

# *DB Implementation Statement, covering 1 July 2019 to 30 June 2020*

The Trustee of the Commonwealth Bank of Australia (UK) Staff Benefits Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustees has followed the voting and engagement policies in its DB Statement of Investment Principles (“SIP”) during the year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

## **1. Introduction – Last review of the voting and engagement policies**

No review of the SIP was undertaken during the year. However, in September 2020 the SIP was formally reviewed and updated.

No changes were made to the voting and engagement policies in the SIP during the year.

## **2. Voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

During the period covered by the Statement, the Trustee reviewed information from each of its managers on their compliance with statements in the Scheme's SIP on climate change and ESG issues.

## **3. Description of voting behaviour during the year**

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this section, we have sought to include voting data on the following funds in which the Scheme invested during the period covered by this Statement:

- LGIM Ethical UK Equity Index;
- Ninety One Global Equity Fund; and
- Baillie Gifford Global Alpha Growth fund.

The Trustee has sought to obtain the relevant voting data for Sections 3.2 and 3.3, from all of the investment managers listed above.

In addition to the above, the Trustee contacted the Scheme's other asset managers that do not hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. Commentary provided from these managers is set out in Section 3.4.

### **3.1 Description of the voting processes**

#### **LGIM's voting process:**

Voting decisions are based on LGIM's voting policies and undertaken by the Corporate Governance team. In 2018, LGIM updated its Global Principles document which sets out minimum standards for governance across all companies globally. LGIM provides supplemental regional policies where markets are subject to stricter guidelines. These may be found on its website.

The priority of the voting policies is to cover key issues which are essential for the protection of companies, shareholders, and stakeholders; these include board structure and composition, remuneration and protection of shareholder rights. These policies are regularly reviewed to ensure that its engagement activities are reflected and feedback from external stakeholders is integrated. In addition, LGIM remains cognisant of the evolving regulatory and corporate landscape, best practice, and emerging issues.

LGIM acknowledges that, in giving it their mandate, its clients require LGIM to vote with their shares on their behalf. Given the scale of LGIM's holdings, LGIM cannot be physically present at every company shareholder meeting to cast its votes. Instead, LGIM vote by proxy through the ISS voting platform 'Proxyexchange'.

All decisions made are by LGIM's Corporate Governance Team and in accordance with its Global Principles document. Each member of the team is allocated a specific sector and/or region so that the voting is undertaken by the same individuals who engage with the company. This ensures its stewardship approach flows smoothly throughout the engagement and voting process and engagement is fully integrated into the vote decision process and that LGIM sends consistent messaging to companies.

### **Ninety One's voting process:**

Ninety One votes at shareholder meetings throughout the world as a matter of policy and principle. It believes that once it becomes an investor, it assumes a stewardship duty.

Ninety One's 'Ownership Principles and Proxy Voting guidelines' establish its voting and engagement approach which will apply across all of its equity holdings.

Ninety One considers the governance of a company, and by extension, its practical proxy voting application, through the lenses of four pillars.

1. leadership and strategic governance (directors and the board);
2. alignment with the long term (remuneration and sustainability);
3. protecting clients' capital (share capital management); and
4. disclosure and transparency.

Ninety One uses an external proxy research and vote execution service provided by Institutional Shareholder Services ("ISS"). ISS provides Ninety One with a service through which they deliver both their benchmark research and IAM's custom policy research. The research is then discussed between the ESG team and the investment team ahead of the deadline, where the ESG team seeks to flag any issues and provide further insight. Where Ninety One's policy and internal consideration determines that a dissenting vote is to be cast on a resolution or where Ninety One feels that it does not have sufficient information to cast an informed vote, Ninety One will often engage and raise its concerns with the company ahead of the voting deadline. This allows sufficient time to highlight and discuss concerns and to make amendments, when appropriate, to the voting decision. Once a unanimous decision is made, Ninety One submits its vote directly onto the ISS online voting platform.

### **Baillie Gifford's voting process:**

Baillie Gifford's Governance and Sustainability Team, in collaboration with the relevant investment teams, is responsible for making voting decisions whilst taking account of its guidelines. Baillie Gifford also publicly discloses a summary of all its voting activities on its website under Company Engagement & Disclosure Reports. This report is published quarterly.

Baillie Gifford's Governance and Sustainability Principles and Guidelines document is publicly available on its website. Its policy is to take an active approach to share ownership rights and responsibilities on behalf of its clients. Baillie Gifford aims to interpret guidelines flexibly in the light of local market regulation and practice, as well as individual company factors. The philosophy underpinning its approach to share voting is to ensure that its voting decisions are in the best interests of clients. Voting decisions are made by the Governance and Sustainability Team in collaboration with the investment managers.

