

Lincoln Electric (UK) Limited Retirement and Death Benefits Scheme – Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the stewardship policy and related policies on environmental, social and governance ('ESG') factors and climate change set out in the Statement of Investment Principles ('SIP') have been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018, as amended, and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe 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 Trustees' primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk, taking into consideration the circumstances of the Scheme.

The Trustees also ensure that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

The objectives set out above provide a framework for the Trustees when making investment decisions.

Policy on ESG, Stewardship and Climate Change

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance ESG factors.

The Scheme's SIP includes the Trustees' policies on ESG factors, stewardship and climate change. The policies were last reviewed in September 2020. These policies are set out in Appendix 1 to this Statement.

The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

Scheme's Investment Structure

The Scheme's only investment is a Trustee Investment Policy ('TIP') with Mobius Life Limited ('Mobius'). Mobius provides an investment platform and enables the Scheme to invest in pooled funds managed by third party investment managers.

JLT Investment Management ('JLT IM') had fiduciary responsibility for the selection of pooled funds on the Mobius Platform for the Scheme over the period to 1 August 2020, after which point this responsibility was novated to Mercer Limited.

Following a change of Mercer's corporate policy, the fiduciary overlay was terminated with effect from 8 March 2021, and subsequent to that date, the Scheme's assets remain invested through the Mobius TIP.

As such, the Trustees have no direct relationship with the Scheme's underlying investment managers. The Trustees have the responsibility of monitoring the pooled funds, in conjunction with advice received from their investment advisor, Mercer.

Trustees' Engagement

In the relevant year to 5 April 2021 the Trustees have not engaged with either Mobius, JLT IM, or the underlying pooled investment managers on matters relating to ESG, stewardship or climate change.

Mercer's ESG scores have been included in Mercer's monitoring reports with effect from 31 March 2021. The ESG information provided by Mercer helps the Trustees to determine whether further action should be taken in respect of specific funds. The Trustees are satisfied that the scores are satisfactory in the context of the mandates of the funds. A further update will be provided in next year's Statement.

Voting Activity

Where the Trustees are specifically invited to vote on a matter relating to the corporate policy, they will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's members.

Over the Scheme year, the Trustees have not been asked to vote on any specific matters and have therefore not cast any votes.

As noted earlier, the Scheme has no direct relationship with the pooled funds it is ultimately invested in, and therefore the Trustees have no voting rights in relation to the Scheme's investments and no direct ability to influence the managers of the pooled funds.

Nevertheless, below sets out a summary of the key voting activity of the pooled funds in which the Scheme's assets are ultimately invested for which voting is possible (i.e., those funds which include equity holdings).

This includes information on what the fund managers consider to be a significant vote, and examples of these. The Trustees have no influence on the managers' definitions of significant votes but have noted these and are satisfied that they are all reasonable and appropriate.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will continue to take on board industry activity in this area before the production of next year's statement.

Over the last 12 months to 31 March 2021, the key voting activity on behalf of the Trustee was as follows:

Nordea

Nordea makes its own voting decisions. But, they make use of Institutional Shareholder Services (ISS) for proxy voting, execution, and recommendations and also Nordic Investor Services (NIS) for recommendations only.

Nordea defines 'most significant votes' as those that are severely against their principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason. From there, Nordea benchmark the proposals against their policy.

Key votes undertaken over the prior year are summarised as below:

- There have been 270 votable meetings over the year (with 3,344 resolutions eligible to vote on), of which Nordea has voted in 44.89% of these meetings on behalf of the Trustee.
- In around 89% of these votes for proposals, Nordea has indicated their support to the companies' managements, while voting against around 10% of the proposals. Nordea abstained in the remaining proposals.
- An example of a significant vote was a vote 'Against' a Microsoft proposal to ratify named executive officers' compensation. Nordea think that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a large part of the incentive program performance targets is still lacking and for some executives extremely high. On the positive side, transparency has improved a lot.
- The outcome of the vote was 'For', although Nordea see less and less support at many AGMs for remuneration packages, and Nordea will continue to be critical of badly structured remuneration programs with large proportions of time based variable compensation

Columbia Threadneedle

Proxy voting decisions are made in accordance with the principles established in the Columbia Threadneedle Investments Corporate Governance and Proxy Voting Principles (Principles) document, and their proxy voting practices are implemented through their Proxy Voting Policy.

For those proposals not covered by the Principles, or those proposals set to be considered on a case by case basis (i.e., mergers and acquisitions, share issuances, proxy contests, etc.), the analyst covering the company or the portfolio manager that owns the company will make the voting decision.

Columbia Threadneedle Investments utilises the proxy voting platform of Institutional Shareholder Services, Inc. (ISS) to cast votes for client securities and to provide recordkeeping and vote disclosure services. They have retained both Glass, Lewis & Co. and ISS to provide proxy research services to ensure quality and objectivity in connection with voting client securities.

Columbia Threadneedle considers a significant vote to be any dissenting vote i.e. where a vote is cast against (or where they abstain/withhold from voting) a management-tabled proposal, or where they support a shareholder-tabled proposal not endorsed by management.

