

Galderma (UK) Limited Section of the Deloitte Pensions Master Plan

Implementation Statement

For the year ended 31 March 2022

Introduction

This Implementation Statement (the “Statement”) has been prepared by the Section Trustee (the “Trustee”) of the Galderma (UK) Limited Section of the Deloitte Pensions Master Plan (the “Scheme”) to demonstrate how the Trustee has acted on certain policies within its Statement of Investment Principles (“SIP”).

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the Scheme’s SIP over the year. This Implementation Statement covers the Scheme year from 1 April 2021 to 31 March 2022.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit (“DB”) investments held by the Scheme.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP Policies

This Implementation Statement should be read in conjunction with the Scheme’s SIP covering the year under review, which provides details of the Scheme’s investment policies along with details of the Scheme’s governance structure and objectives.

Over the past year the Scheme underwent a transition from investing in the LGIM All World Equity Index– GBP Currency Hedged Fund (invested in from 1 April 2021 to 1 March 2021) to the LGIM Future World Equity Index Fund – GBP Currency Hedged (invested in from 1 March 2022 for the remainder of the year to 31 March 2022). The Scheme’s SIP was reviewed and updated to reflect this change in investment strategy in March 2022 and there were no changes to the policies listed below.

The Scheme’s SIP includes policies on:-

- How “financially material considerations” including environmental, social and governance (“ESG”) considerations, are taken into account when making investment decisions for the Scheme;
- The extent to which non-financial matters are taken into account in the investment decision-making process;
- Stewardship and voting policy, including details on monitoring and engaging with the investee companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, risks, corporate governance, ESG, capital structure and the management of actual or potential conflicts of interest);
- A policy on monitoring the Scheme’s asset managers, particularly concerning financial arrangements and ESG factors; and
- A policy covering the duration of arrangements with the Scheme’s investment manager.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to the Scheme year-end and the extent to which the Trustee believes the policies within the SIP have been followed.

The Scheme was invested in pooled funds managed by Legal & General Investment Management (“LGIM”) (the “Investment Manager”) over the Scheme year under review to 31 March 2022.

It is therefore LGIM that is responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments. The Trustee's policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Scheme's interests in the investments.

The Trustee expects LGIM to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

Description of Equity Voting Behaviour

The Scheme invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Scheme sit primarily with LGIM as the Investment Manager. The Scheme's voting behaviour over the Scheme year is summarised below.

From 1 April 2021 to 1 March 2022 the only pooled fund investments held by the Scheme which carried voting rights during the Scheme year were the original equity fund, the LGIM All World Equity Index Fund- GBP Currency Hedged Fund (held from the start of the year on 1 April 2021 to 1 March 2022) and the new ESG-tilted fund transitioned into during the year, the LGIM Future World Fund – GBP Currency Hedged (transitioned into on 1 March 2022 and held until the year-end when it constituted c. £11.3m of Scheme assets as at 31 March 2022).

LGIM manage over £1 trillion in assets, and use their resulting influence, focussing their votes on climate change, income equality, diversity, and ESG integration.

The tables below show LGIM's voting summary covering the Scheme's investment in both the LGIM All World Equity Index Fund – GBP Currency Hedged and the Future World Global Equity Index Fund- GBP Hedged over the year until 31 March 2022. LGIM is developing its reporting but is currently only able to provide voting statistics for full 12-month periods to standard quarter-ends, rather than the actual periods invested. Therefore, we have included voting information covering the Scheme's full year being reviewed from 1 April 2021 to 31 March 2022 to allow comparison, noting that the Scheme only held investment from the LGIM All World Equity Index Fund – GBP Currency Hedged until 1 March 2022, and only held investment in the LGIM Future World Equity Index Fund – GBP Hedged from 1 March 2022 onwards through to the end of the reporting period as at 31 March 2022.

LGIM All World Equity Index Fund – GBP Currency Hedged	1 April 2021– 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	6,519
Number of resolutions LGIM was eligible to vote on over the year	64,607
Of the eligible resolutions, percentage that LGIM voted on.	99.8%
Of the resolutions voted, percentage that LGIM voted with management.	80.7%
Of the resolutions voted, percentage that LGIM voted against management.	18.1%
Of the resolutions voted, percentage where LGIM abstained .	1.3%
Percentage of eligible meetings where LGIM voted at least once against management.	60.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	9.6%

LGIM Future World Equity Index Fund – GBP Hedged	1 April 2021– 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	4,465
Number of resolutions LGIM was eligible to vote on over the year	47,851
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted with management.	81.7%
Of the resolutions voted, percentage that LGIM voted against management.	17.4%
Of the resolutions voted, percentage where LGIM abstained .	0.8%
Percentage of eligible meetings where LGIM voted at least once against management.	61.9%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	10.7%

Proxy Voting

The Trustee did not employ a proxy-voting service during the Scheme year to 31 March 2022.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Service’s (‘ISS’) electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM’s own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service (‘IVIS’).

How Voting and Engagement Policies Have Been Followed

The Trustee intends to review a summary of the voting and engagement activity taken on its behalf on a regular basis. The information published by LGIM on its voting policies has provided the Trustee with comfort that the Scheme’s voting and engagement policies have been followed during the Scheme year to 31 March 2022.