Baillie Gifford vote all its clients' shares globally and vote against proposals where Baillie Gifford feels that these are not in its clients' interests. Where a stock is listed in a "blocking market" (where trading restrictions apply if votes are cast), Baillie Gifford will only vote its clients' shares on issues which could have a material impact on shareholder value. When Baillie Gifford do not vote in line with management's recommendation, it endeavours to discuss its concerns with the company prior to submitting the vote.

## M&G's voting process:

An active and informed voting policy is a vital part of M&G's stewardship philosophy and an integral part of protecting M&G's interests as shareholders.

M&G aims to vote on resolutions at all general meetings of companies held in M&G's actively managed portfolios. However, a fund may refrain from voting some or all of its shares if doing so is in the interest of the fund, e.g., if exercising the vote would result in the imposition of trading restrictions ('blocking').

When considering proxy proposals, M&G looks to support management of the companies in which it has chosen to invest, but the ultimate decision will be determined by an assessment of the impact on its investments and the long term interests of shareholders. M&G will vote against proposals that compromise these interests.

Where M&G has concerns about a company, it is often the case that these have been or will be expressed to the company and that any voting decision will depend on its dialogue with management.

UK corporate governance best practice is used as its starting point given the well-established principles and practices that define accepted corporate behaviour and shareholder protections.

However, M&G recognises and respects differing practice across international markets. Ultimately, every proposal will be evaluated on its merits, based on circumstances relevant to each individual company. High-level principles underlie M&G's voting policy, but company-specific factors will always be considered.

### 3.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period is provided in the table below.

|   | Fund 1                  | Fund 2                   | Fund 3                   |
|---|-------------------------|--------------------------|--------------------------|
| <b>Manager name</b>   | LGIM                    | Ninety One               | Baillie Gifford          |
| <b>Fund name</b>  | Ethical UK Equity Index | Global Equity Fund       | Global Alpha Growth Fund |
| <b>Approximate value of trustees' assets 30 June 2020</b>           | –                       | –                        | –                        |
| <b>Average number of holdings</b>                                   | 226                     | <i>Data not provided</i> | 102                      |
| <b>Number of meetings eligible to vote</b>                          | 260                     | 16                       | 24                       |
| <b>Number of resolutions eligible to vote</b>                       | 4,373                   | 118                      | 278                      |
| <b>% of resolutions voted</b>                                       | 100.0%                  | 71.0%                    | 100.0%                   |
| <b>% of resolutions voted with management</b>                       | 95.0%                   | 86.0%                    | 95.7%                    |
| <b>% of resolutions voted against management</b>                    | 5.0%                    | 14.0%                    | 4.0%                     |
| <b>% of resolutions abstained</b>                                   | 0.0%                    | 1.0%                     | 0.4%                     |
| <b>% of meetings with at least one vote against management</b>      | 40.4%                   | 38.0%                    | 25.0%                    |
| <b>% of resolutions contrary to recommendation of proxy adviser</b> | 4.0%                    | 14.0%                    | N/A*                     |

LGIM's data is as at 31 March 2020. LGIM was unable to provide data as at the date of the Scheme's full redemption from the LGIM Ethical UK Equity Fund on 11 March 2020.

Baillie Gifford and Ninety One's data is as at 4 March 2020.

\*All of Baillie Gifford's client voting decisions are made in-house and it votes in line with its in-house policy and not with the proxy voting providers' policies.

### 3.3 Most significant votes over the year

We have included the "most significant votes" below as provided by the Fund's investment managers.

## LGIM

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

### **Ethical UK Equity Fund**

No significant votes between 30 June 2019 and date of full redemption, 11 March 2020.

### **Ninety One**

Ninety One defines most significant votes to be votes where there was significant client, media or political interest, those of a thematic nature (i.e., climate change), and significant corporate transactions.

### **Global Equity Fund**

#### **Worldpay Inc, July 2019 – resolution: Approve Merger Agreement**

The board's decision to conduct exclusive negotiations with FIS resulted in a less than thorough sales process, but the offer implied well above historical valuations and was at solid premiums to Worldpay's unaffected price and its all-time high closing price. As such, Ninety One believed that a vote for the merger was warranted.

#### **CK Asset Holdings Limited, October 2019 – resolution: Approve Acquisition OR Issue Shares in Connection with Acquisition**

The acquisition was in line with the diversification strategy of the group; and the transaction was expected to increase the income stream of the group in the future. As such, Ninety One believed that a vote for the acquisition or the issue of shares in connection with acquisition was warranted.

#### **Raytheon Company, October 2019 – resolution: Approve Merger Agreement**

Ninety One believed that the strategic rationale appeared solid, that the merger should add to the combined company's earnings, and that shareholders should be able to benefit from technological and financial synergies available to the combined company. As such, Ninety One believed that a vote to approve the merger agreement was warranted.

