
The Smith Anderson & Company Limited 1973 Staff Retirement Benefits Scheme (“The Scheme”) – Investment Accounting Disclosures

Trustee's Policies

This section sets out the policies in the Statement of Investment Principles ('SIP') in force at the Scheme year end relating to the following:

- Financially Material considerations
- Non-Financial considerations
- Investment Manager Arrangements

Stewardship including the exercise of voting rights and engagement activities is set out in the 'Voting and Engagement' section.

Financially Material considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes it is investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds and in a segregated account. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. It can directly influence the companies that Quilter Cheviot invests in. The Trustee expects its investment managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standards.

The Trustee will monitor financially material considerations through the following means:

- *Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;*
- *Use ESG ratings information provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and*
- *Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.*

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

Non-Financial considerations

The Trustee has not considered non-financial matters in the selection, retention and realisation of investments.

Investment Manager Arrangements

Incentives to align investment managers' investment strategies and decisions with the Trustee's policies

The Scheme invests in pooled funds and a segregated account. The Trustee acknowledges that the managers' investment strategy and decisions cannot be tailored to the Trustee's policies for pooled funds. The Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the investment managers' incentive.

The Trustee uses the fund objective/benchmark as a guide on whether the Scheme's investment strategy is being followed and monitors this regularly.

Incentives for the investment 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

The Trustee selects managers based on a variety of factors including investment philosophy and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers' voting and ESG policies and how it engages with the investee company as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the investment managers' engagement and voting activity on an annual basis as it believes this can improve long term performance. The Trustee expects its managers to make every effort to engage with investee companies but acknowledges that its influence may be more limited in some asset classes, such as bonds, as it does not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but does expect by investing in those companies with better financial and non-financial performance over the long term that this will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the investment managers incentivises them to execute their investment policies consistently, as the longer the units are held the larger income to the investment manager.

If the Trustee feels that the investment managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Trustee's policies

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The investment managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly by the Trustee with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its own and each investment manager's goals are aligned.

How the Trustee monitors portfolio turnover costs incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to its investment consultant.

The duration of the arrangement with the investment managers

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or changes in the view of the investment manager can lead to the duration of the arrangement being shorter than expected.

Voting and Engagement

The Trustee is required to disclose the voting and engagement activity over the Scheme year. The Trustee has used Minerva Analytics ('Minerva') to obtain voting and investment engagement information (VEI) on the Scheme's behalf.

This statement provides a summary of the key information and summarises Minerva's findings on behalf of the Scheme over the Scheme year.

Voting and Engagement Policy and Funds

The Trustee's policy on stewardship is as set out below in the SIP dated 21 September 2020:

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights, as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the investment manager to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or levels of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment manager's policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expects investment managers to adhere to this where appropriate for the investments they manage.

The table below sets out the funds the Scheme invested in over the Scheme year and states the use of a proxy voter:

Fund / Product Manager	Investment Fund/Product	Investment Made Via	Scheme / Inv Type	Period Start Date	-	Period End Date	'Proxy Voter' Used?
BNY Mellon	Newton Global Dynamic Bond Fund	Mobius	DB Fund	28/02/20	-	30/09/20	✓ ISS
Columbia Threadneedle	Threadneedle Property Fund	Mobius	DB Fund	01/10/19	-	30/09/20	—
LGIM	LGIM Cash Fund	Mobius	DB Fund	01/10/19	-	28/07/20	—
LGIM	LGIM Dynamic Diversified Fund	Mobius	DB Fund	01/10/19	-	30/09/20	✓ ISS
LGIM	LGIM Global Equity (50:50) Index Fund - GBP Currency Hedged	Mobius	DB Fund	01/10/19	-	03/03/20	✓ ISS
LGIM	LGIM Investment Grade Corporate Bonds - All Stocks	Mobius	DB Fund	01/10/19	-	04/03/20	—
LGIM	LGIM LDI Matching Core Funds	Mobius	DB Fund	01/10/19	-	30/09/20	—
LGIM	LGIM World Equity Index Fund – GBP Currency Hedged	Mobius	DB Fund	01/10/19	-	20/01/20	✓ ISS
Quilter Cheviot	Quilter Cheviot Equity Fund	Direct	Seg. Portfolio	01/10/19	-	30/09/20	✓ ISS
Vontobel	TwentyFour Strategic Income Fund	Mobius	DB Fund	27/02/20	-	30/09/20	✓ ISS
Prudential	Prudential AVCs	Direct	AVC Product	01/10/19	-	30/09/20	?

✓ Confirmed by Manager
 ? Not Confirmed by Manager
 — Not Applicable

— Indicates that the specific fund or product does not have voting information to report, and as a result there is no 'Proxy Voter' to confirm

ISS is a proxy voting service.