As set out in the SIP, the Trustee expects LGIM to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee’s investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	✓	LGIM voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	<p>LGIM believes that board independence, diversity and remuneration can have a financially material impact on the assets it invests within, with the Board ultimately responsible for the strategy for any company that LGIM invests in or holds as a counterparty. LGIM have clear voting policies covering each of these topics and have acted on them throughout the Scheme year on behalf of the Trustees.</p> <p>This year, LGIM voted against the election of male chairmen due to a lack of gender diversity at a number of companies, including Atlas Copco AB, NVIDIA Corporation, and The Boeing Company.</p>
Risks	✓	<p>LGIM have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls.</p> <p>As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors.</p> <p>LGIM also believes that increased transparency and disclosure can allow for financially material risks to be identified. In 2021, LGIM engaged with Moderna over increasing publicly available information on the how much government financial support it had received in developing and manufacturing Covid-19 vaccines and whether this had affected decision making on products including setting prices. Following in-depth engagement, Moderna released a press note covering this topic, which allowed LGIM to assess the viability of continued investment in the company.</p>
Social and environmental impact	✓	<p>LGIM has engaged with companies that have poor climate scores relative to their size and for those that don't meet minimum standards and if these minimum standards are not met over time, LGIM may look to divest until progress is shown.</p> <p>LGIM have also introduced a policy to vote against the chair of the board of UK companies which fall short on LGIM's ethnic diversity expectations. In relation with this policy, LGIM have engaged with Amazon five times over the past year to discuss the company's human rights policies. LGIM supported Amazon shareholders at the 2021 AGM asking for an audit report of civil rights, equity, diversity and inclusion within the company.</p>
Corporate governance	✓	<p>The Trustees believe that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustees also believe that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO.</p> <p>LGIM's policy from 2021 is to vote against all elections which combine the roles of CEO and Chair. LGIM voted against electing directors of Microsoft Corporation, JPMorgan Chase & Co., and Johnson & Johnson, alongside several others, in line with this policy.</p> <p>LGIM has reinforced their position on leadership structures across their stewardship activities such as via individual corporate engagements and director conferences.</p>

Conflicts of interest	✓	<p>Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with company performance.</p> <p>For example, LGIM voted against AT&T ratifying named executive officers' compensation. There were concerns around a lack of performance criteria and the magnitude of awards and payments suggested.</p>
Capital structure	✓	<p>LGIM have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance.</p> <p>For example, LGIM have a policy that newly issued shares should not expose minority shareholders to excessive dilution.</p> <p>LGIM also has policies that protect minority shareholder rights including “one share, one vote” to avoid weakening of corporate governance as investors ability to influence and hold directors accountable would be reduced. As such LGIM decided against participating in the IPO of Deliveroo and The HUT Group of 2021.</p>

Significant Votes

LGIM has provided examples of what it believes to be the most significant votes cast on the Trustee’s behalf during the period.

A number of the most significant votes over the Scheme year related to the separation of CEO and board chair roles. LGIM has a long-standing policy advocating for the separation and independence of the roles of CEO and chair, due to the different nature of these positions. Dividing these responsibilities ensures a single individual does not hold unbalanced powers of decision and creates equal authority on the board. From 2020 LGIM took a stronger stance on combined roles and will vote against individuals being elected or re-elected into both positions. During the Scheme’s investment in the LGIM All World Equity Index Fund – GBP Hedged, the manager participated in a number of related votes, including withholding from a vote electing Mark Zuckerberg as Director of Facebook, Inc. due to his role as Chair and CEO of the company, and also against electing Jeffrey P. Bezos as Chair of Amazon.com, Inc. due to his previous role as CEO.

Whilst the Scheme was invested in the LGIM Future World Equity Index– GBP Hedged Fund in March 2022, LGIM voted in favour of Apple Inc. to produce a Civil Rights Audit Report given the increased scrutiny of human rights and freedom of association in the US. LGIM supports proposals related to diversity and inclusion policies as it considers these issues to be a material risk to a company. This was a high-profile vote with some stakeholder scrutiny and as such LGIM engaged with Apple Inc. prior to the AGM to communicate its policies and how it was likely to vote.

Engagement with Investee Companies (Non-Equity Investments)

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the Scheme’s fixed income investments held with LGIM in Buy and Maintain Credit Funds (c. £2.9m of Scheme assets as at 31 March 2022). However, the Trustee expects LGIM to engage on its behalf to aim to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM’s position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company’s practices.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account client feedback.

Over the 12 months to 31 March 2022, LGIM undertook 696 engagements with 593 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 340 on environmental topics;
- 271 on social topics;
- 332 on governance issues; and
- 97 on other topics including finance and strategy.

Over the year, LGIM began to release fund specific engagement statistics, with the following table summarising the engagements undertaken on a fund-by-fund basis. Data was available for the Future World Global Equity– GBP Hedged Fund for the year to 31 March 2022, however data related to all other funds shown below relates to the year to 31 December 2021 as LGIM are yet to publish updated reports.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
Future World Global Equity Fund – GBP Hedged	528	343	241	179	278	83
All World Global Equity Fund – GBP Hedged	601	427	242	198	335	196
Maturing Buy and Maintain Credit Fund 2040 - 2054	122	69	66	50	60	23
Maturing Buy and Maintain Credit Fund 2030 - 2034	107	65	57	43	57	16
Maturing Buy and Maintain Credit Fund 2035 - 2039	102	57	59	35	54	21

The remainder of the Scheme's assets (c. £9.7m of assets as at 31 March 2022) are invested in leveraged nominal and index-linked government bonds with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Scheme's liabilities and a cash fund for liquidity purposes. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

How Voting and Engagement Policies Have Been Followed

Having reviewed the actions taken by LGIM over the Scheme year, the Trustee believes that its policies on stewardship and engagement have been implemented appropriately over the year and in line with its views. The Trustee will continue to monitor the actions taken on its behalf each year and press for improved engagement information and ESG reporting metrics from LGIM on a fund specific level.

If LGIM deviates substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with LGIM, and if the Trustee still believes the difference between its policies and LGIM's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.