#### **CNOOC Limited, November 2019 – resolution: Approve Transaction with a Related Party**

Ninety One voted in line with management. The vote was deemed significant as it related to a corporate transaction that may have had a material impact on future company performance.

#### **Newcrest Mining Ltd, November 2019 – resolution: Advisory Vote to Ratify Named Executive Officers' Compensation**

Ninety One voted in line with management. Ninety One was against this motion as it believed that there was a lack of alignment between pay and performance. This was deemed to be a significant vote due to size holding and dissent associated with it.

#### **Tiffany & Co, February 2020 – resolution: Approve Merger Agreement**

Ninety One believed that the merger consideration was at a premium to TIF's trading range and the all-cash offer provided certainty of value for shareholders. In addition, it believed there was a risk of non-approval, as evidenced

by the TIF's stock price outperformance relative to the market since the unaffected date. As such, Ninety One believed that a vote to approve the merger agreement was warranted.

#### **Apple Inc, February 2020 –**

##### **i. Resolution: Amend Proxy Access Right**

Ninety One believed that the proposed amendment would have enhanced the company's existing right for shareholders while maintaining necessary safeguards on the nomination process, which is why Ninety One voted for the amendment. This was deemed to be a significant vote as it was a shareholder proposal.

##### **ii. Resolution: Link Executive Pay to Social Criteria**

Ninety One voted in line with management. The vote was deemed significant as it was a thematic shareholder proposal (social theme).

#### **Baillie Gifford**

The list below is not exhaustive, but exemplifies potentially significant voting situations:

- Baillie Gifford's holding had a material impact on the outcome of the meeting;
- The resolution received 20% or more opposition and Baillie Gifford opposed;
- Egregious remuneration;
- Controversial equity issuance;
- Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders;
- Where there has been a significant audit failing;
- Where Baillie Gifford has opposed mergers and acquisitions;
- Where Baillie Gifford has opposed the financial statements/annual report;
- Where Baillie Gifford has opposed the election of directors and executives.

#### **Global Alpha Growth Fund**

##### **Microsoft, December 2019 – resolution: Report on gender pay gap**

Baillie Gifford supported a shareholder proposal requesting that the company produces enhanced disclosure on gender pay disparities across their business. Baillie Gifford believes gender pay gap disclosure is important to support diversity within the organisation. 30% of shareholders supported the resolution which is a clear signal for improvement in this area. Baillie Gifford stated that it will continue to push the company for improvement in this area. This resolution was deemed significant by Baillie Gifford because it was submitted by shareholders and received greater than 20% support.

##### **Ryanair, December 2019 – resolution: Approve remunerations report**

Baillie Gifford opposed remuneration due to concerns regarding the structure of the retention plan for the CEO. Whilst Baillie Gifford welcomes a scheme which aims to retain talent and incentivise long term performance, it stated its concerns that the structure of the plan could lead to short term decisions being made during periods of poor performance before shares are due to be awarded. It also had concerns that the independent members of the board had received share options. Baillie Gifford engaged extensively with Ryanair on a number of governance issues over the past few years. This dialog continues both independently and collaboratively with other shareholders and will continue to be escalated through voting action. This resolution was deemed significant by Baillie Gifford because it received greater than 20% opposition and because Baillie Gifford opposed remuneration.

##### **CyberAgent Inc, December 2019 – resolutions: Elect directors Toko Shiotsuki, Takahito Naito, Norishige Nagase, Riku Yamada, Isao Numata, Masao Horiuchi, and Susumu Fujita**

Baillie Gifford opposed the election of two outside directors and four inside directors, and abstained on the election of the president, due to ongoing concerns regarding board composition. Baillie Gifford has been pushing Cyberagent to improve its board composition for a number of years. Whilst there have been small improvements, Baillie Gifford stated that it does not believe they go far enough and confirmed that it is continuing to engagement with the company and aiming for constructive dialogue. These resolutions were deemed significant by Baillie Gifford because it opposed the election of several directors.

### 3.4 Votes in relation to assets other than listed equity

#### M&G

##### **Alpha Opportunities Fund:**

The below votes were listed as significant by M&G and were taken in relation to the Alpha Opportunities Fund:

##### **ADLER Real Estate AG, Corporate Bonds, March 2020 - Consent granted**

Request to waive the 101 change of control clause following the takeover by Ado. M&G thought it was sensible to grant the waiver to avoid potential liquidity issues at Adler.

##### **Marston's Issuer PLC, Asset Backed Securities, May 2020 - Consent granted**

Related to COVID impact. Without covenant relief an event of default would likely have occurred in the short term.

##### **Punch Taverns Finance B, Asset Backed Securities, May 2020 - Consent granted**

Related to COVID impact. Without covenant relief an event of default would likely have occurred in the short term. The amendment was necessary to prevent an imminent breach of a financial covenant.