aon expect to see this reflected in voting actions by mid-2021.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability.

Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect.

PIMCO

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In ESG dedicated portfolios, PIMCO implements an additional ESG scoring system which considers how an issuer fairs against its peers regarding ESG momentum and chooses to invest in the issuers who score well in this ("ESG issuers"). PIMCO stated that for non-ESG dedicated portfolios, like the PIMCO Absolute Returns Bonds fund the Scheme is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, it might benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

BlackRock

BlackRock believe bond investors, with their often-multiyear perspective, are well-positioned to engage collaboratively with management to endorse and promote sound ESG practices. Such engagement enhances BlackRock's credit analysis, by providing them with more comprehensive credit profiles of their borrowers.

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship ("BIS") is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock's Global Fixed Income Responsible Investing team may partner with the BIS team both to reflect ESG related topics from fixed income investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in fixed income portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by BlackRock was with Exxon. BlackRock discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

BlueBay Asset Management LLP ('BlueBay')

BlueBay believes that providers of debt do have a role in engaging with issuers on matters with the potential to impact investment returns. Given BlueBay's approach of not automatically excluding issuers from investment based on their ESG performance, actions to mitigate such risks are raised with investments teams where appropriate. However, it states that client expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that as debt investors, BlueBay are not owners and as such have more limited legal mechanisms to influence issuers.

In March 2020, BlueBay joined the Climate Action 100+ ("CA100+"), agreeing to co-lead on engagement with Petroleos Mexicanos ("Pemex"), a Mexican state-owned petroleum company. This followed BlueBay's own engagement with Pemex in 2020, where they had a call with management to discuss how the company was addressing some of its key ESG risks, including its approach to corporate responsibility, sustaining improved health and safety performance, improving transparency and disclosure of ESG metrics.

In July 2020, the co-leads wrote to the Board of the Pemex to provide it with formal notice of its inclusion in the CA100+. The letter also advised that co-lead investors and several supporting investors were keen to ensure a more progressive approach to climate change from Pemex. The company responded to this letter, stating it is currently reviewing the best way to respond and engage with investors on their approach to climate change and their high levels of greenhouse gases produced. BlueBay continue to monitor Pemex.

From an investment perspective, BlueBay feels that ESG issues create a high hurdle to owning Pemex. However, it believes valuations are compelling, so they are currently holding Pemex as a core position in several funds. This gives BlueBay an increased ability to engage with management, a position it is using wherever possible to influence Pemex regarding ESG improvements.

Aegon

Through AIL the Scheme invests in European Asset Backed Securities ("ABS") managed by Aegon. For Aegon, ESG analysis forms a critical aspect of its risk mitigation analysis. This is at the collateral, the originator and country of domicile levels, where each level is scored between one (best) and five (worst), with a weighted average taken to form their overall ESG score for the ABS bond.

Aegon's engagement efforts can be categorized as policy-based, thematic or product support. The reasons they start these engagements include seeking to

- Improve performance and promote companies' long-term financial performance;
- Monitor, manage and mitigate investment risk;

- Better understand companies and set expectations on company management;
- Set goals and timeframes to meet, in order to reach compliance with our policies;
- Improve ESG disclosure;
- Maximise positive sustainability outcomes, including those related to the SDGs;
- Encourage the issuance of green, social and sustainable bonds for the purpose of investment participation and growing sustainable business practices.

At a firm level, Aegon have engaged with a steel company regarding climate change. The goal here was to develop a transition plan to reduce greenhouse gas emissions, consistent with the Paris Agreement, and implement a climate governance framework. Aegon is part of an investor group that collaboratively aims to increase transparency around climate change.

Aegon sent an engagement letter on behalf of the Climate Action 100+ investor group and met with top executives of the company. Aegon also represented a group of investors in the company's AGM in discussions on lobbying practices, science-based targets and scenario planning and then followed-up after the release of the company's first climate action report. The CEO then committed to join the Energy Transitions Commission (ETC) and announced that their first Carbon Action report is expected to include scenario analysis.

Voting and Engagement activity – equity and diversified growth funds

During the period, the Scheme was invested in the following BlackRock funds:

Manager	Fund Name
BlackRock	World Equity Index Fund*
BlackRock	Global Equity ex-UK GBP Hedged Fund*
BlackRock	Dynamic Diversified Growth Fund

*The Scheme disinvested from these funds in October 2020.

Voting

BlackRock uses third party proxy voting service provided Institutional Shareholder Services ("ISS")'s electronic platform to execute its vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally developed proxy voting guidelines, its pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock has increased its level of reporting by publishing more voting information with detailed information and rationale for voting decisions. The specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention and impact of financial outcome.

Voting example

In June 2020, BlackRock voted against the re-election of Karl Gruber as Director of Evraz plc ("Evraz") for the company's lack of progress on climate-related reporting. Evraz is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate own 57% of the company.

BlackRock began their multi-year engagement in November 2017 writing a letter to the CEO and chairman of the board, asking the company to closely review the Taskforce for Climate-related Financial Disclosures ("TCFD") framework and to consider reporting in line with its recommendations. Since sending the letter, Evraz have taken positive steps including setting a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO2e per ton of crude steel cast, which, while meeting the company's target, remains above the average in the steel industry (average of 1.83 tons of CO_2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company's limited progress in aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-evraz-jun-2020.pdf

Engagement

The Blackrock Investment Stewardship ("BIS") team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

In summary

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

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