Engagement Policy Implementation Statement

The Alcon UK Pension Scheme

The Engagement Policy Implementation Statement ("EPIS") has been prepared by Trustees of the Alcon UK Pension Scheme (the "Scheme") and covers the year 6 April 2021 to 5 April 2022.

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 statement which outlines the following:

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out 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 third party provider of proxy voting services.

Executive summary

Based on the activity over the year by the Trustees and its investment managers, the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees expect an improvement in disclosures over time in line, with increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement. In particular, the Trustees expect improvements from Schroders on its reporting of fund level engagement examples. The Trustees note that their investment advisor, Aon, will continue to engage with Schroders to encourage improvements in its disclosures.

Scheme stewardship policy

The below bullet points summarise the Scheme's stewardship policy in force over the majority of the Scheme year 6 April 2021 to 5 April 2022.

- 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.

The full SIP and current EPIS can be found here: Corporate Responsibility | uk.Alcon.com

Scheme stewardship activity over the year

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with 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. The BlackRock Dynamic Diversified Growth Fund has a rating of integrated which means the fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio. The AIL and BMO funds are not rated by Aon's research team; it would not be appropriate for Aon to monitor AIL funds and ESG risks and considerations are not applicable to BMO LDI funds.

The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

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

Voting and Engagement Activity

Over the period, the Scheme invested in multi-asset and fixed income funds. This section provides an overview of the voting (where applicable) and engagement activities of the material investment managers.

Voting and Engagement activity – Multi Asset

The Scheme invests in the BlackRock Dynamic Diversified Growth Fund.

In this section there is a summary of voting information and examples of significant voting activity for BlackRock. BlackRock provided examples of 'significant' votes it participated in over the period. Managers have 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.

The Trustees consider a significant vote as one which the voting manager deems to be significant or a vote where more than 15% of votes were cast against management.

BlackRock – Dynamic Diversified Growth Fund

Voting policy

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the BlackRock Investment Stewardship ("BIS") team with input from investment colleagues. Blackrock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

BlackRock subscribes to research from the proxy voting advisers Institutional Shareholder Services ("ISS") and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

The table below shows the voting statistics for BlackRock's Dynamic Diversified Growth Fund for the year 6 April 2021 to 5 April 2022.

Number of resolutions eligible to vote on over the period	11,809
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted, % that were voted against management	6.00%
Of the resolutions on which the fund voted, % that were abstained from	1.00%

Source: BlackRock
Please note that managers generally collate voting information on a quarterly basis. The voting information provided above is for the year to 31 March 2022. This broadly matches the Scheme year.

Voting example: Vinci SA

In April 2021, BlackRock voted on a strategy level, in support of a management proposal from construction company, Vinci SA ("Vinci"), to hold an advisory shareholder vote on its environmental transition plan. The purpose of the vote was to encourage shareholders to support the company's ambition and strategy. BlackRock voted in favour of the proposal since it provided a clear roadmap towards Vinci's stated climate ambitions and targets, a topic which BlackRock has engaged with Vinci on for some time. BlackRock will continue to monitor the company's progress on the environmental transition plan.

Engagement policy

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, company impacts on people.

More information can be found here: https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf

Engagement example: Johnson & Johnson

BIS has engaged with Johnson & Johnson ("JNJ"), a global healthcare company, for several years to discuss corporate governance issues that BIS believes drive long-term shareholder value. These include, among others, the oversight and risk management of company products, human capital management, social risks and opportunities, sustainability disclosures, and board quality and effectiveness.

BIS has recently engaged with the company on several occasions, including with the Lead Independent Director, to discuss the topic of access to medicine.

JNJ faces ongoing risks due to litigation and media scrutiny associated with allegations of product safety associated with the company's talc-related baby powder, the company's role in the opioid crisis, as well as the company's ongoing efforts in developing and rolling out the Covid-19 vaccine. BIS has discussed these topics with the company in depth and continues to feel that the risk oversight function of the board and management is currently sound. BIS continue to monitor the latest developments related to the Covid-19 vaccine.

JNJ has developed a website to address stakeholder questions regarding its talcum powder products and to explain key points on the company's position and the safety of its products. With regard to opioids, JNJ has also taken steps to re-affirm the safety of its products and to assure the market of its risk-oversight procedures.