Exercise of voting rights

The voting activity was requested by Minerva from all of the Scheme's managers, where appropriate. Information was obtained from BNY Mellon, Columbia Threadneedle, LGIM, Quilter Cheviot and Vontobel, but unfortunately no information was forthcoming from Prudential. It was determined that the Scheme's holdings in property, Cash, Corporate Bonds and Liability Driven Investments had no voting information to report. Please see section on 'Outstanding Information' for further details.

BNY Mellon confirmed that the Newton Global Dynamic Bond Fund had the opportunity to vote but decided not to use it as it would have limited their ability to trade the holding. The Trustee is comfortable with this as it is a bond fund and the Trustee believes their policy was followed.

Based on data obtained from LGIM, Minerva has concluded that LGIM’s voting policy complies with the ICGN Voting Guidelines Principles and good corporate governance practices. However, they were unable to use the data to conclude if LGIM had followed the Trustee policies across the two equity funds and the diversified growth fund.

Minerva also concluded that Quilter Cheviot’s voting policy had some minor areas of divergence from good practice, in particular, its policy does not meaningfully address key areas such as financial and corporate social responsibility reporting expectations. Despite this, Minerva believes Quilter Cheviot’s voting activity is broadly in line with the Trustee’s voting policy.

Manager Voting Behaviour

The Trustee believes that responsible oversight of investee companies is a fundamental duty of good stewardship. As such, it expects the Scheme’s managers to vote at the majority of investee company meetings every year, and to provide sufficient information as to allow for the independent assessment of their voting activity.

The table below sets out the voting behaviour of BNY Mellon, LGIM and Quilter Cheviot disclosed by each of the managers.

Manager	Fund	No. of Meetings	No. of Resolutions				
		Eligible for Voting	Eligible for Voting	% Eligible Voted	% Voted in Favour	% of Voted Against	% Abstain
BNY Mellon	Newton Global Dynamic Bond Fund	1	10	0	0	0	0
LGIM	Dynamic Diversified Fund	?	?	?	?	?	?
	Global Equity (50:50) Index Fund - GBP Currency Hedged	?	?	?	?	?	?
	World Equity Index Fund – GBP Currency Hedged	3,659	42,494	99.1	81.8	17.8	0.5
Quilter Cheviot	Equity Fund	635	?	98.7	0.5	0.8	635

⚠ Not confirmed by Manager

Significant Votes

Set out in the following table is a summary of the Scheme’s manager’s significant voting behaviour.

A ‘Significant Vote’ relates to any resolution at a company that meets one of the following criteria:

- contradicts local market best practice (e.g., the UK Corporate Governance Code in the UK)
- is one proposed by shareholders that attracts at least 20% support from investors; and
- attracts over 10% dissenting votes from shareholders.

Where the manager has not provided the level of data to identify the ‘Significant Votes’ based on the criteria explained above, Minerva has applied the definition provided by the managers themselves.

Manager	Fund(s)	Company Name	Date of Vote	Summary of Resolution	For / Against / Abstain	Outcome of Vote	Why Significant?	Vote Rationale
BNY Mellon	Newton Global Dynamic Bond Fund	–	–	–	–	–	–	–
LGIM	Dynamic Diversified Fund	?	?	?	?	?	?	?
	Global Equity (50:50) Index Fund - GBP Currency Hedged	?	?	?	?	?	?	?
	World Equity Index Fund - GBP Hedged	–	–	–	–	–	–	–
Quilter Cheviot	Equity Fund	Lloyds Banking Group plc	04-May-20	To approve a general authority to the directors to issue shares	Against	Passed	Vote against management	No rationale provided by the manager
		Renishaw plc	30-Sep-20	To re-elect as a director, David McMurtry	Against	Passed	Vote against management	No rationale provided by the manager

🔍 Not confirmed by Manager – No ‘Significant Votes’ identified by Manager

Manager Engagement Information

The Trustee believes that an important part of responsible oversight is for the Scheme’s investment managers to engage with the senior management of investee companies on any perceived risks or shortcomings – both financial and non-financial – relating to the operation of the business, with a specific focus on ESG factors. As such, they expect the Scheme’s managers to engage with investee companies where they have identified any such issues.

The table below summarises the engagement activity of the managers that provided information.

