

# Engagement Policy Implementation Statement (“EPIS”)

## Arval UK Employee Benefits Plan (the “Plan”)

### Plan Year End – 31 March 2023

The purpose of the EPIS is for us, the Trustee of the Arval UK Employee Benefits Plan, to explain what we have done during the year ending 31 March 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”).

It includes:

1. How our stewardship policy in the SIP (including both voting and engagement activity) in relation to the Plan’s investments has been followed during the year; and
2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

#### Our conclusion

**Based on the activity we have undertaken during the year, we believe that our stewardship policy (as set out in the SIP) has been implemented effectively.**

In our view, the Plan’s investment managers were able to disclose good evidence of voting and/or engagement activity, that the activities completed by our managers align with our expectations regarding stewardship, and that our voting rights have been exercised effectively on our behalf.

Our investment managers provided us with high-quality engagement information that was sufficient for us to deduce that the policies in our SIP had been implemented effectively, however, there are areas where we would like to see additional details, as set out in our engagement action plan.

Our engagement action plan outlines our commitment to continue to engage with our managers and carry out more detailed ESG monitoring of them.

## How voting and engagement policies have been followed

The Plan is invested in pooled funds, and so the responsibility for voting and engagement is delegated to the Plan's investment managers. We reviewed the stewardship activity of the Plan's investment managers carried out over the Plan year and in our view, the investment managers were able to disclose good evidence of voting and/or engagement activity that align with our expectations on how stewardship should be carried out in the best interests on members.

As part of this year's reporting process, we have also chosen to adopt **climate change** as a stewardship priority for the Plan. This has been chosen because we believe climate change has the potential to negatively impact the value of investments held if not understood and evaluated properly. Therefore, it is in the best interests of our beneficiaries for climate change issues and risks to be properly understood, and where possible mitigated, by the Plan's appointed investment managers through their stewardship activity.

More information on the stewardship activity carried out by the Plan's investment managers can be found in the following sections of this report.

Over the reporting year, we monitored the performance of the Scheme's investments on a quarterly basis. In particular, we completed an annual review of each manager's approach to ESG including the approach of the underlying funds managers. Further to this, the Trustee and company received training surrounding best practice for ESG to further understand how it may impact the Scheme's investment strategy.

Each year, we review the voting and engagement policies of the Scheme's investment managers to ensure they align with our own policies for the Scheme and help us to achieve them.

The Scheme's stewardship policy can be found in the SIP:  
<https://www.bnppfinalsalaryuk.com/wp-content/uploads/2022/02/arval-sip-2020-appendix.pdf>

## Our Engagement Action Plan

Based on the work we have done for the EPIS, we have decided to take the following steps over the next 12 months:

1. While Legal and General Investment Management and BlackRock provided a comprehensive list of fund-level engagement, which we find encouraging, these examples did not give as much detailed as required by the Investment Consultants Sustainability Working Group ("ICSWG") engagement reporting template, which our investment adviser considers to be industry standard. They also did not provide firm-level engagement information. Our investment adviser will engage with these managers on our behalf to better understand their engagement practices and discuss the areas which are behind those of their peers.

### What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

*Source: UN PRI*

## Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. Understanding and monitoring the stewardship that investment managers practice in relation to the Plan's investments is an important factor in deciding whether a manager remains the right choice for the Plan.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Plan's equity-owning investment managers to responsibly exercise their voting rights.

## Voting statistics

The table below shows the voting statistics for each of the Plan's funds with voting rights for the year to 31 March 2023.

|  | <b>Number of resolutions eligible to vote on</b> | <b>% of resolutions voted</b> | <b>% of votes against management</b> | <b>% of votes abstained from</b> |
|--|--|-------------------------------|--------------------------------------|----------------------------------|
| <b>LGIM Future World Fund</b>                    | 25,282   | 99.8%                         | 18.8%                                | 0.4%                             |
| <b>BlackRock Dynamic Diversified Growth Fund</b> | 11,708   | 92.0%                         | 5.0%                                 | 1.0%                             |

Source: Managers

## Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser's recommendations.

The table overleaf describes how the Plan's managers use proxy voting advisers.

## Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues

Source: UN PRI

## Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

## Description of use of proxy voting advisers

*Wording provided directly by managers*

|           |  |
|-----------|--|
| BlackRock | <p>“BlackRock’s proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas (“AMRS”), Asia-Pacific (“APAC”), and Europe, Middle East and Africa (“EMEA”) - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock’s Global Principles and custom market-specific voting guidelines.</p> <p>While we subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into our vote analysis process, and we do not blindly follow their recommendations on how to vote. We primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial. Other sources of information we use include the company’s own reporting (such as the proxy statement and the website), our engagement and voting history with the company, and the views of our active investors, public information and ESG research.”</p> |
| LGIM      | <p>“LGIM’s Investment Stewardship team uses ISS ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.”</p>   |

*Source: Managers*

## Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Plan’s investment managers to provide a selection of what they consider to be the most significant votes in relation to the Plan’s funds. A sample of these votes which we also consider to be significant can be found in the Appendix. Where possible, we have focussed on votes that have relevance to climate change, in line with our stewardship priorities.