In BIS' assessment, JNJ, through its disclosures, has demonstrated awareness and sensitivity to the challenges and complexity of these topics.

Voting and Engagement activity – Fixed Income

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so debt issuers have a vested interest to make sure that investors are happy with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process.

The Trustees acknowledge that the ability of fixed income managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information they provided for the EPIS that the managers are aware and active in their role as stewards of capital.

Aon Investment Limited ("AIL") - Active fixed income

Engagement policy

The Scheme invests in the AIL Active Fixed Income Strategy, a fund of funds arrangement. The Trustees delegate the monitoring of ESG integration and stewardship quality of the underlying managers in the Active Fixed Income Strategy to AIL.

AIL has confirmed that the underlying managers received an ESG rating of 'Integrated' or higher on Aon's ESG rating system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

Engagement example: Various

AIL has carried out a considerable amount of engagement activity over the year. AIL held a number of ESG focussed meetings with the underlying managers across all of its strategies. At these meetings, AIL discussed ESG integration, and voting and engagement activities undertaken by the investment managers. This allowed AIL to form an opinion on each manager's strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

This section provides an overview of the voting and engagement activities of some of the underlying managers.

Aegon Asset Management ("Aegon") - European ABS Fund

Engagement policy

Aegon believes that actively engaging with companies to improve their ESG performance and corporate behaviour is generally more effective than excluding companies from investment. Engagement is conducted by its investment managers, research analysts and its Responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment ("PRI"). Aegon also participates in collaborative engagement initiatives such as the UK Investor Forum and the Institutional Investors Group on Climate Change.

Aegon engages with ABS issuers regularly through ESG questionnaires that are specific for consumer loan ABS. It has meetings to discuss the questionnaire answers, the companies' ESG goals and any areas for improvement.

Engagement example: Brignole

In 2021 Aegon engaged with Brignole, an ABS issuer. Aegon wanted to better understand the consumer loans issued by the company, so it could assess if the loans had any environmental impact. Further, Aegon suggested that the company increase borrowing for an environmental purpose by offering borrowers a discount.

To start the engagement, Aegon sent Brignole its ESG questionnaire. After receiving the answers, Aegon discussed the answers with Brignole's management. It also discussed the company's ESG goals and areas for improvement. From the engagement, Aegon gained a better understanding of the loans. This helped Aegon make a thorough ESG analysis of the issuer. Further, Brignole agreed to implement Aegon's suggestion to offer loans with environmental purposes at a discount. Aegon stated it will pursue similar engagements with other consumer loan issuers.

Schroders plc ("Schroders") - International Selection Fund ("ISF") Securitised Credit

Engagement policy

Schroders engages on a broad range of topics including climate risk. Schroders believes that engagement provides it with an opportunity to influence company interactions with their stakeholders; ensuring that the companies it invests in are treating their employees, customers and communities in a responsible way.

In Schroders's ISF Securitised Credit Fund, cashflows from various loans, such as mortgages, car loans and credit card payments, are grouped together into bonds known as asset-backed securities. In its engagements, Schroders engages with the managers of the underlying loan products. Schroders has developed questionnaires specifically for collateralised loan obligation managers and commercial mortgage-backed securities managers, which it issues as part of its engagements. The information received is incorporated into its manager due diligence.

At the time of writing, Schroders has not provided fund-level engagement examples. The Trustees investment adviser, Aon, will raise this issue with Schroders at their next meeting. The example provided below is at a firm level, i.e. it is not specific to the fund the Scheme is invested in.

Engagement example: FTSE 100 (firm level)

In 2021, Schroders engaged with a number of FTSE 100 companies to inform them that, from 2022 onwards, it will be using its shareholder votes to apply pressure on firms that have failed to meet board diversity targets.

Schroders's believes that diversity is important for a company's long-term strategy and success. Further, this will allow for more constructive debate of different views as well as a better representation of wider stakeholders.

Schroders engaged by sending out letters to companies. Since sending out these letters, 25 companies acknowledged receipt, 15 provided a substantial response and one has since appointed a non-white director to its board. Schroders will monitor the progress of companies on this issue.

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.