

Annual Engagement Policy Implementation Statement – September 2021

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (SIP) produced by the Trustees has 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 and Modification) Regulations 2018 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. An excerpt from the SIP describing these objectives is provided below:

The Trustees' primary objective is to invest the Scheme's assets in the best interest of the members. In addition, the Trustees will pay regard to, and seek to reflect within its investment arrangements, the Company's objectives concerning in particular the potential size and incidence of contribution payments.

In seeking to achieve this primary objective, the Trustees also consider a number of secondary objectives, which are to:

- *Invest the Scheme's assets in such a manner that members' benefit entitlements are paid as and when they fall due;*
- *Achieve a return in line with, or in excess of, the investment return assumed in the funding of the Scheme (which itself is linked to the investments held), and;*
- *Improve the funding position of the Scheme while seeking to reduce volatility in the funding level and contribution requirements, as appropriate. Specifically, to opportunistically reduce the degree of risk in the Scheme's investment arrangements through the use of funding level based triggers.*

Policy on ESG, Stewardship and Climate Change

The SIP includes the Trustees' policy on environmental, social and governance (ESG) factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This was last reviewed as part of the Trustees' review of the SIP in September 2020.

In order to establish these beliefs and produce this policy, the Trustees have undertaken training provided by the Scheme's advisers which covered ESG factors, stewardship and climate change. Following the Scheme year end, in 2021 the Trustees participated in a beliefs survey designed to

assist the Trustees with further evolving its policies in this area. The Trustees keep the policies under regular review with the SIP subject to review at least annually.

Engagement Activity During the Year

The following work was undertaken during the Scheme year relating to the Trustee’s engagement activity on ESG factors, stewardship (including voting) and climate change. This summary also documents how the Trustee’s engagement and voting policies were followed and implemented during the year.

Activity	Date(s)	Details
Investment manager meetings	14 May 2020, 2 September 2020, 8 March 2021	<p>The Scheme’s Investment Sub-Committee (ISC) met with three of the investment managers appointed to manage the Scheme’s assets (AXA, Kiltarn, and Schrodgers).</p> <p>During the meetings the following areas were considered by the ISC, through reviewing materials provided by each manager in advance of the meeting and through discussion at the meeting:</p> <ul style="list-style-type: none"> - How each manager integrates consideration of ESG factors in their investment process. - The metrics used to identify and manage ESG related risks (for example, carbon emissions, board diversity, and investee company labour practices). - Examples of cases where ESG considerations have contributed to a “sell” decision on an investment. - Whether the manager has exclusions in place within their fund for certain industries, and the rationale for this. - Engagement activity undertaken with investee companies, including voting activity by Kiltarn, who manage an equity portfolio for the Scheme.
Training	7 October 2020	<p>A sub-set of the Trustees attended a training session provided by Mercer on the topic of climate change risk management. This included discussion of:</p> <ul style="list-style-type: none"> - Global regulatory changes affecting the transition to a lower carbon economy. - The drivers of energy emissions. - How climate change risk may affect different investment types. - Investment opportunities such as renewable energy and sustainable infrastructure. - An introduction to different climate related metrics and targets.
Taskforce on Climate Related Financial Disclosures (TCFD) preparation	8 March 2021	<p>At the March 2021 ISC meeting, TCFD reporting was discussed. Specifically, the ISC considered new regulations that will come into force for certain pension schemes, and the steps that would need to be taken in order for the Scheme to prepare for climate related financial disclosures.</p> <p>The ISC considered the four elements of the TCFD – governance, strategy, risk management, and metrics & targets.</p>

Activity	Date(s)	Details
		An action plan has been formulated with key activities, although note that based on current regulations the Scheme is not obliged to comply with the TCFD.
Dashboard preparation	Q1 2021	As part of the TCFD discussions noted above, the ISC agreed to work towards establishing an ESG metrics dashboard to assist with ongoing engagement policy objectives and monitoring of key metrics, including for example carbon emissions and investment manager engagement examples.
ESG monitoring	Quarterly throughout the year	The Scheme's quarterly investment performance report is reviewed by the ISC each quarter and includes ratings (both general and specific to ESG) from the investment adviser. Where managers may not be highly rated from an ESG perspective the ISC continues to monitor and engage with those managers (including through discussions at meetings, as described above).

Voting Activity During the Year

The Trustees have delegated the exercise of any voting rights to the investment managers and do not use the direct services of a proxy voter.

Most voting activity arises in respect of publicly listed equities. The Trustees have received data relating to funds that held equities during the year. The Scheme invests in the following funds, and does not hold securities directly. Funds highlighted in blue rows hold publicly listed equities.

