RECTICEL RETIREMENT BENEFITS SCHEME

ENGAGEMENT POLICY IMPLEMENTATION STATEMENT 2020

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:

- Explains how and the extent to which they have followed their engagement policy, which is outlined in the Statement of Investment Principles ("SIP");

- Describes 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 the services of a proxy voter during that year.

The Engagement Policy Implementation Statement ("EPIS") for the Recticel Retirement Benefits Scheme ("the Scheme") has been prepared by the Trustees and covers the Scheme year 1 January 2020 to 31 December 2020.

Scheme Stewardship Policy Summary
The following bullet points below summarise the Scheme's Stewardship Policy in force over the majority of the reporting year to 31 December 2020.

The full current SIP can be found at https://www.recticel.com/recticel-retirement-benefits-scheme.

- The Trustees expect the Scheme's investment managers to engage with investee companies to protect and enhance the value of assets and, where applicable, exercise the Trustees' voting rights.

- The Trustees regularly review the continuing suitability of the appointed managers.

Scheme stewardship activity over the year

Updating the Stewardship Policy
The Trustees have updated the Stewardship policy in the SIP in line with regulatory requirements and have expanded the SIP for policies such as costs transparency and incentivising managers. The updated wording outlines 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.

Ongoing Monitoring
Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustees by Aon. The reports include Environmental, Social and Governance ("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 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 conversations 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.

Voting and Engagement activity – Equity
The Trustees define a significant vote to be a vote that the manager defines to be significant.

Legal & General Investment Management ("LGIM")

The Scheme was invested in LGIM's All World Equity Index Fund over the period.

All World Equity Index Fund over year to 31 December 2020	
Number of resolutions eligible to vote on over the year	68,198
% of resolutions voted on for which the fund was eligible	99.6%
Of the resolutions on which the fund voted, % that were voted against management	15.7%
Of the resolutions on which the fund voted, % that were abstained from	0.8%

Voting Policy

LGIM makes use of third-party provider Institutional Shareholder Services' ("ISS") proxy voting platform to vote electronically and to augment its own research and proprietary ESG assessment tools, but does not outsource any part of the strategic decisions. LGIM has put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example – Pearson

In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson. Pearson issued a series of profit warnings under its previous CEO. Despite this, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting ("EGM") was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.

This was an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. LGIM also discussed the shortcomings of the company's current remuneration policy.

LGIM spoke with the chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements be reviewed to be brought into line with expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

33% of shareholders voted against the co-investments plan and therefore, by default, the appointment of the new CEO. While this resulted in the plan being passed, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement going forward.

Engagement Policy

LGIM has a six-step approach to its investment stewardship engagement activities; broadly, these are:

1. Identifying the most material ESG issues;
2. Formulating the engagement strategy;
3. Enhancing the power of engagement;
4. Public Policy and collaborative engagement;
5. Voting; and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy at:
https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf.

Engagement example – Proctor and Gamble ("P&G")

An example of engagement during 2020 was with P&G. P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of its Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century (another investor) that P&G should report on its effort to eliminate deforestation from its supply chain (voted on in October 2020), LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support the resolution as although P&G had introduced a number of objectives and targets to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found at:
https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf.

Engagement activity – Fixed Income

LGIM

Engagement Policy

While the Trustees acknowledge that the ability of fixed-income managers to engage and influence companies may be less direct compared to equity managers, from the information received they are encouraged that the manager is aware and active in its role as a steward of capital.

As noted above, LGIM's engagement policy aims to encourage companies to adopt sustainable business models through a six-step approach. Engagement at LGIM covers governance in its broadest sense, looking at all material issues including regulation, listing rules, mergers and acquisitions, corporate strategy, and capital and financial management.

LGIM's direct engagement with companies is a way for it to seek to identify ESG risks and opportunities. Ongoing dialogue with companies is a fundamental aspect of LGIM's responsible investment commitment. Investment teams and the Corporate Governance team regularly meet with companies. This is a forum for raising and discussing particular investment and ESG concerns, insights and updates. LGIM aims to raise the performance of the whole market through ESG capability and engagement of companies globally.

LGIM does not currently provide examples of significant engagements at a strategy level. The Trustees' investment adviser has opened a dialogue with LGIM to assist LGIM in improving its reporting on its engagement activities.

Engagement Example - BP

LGIM provided an engagement case study where it engaged with a credit issuer, the energy company BP. LGIM's investment stewardship team and BP had regular engagements in relation to BP's strategy and role in the energy transition. The topics covered included the long-term oil price assumption, credible targets to decarbonise the portfolio and commitment to achieve these targets. LGIM's key focus from a credit perspective was to reinforce the stability of the credit rating and strength of the balance sheet as BP progresses towards de-carbonisation. In early 2020, BP announced a shift towards low-carbon energy and shrinking long term investment in fossil fuels. BP is considered an industry frontrunner from a global decarbonisation perspective. Also, its decarbonisation targets are backed up by a new net debt target, reduced dividend pay-out and a divestiture target which all point to an acceleration in deleveraging.

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 and that LGIM was able to disclose adequate evidence of voting and engagement activity.