Key votes undertaken over the prior year are summarised as below:

- Columbia Threadneedle was eligible to vote at 601 meetings and 6988 resolutions on behalf of the Trustee. Of these resolutions Columbia Threadneedle voted in 98.90%
- In around 90% of these proposals, Columbia Threadneedle has indicated their policy support, but voted against in around 6% of the proposals. They abstained in 4% of the proposals.
- An example of a significant vote was a vote 'For' a proposal for Facebook, Inc. to report on Median Gender/Racial Pay Gap. The rationale was that it was considered a material social risk for business and therefore in shareholders' interests.
- The proposal failed. Columbia Threadneedle notes that active stewardship (engagement and voting) continues to form an integral part of their research and investment process.

Pictet

Pictet Asset Management uses the services of third party specialists (ISS) to provide research and to facilitate the execution of voting decisions at all relevant company meetings worldwide.

ISS is tasked with collecting meeting notices for all holdings and researching the implications of every resolution according to voting guidelines as defined by Pictet Asset Management. ISS is used on a continuous basis and all recommendations are communicated to relevant Investment teams and Pictet's in-house ESG team.

Pictet considers a vote to be significant due to the subject matter of the vote, for example a vote against management, if the company is one of the largest holdings in the portfolio, and/or they hold an important stake in the company.

Key votes undertaken over the prior year are summarised as below:

- Pictet was eligible to vote at 411 resolutions on behalf of the trustees. Of these votes, Pictet votes against management 25 times. Pictet did not abstain from any votes throughout the year.
- An example of the significant vote was a vote 'FOR' support the ISS recommendation on the resolution to vote against re-electing Robert King as director of Mitchells & Butlers. It was deemed that there was lack of diversity in the board and Robert King holding more than five mandates and as such classified as "overboarded".
- Although Robert King was re-elected, 17.86% of the votes cast were against. Where Pictet believes the subject of the vote could present a material concern perspective, Pictet will continue to monitor and engage with the company.

Ninety One

Ninety One's approach to proxy voting is detailed in the Ownership Policy and Proxy Voting guidelines document.

Ninety One uses Institutional Shareholder Services (ISS), an external proxy research service provider to produce custom research reports. These reports include vote recommendations (not instructions) that arise from applying Ninety One's voting guidelines. The vote decision is then reached by the relevant investment teams in accordance with the investment philosophy, supported by the Engagement and Voting team.

Ninety One describes 'significant votes' as votes with significant client, media or political interest, material holdings, those of a thematic nature (i.e., climate change) and significant corporate transactions that have a material impact on future company performance, for example approval of a merger, etc.

Key votes undertaken over the prior year are summarised as below:

- Ninety One was eligible to vote at 147 meetings on behalf of the trustees. Ninety One voted against management in 4% of the 1,865 resolutions, and in agreement with management in 93% of resolutions. Ninety One abstain from 2% of votes throughout the year.
- An example of the significant vote was a vote 'FOR' Johnson and Johnson's Report on Governance Measures Implemented Related to Opioids. Shareholders would benefit from more specific information about proactive steps the board is taking to mitigate risks related to the manufacture and marketing of opioid-related products, and that incentives are aligned with the health of the communities it serves.
- The resolution passed as Ninety One continue to closely monitor similar issues.

Appendix – Trustees’ Policies on ESG factors, stewardship and Climate Change

The policies below are included within the 6 September 2020 SIP:

Financially Material Considerations

The Trustees consider many risks which they anticipate could impact the financial performance of the Scheme’s investments over the Scheme’s expected lifetime. Such risks are set out in the next section of this statement.

The Trustees recognise that environmental, social and corporate governance (“ESG”) factors, such as climate change, can influence the investment risk and return outcomes of the Scheme’s portfolio and it is therefore in members’ and the Scheme’s best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager which approaches investments in a responsible way and takes account of ESG related risks may lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustees would seek to invest in funds which incorporate ESG principles.

In setting their investment strategy, the Trustees have prioritised funds Scheme which provide actively managed diversification across a wide range of investment markets and consider the financially significant benefits of these factors to be paramount.

The Trustees note that ESG considerations are not paramount to the first level decision making process within the funds which provide either actively managed diversification or leveraged liability protection. However, in the actively managed Diversified Growth Funds in which the Scheme invests, whilst managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

The Trustees will also receive ESG scores provided by the Investment Consultant in relation to the funds in which the Scheme is invested and will monitor how these develop over time.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

Non-Financial Matters

The Trustees have determined that the financial interests of the Scheme members are their first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members’ preferences into account when setting the investment strategy for the Scheme.

Stewardship

The Scheme is invested solely in pooled investment funds. The Trustees’ policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

If the Trustees are specifically invited to vote on a matter relating to corporate policy, they would exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

JLT IM and Mercer's Manager Research Team ("MMRT") receive regular reporting from the underlying investment managers / funds which includes information on the voting activity undertaken on behalf of the pooled fund. This information is reviewed on a periodic basis to ensure that the actions taken by the investment manager are consistent with its stated policies and that these are in the best long-term interests of the pooled fund. If required, the MMRT will raise any concerns directly with the investment manager.