Manager	Asset Class	Asset Allocation as at 31.3.2021
Longview	Global Equity	3.6
Kiltearn	Global Equity	3.2
Schroders	Diversified Growth	5.5
Blackstone	Fund of Hedge Funds	4.3
CQS	Multi-Asset Credit	9.1
Lexington	Private Equity	1.6
Blackstone	Real Estate	1.8
ICG	Private Debt	2.4
BlackRock	Liability Driven Investment	30.7
AXA	Buy and Maintain Corporate Bonds	38.0

Total may not sum due to rounding.

Overview of voting activity carried out on behalf of the Trustees

The Trustees have been provided with voting disclosures relating to the funds that invest in equities listed in the table above (marked in blue). These are summarised below.

Raytheon Systems Limited Pension Scheme

Manager / fund	12 Months to 5 April 2021 (unless stated)					
	No. meetings eligible to vote	No. resolutions eligible to vote	% resolutions voted on where eligible	Of resolutions voted, % voted with management	Of resolutions voted, % voted against management	Of resolutions voted, % abstained
Longview Global Equity	30	420	100.0	95.0	5.0	0.0
Kiltearn Global Equity	93	1,498	100.0	83.0	17.0	0.0
Schroders Diversified Growth*	1,711	20,478	99.6	91.9	7.7	0.3
Blackstone Fund of Hedge Funds	Not applicable - as this Fund is a "Fund of Funds", the manager does not vote directly.					

*Information covers the year to 31 March 2021.

Source: Investment Managers. Totals may not sum due to rounding.

Raytheon Systems Limited Pension Scheme (the “Scheme”)

Significant votes

The following tables provide an example from each portfolio used by the Scheme of a voting issue that arose, that the Trustees and the manager deems significant.

Longview Global Equity Fund	
Company	Fiserv, Inc.
Item	Shareholder Proposal on Political Contributions and Expenditures Report
Date	27 April 2020
Criteria for assessing as significant	Longview voted against management, and the result of the vote was that >15% of total votes were against management.
Vote	Longview voted against management, supporting instead the resolution put forward by shareholders.
Rationale	<p>Longview supported a proposal from a group of shareholders for more detailed disclosure on the Company’s political spending. Specifically, some shareholders were seeking semiannual reporting of the Company’s policies and procedures for making contributions and expenditures with corporate funds or assets in connection with an election or referendum.</p> <p>Their reasoning was that this information would allow all shareholders to more fully assess the risks presented by the Company’s political spending.</p>
Outcome	The resolution did not pass with the required majority. Longview will continue to engage with the Company.

Kiltearn Global Equity Fund	
Company	Nippon Television
Item	Re-election of Chairman
Date	26 June 2021
Criteria for assessing as significant	Kiltearn believes that meeting good practice governance standards should be a requirement for all companies, and failure to do so is considered 'material', in line with Kiltearn's governance principles. In this instance Kiltearn felt that the Company was not meeting such governance standards.
Vote	<p>Nippon is required to limit its voting rights held by foreign entities to 20% and so does not register foreign-owned shares that would cause this to be exceeded. However, the company does not pay dividends in respect of unregistered shares despite the fact that there is no law or rule that prohibits it from doing so.</p> <p>Kiltearn voted against the re-election of the Company’s Chairman, as he was deemed the individual with the greatest responsibility for the company's continued refusal to pay dividends to non-registered foreign shareholders. Kiltearn also voted against the re-election of all other members of the Board.</p>
Rationale	<p>Kiltearn’s holdings in Nippon include unregistered shares, and so reduced dividend payments are received due to the Company’s unequal treatment of foreign investors. Further, the policy makes the company potentially less attractive to foreign investors and so may suppress the share price. As a result, Kiltearn believes it is in its clients’ best interests for the company to change its policy.</p> <p>Kiltearn had engaged with Nippon to outline their concerns about the dividend policy, and had asked for this to be changed. The company refused and in Kiltearn’s view did not give an adequate explanation for its stance.</p>
Outcome	Approximately 22% of the Company’s shareholders voted against the Chairman’s re-election. Kiltearn continue to engage with the Company and hope that the continued pressure exerted will see the Company rethink its stance.

Raytheon Systems Limited Pension Scheme (the “Scheme”)

Schroders Diversified Growth	
Company	Volvo AB
Item	Approve Remuneration Report
Date	31 March 2021
Criteria for assessing as significant	Schroders consider "most significant" votes as those against company management.
Vote	In this case, Schroders voted against the remuneration report for the company concerned, which had proposed changes to remuneration policies including pension commitments to Volvo AB's President and CEO, Deputy CEO and other Executives employed in Sweden.
Rationale	Schroders note that the proposals contained large adjustments with little transparency. Further, the performance period of the Company's Long Term Incentive Plan was less than three years, whereas Schroders expect longer term measurement periods.
Outcome	The remuneration report vote passed, though a number of shareholders voted against. Schroders continue to engage with the Company.