Manager	Fund	No.	Summary of Company Engagement Activity									Outcomes	
			Corporate Governance							Sustainability		Resolve	Open
			Strategy	Audit & Report.	Board	Capital	Corp. Action	Remun	Shrhdr Rights	Envir.	Social		
BNY Mellon	Newton Global Dynamic Bond Fund	13	23%	-	6%	-	-	12%	-	36%	23%	-	-
Columbia Threadneedle	Threadneedle Property Fund	?	?	?	?	?	?	?	?	?	?	?	?
LGIM	Dynamic Diversified Fund	?	?	?	?	?	?	?	?	?	?	?	?
	Global Equity (50:50) Index Fund - GBP Currency Hedged	?	?	?	?	?	?	?	?	?	?	?	?
	World Equity Index Fund - GBP Hedged	?	?	?	?	?	?	?	?	?	?	?	?
Quilter Cheviot	Firm-level info only	30	10%	1%	36%	1%	-	60%	10%	13%	10%	66%	33%

BNY Mellon and Vontobel have provided a few high-level examples of the engagements in the tables below:

BNY Mellon

Companies	Details of the Engagement(s)
Volkswagen	The manager attended the company's third annual ESG event, which focused on ethics and risk management, as well as human rights and supply chain risks. The company was keen to stress the changes made since it came under significant public and regulatory scrutiny. Whilst mostly reassuring, board involvement and oversight of ethics, risk management and sustainability were not clearly communicated. This remains a material concern and a topic to pursue further with the company.
Nestlé	The manager participated in a group meeting to discuss the company's approach to ESG and sustainability. The company explained that its customers' interest in sustainability is not always reflected within their purchasing habits. However, the millennial generation are the 'purpose generation' and there are signs that this will translate into consumption habits. Generation Z are the 'transparency generation' and are demanding to know where everything comes from. The meeting covered a wide range of topics, including climate change, healthy nutrition and plastics usage.
Lloyds Bank	The manager had an introductory meeting with the incoming chair, who was meeting investors in order to understand any concerns. The chair explained how he is focused on appointing a new Chief Executive Officer (CEO) who can manage cultural change, improve the technology proposition and has a clear strategy to position the bank in a low interest rate environment. We fed back that we think the next CEO has to be customer and technology obsessed, while broadening the product base to other areas of financial services such as insurance.

Vontobel

Companies	Details of the Engagements
Turkish Corporates	Vontobel decided to exit positions in a number of Turkish corporate investments due to 'Governance' issues at a country level.
Petróleos Mexicanos	Vontobel wrote to the company to get further details on articles in the press regarding deaths from pipeline explosions and concerns over pay and labour rights. At the time of reporting engagements, they had yet to receive a response from the company, and as such noted the lack of engagement from the management, adjusting their ESG score for the company accordingly.
Rede d'Or	Rede d'Or are a Brazilian private hospital operator. The company came to market with a new issue, but Vontobel decided it was uninvestible for their funds due to various corporate governance issues. For instance, the company failed to disclose a recent fire at one of their hospitals where eleven people died. There were also issues around working capital; collection of accounts receivable and also a relatively large amount of those accounts that were deemed to be doubtful in financial statements. Vontobel approached management for further clarity but were unsatisfied with their response.

Outstanding Information

This section sets out the status of outstanding information Minerva have requested.

Fund / Product Manager	Investment Fund/Product	Information Request Acknowledged	Voting Info Available?	Engagement Info Available	Info Rec'd by Minerva Deadline
BNY Mellon	Newton Global Dynamic Bond Fund	✓	✓	✓	✓
Columbia Threadneedle	Threadneedle Property Fund	✓	✓	✗	✗
LGIM	LGIM Cash Fund	–	✓	✓	✓
LGIM	LGIM Dynamic Diversified Fund	✓*	✓	✗	✗
LGIM	LGIM Global Equity (50:50) Index Fund - GBP Currency Hedged	✓*	✗	✗	✗
LGIM	LGIM Investment Grade Corporate Bonds - All Stocks	–	✓	✓	✓
LGIM	LGIM LDI Matching Core Funds	–	✓	✓	✓
LGIM	LGIM World Equity Index Fund – GBP Currency Hedged	✓*	✓	✗	✗
Quilter Cheviot	Quilter Cheviot Equity Fund	✓	✓	✓	✓
Vontobel	TwentyFour Strategic Income Fund	✓*	✓	✓	✓
Prudential	Prudential AVCs	✓	✗	✗	✗

✓ Positive response
 ✓* Partial response
 ✗ Negative response
 ? Not confirmed by Manager
 ✓ No VEI information to report
 – Not Applicable

– Indicates that from previous communications the manager has stated that there is no voting or engagement information to report for this investment, and so they were not specifically requested in this instance

✓* Partial response in the context of investments made via the Mobius Life platform means that whilst Mobius themselves acknowledged our VEI requests and passed them on to the relevant managers, the managers did not in turn provide the requested information

Minerva is continuing to engage with the relevant managers on the identification and provision of any missing VEI information and will provide the Scheme with an update as soon as all of the managers have formally reported back, and any information provided has then been analysed.

Conclusion

This statement has shown there is only partial information available from many of the managers. Despite this, Minerva was able to determine that BNY Mellon voting and engagement activity has followed the Trustee’s policies. Minerva also believes Quilter Cheviot’s voting activity also followed the Trustee’s policies, but it did not identify fund specific engagement activity.

Minerva will seek any outstanding information and will agree a way forward on any actions identified with the Trustee once this information is available.