## Our managers’ engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Plan’s material managers. The managers have provided information for the most recent calendar year available. Some of the information provided is at a firm level i.e. is not necessarily specific to the fund invested in by the Plan.

Where engagement activity related to our stewardship priority of climate change, we have highlighted this in **bold text**.

| Funds                  | Number of engagements |              | Themes engaged on at a fund-level   |
|------------------------|-----------------------|--------------|---|
|                        | Fund specific         | Firm level   |   |
| LGIM Future World Fund | 432                   | Not provided | <b>Environment- Climate change,</b><br>Social- Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public health, |

| Funds                                     | Number of engagements |              | Themes engaged on at a fund-level  |
|---|-----------------------|--------------|--|
|   | Fund specific         | Firm level   |  |
|   |                       |              | Governance- Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Strategy, Financial and Reporting- Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose, and others.   |
| BlackRock Dynamic Diversified Growth Fund | 693                   | Not provided | <b>Environment- Climate Risk Management</b> , Operational Sustainability, Environmental Impact Management, Social- Human Capital Management, Social Risks and Opportunities, Diversity and Inclusion, Governance- Corporate Strategy, Remuneration, Board Composition and Effectiveness, Business Oversight/Risk Management. |

Source: Managers

## Data limitations

At the time of writing, LGIM and BlackRock did not provide detailed engagement examples specific to the fund in which we are invested and also did not provide any firm level engagement data. Our investment adviser will engage with LGIM and BlackRock on our behalf to encourage improvements in reporting.

This report does not include commentary on the Plan's liability driven investments, gilts or cash because of the limited materiality of stewardship to these asset classes.

## Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Plan's managers. We consider a significant vote to be one which the manager considers significant, in particular those related to climate change (our chosen stewardship priority). Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below.

|  |  |  |
|--|--|--|
| <b>LGIM Future World Fund</b>  | <b>Company name</b>  | Alphabet Inc.  |
|  | <b>Date of vote</b>  | 1-June-2022  |
|  | <b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>   | ~2.2%  |
|  | <b>Summary of the resolution</b>   | Report on Physical Risks of Climate Change   |
|  | <b>How you voted</b>   | For  |
|  | <b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>   | LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.   |
|  | <b>Rationale for the voting decision</b>   | Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.  |
|  | <b>Outcome of the vote</b>   | Fail   |
|  | <b>Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?</b>  | LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.  |
| <b>On which criteria have you assessed this vote to be "most significant"?</b> | LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote. |  |
| <b>BlackRock Dynamic Diversified Growth Fund</b>                               | <b>Company name</b>  | Equinor ASA  |
|  | <b>Date of vote</b>  | 11-May-2022  |
|  | <b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>   | <i>Not provided</i>  |
|  | <b>Summary of the resolution</b>   | Introduce a Climate Target Agenda and Emission Reduction Plan (shareholder proposal)   |
|  | <b>How you voted</b>   | Against  |
|  | <b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>   | We endeavor to communicate to companies when we intend to vote against management, either before or just after casting votes in advance of the shareholder meeting. We publish our voting guidelines to help clients and companies understand our thinking on key governance matters that are commonly put to a shareholder vote. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. Our voting decisions reflect our analysis of company disclosures, third party |
|  |  |  |

|   |   |
|---|---|
|   | research and, where relevant, insights from recent and past company engagement and our active investment colleagues.  |
| <b>Rationale for the voting decision</b>  | BIS did not support the shareholder proposal because we believe that the company has disclosed a plan to manage climate-related risks and opportunities. We also recognise the progress Equinor has made against this plan to date. Overall, based on BIS' analysis and engagement with Equinor, we consider the company to have made a clear commitment through the Energy Transition Plan to align their business model with the goals of the Paris Agreement.  |
| <b>Outcome of the vote</b>  | Fail  |
| <b>Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?</b> | BlackRock's approach to corporate governance and stewardship is explained in our Global Principles. Our Global Principles describe our philosophy on stewardship, including how we monitor and engage with companies. These high-level principles are the framework for our more detailed, market-specific voting guidelines. We do not see engagement as one conversation. We have ongoing direct dialogue with companies to explain our views and how we evaluate their actions on relevant ESG issues over time. Where we have concerns that are not addressed by these conversations, we may vote against management for their action or inaction. Where concerns are raised either through voting or during engagement, we monitor developments and assess whether the company has addressed our concerns. |
| <b>On which criteria have you assessed this vote to be "most significant"?</b>  | BIS periodically publishes Vote Bulletins on key votes at shareholder meetings to provide insight into details on certain vote decisions we expect will be of particular interest to clients.<br>This vote bulletin was focused on topics including climate risk and human capital management.  |

Source: Managers