

Hewlett-Packard Limited Retirement Benefits Plan - Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee of the Hewlett-Packard Limited Retirement Benefits Plan (the "Plan") has been followed during the year to 31 October 2020. 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 Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The primary objective of the Plan included in the SIP is to provide, on a defined benefits basis, pension and lump sum benefits for members on their retirement, or benefits on death, before or after retirement, for their dependants.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's 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 Trustee in relation to voting rights and stewardship. This was last reviewed in July 2020.

The Trustee incorporated updated policies into the SIP during a review of the document in June 2020. The Trustee keeps the policies under regular review with the SIP subject to review at least annually.

The following work was undertaken during the year to 31 October 2020 relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Engagement

As set out in the SIP, the Trustee has given the investment managers full discretion in evaluating ESG factors, including climate change considerations. The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing managers.

The Trustee has elected to invest a portion of the Plan's assets through segregated mandates, and has specified criteria for these managers in the investment management agreements for the manager to invest in line with. The criteria align with the Trustee's specific investment requirements.

Voting and Engagement policies and activities are most relevant for mandates where equities are held directly or indirectly. These policies are less applicable for the Plan's LDI portfolio,

credit mandates and private debt holdings. The Plan's investment managers provided the following responses in relation to voting and engagement:

- State Street Global Advisors Ltd ("SSGA") is a signatory of the UK Stewardship code. SSGA's climate stewardship approach is built on a foundation of company engagement, proxy voting, thought leadership and policy and regulatory support at the market level. SSGA has been engaging with companies on climate change related matters since 2014 and has held 586 climate-related engagements since they started engaging on these topics.
- Legal and General Investment Management ("L&G") is a signatory of the UK Stewardship code and has been since its inception, and plans on being a signatory of the 2020 code once applicable. L&G's direct engagement with companies is a way it seeks to identify ESG risks and opportunities. Ongoing dialogue with companies is a fundamental aspect of L&G's responsible investment commitment. L&G aims to raise the performance of the whole market through their ESG capability and engagement of companies globally. L&G believes that ESG issues are fundamentally important to investors regardless of the type of exposure, noting the majority of themes they engage are relevant to both equity and bond investors. Therefore, L&G explicitly takes into account both debt and equity exposures when engaging on behalf of clients. In the Global Fixed income space, L&G's Global Fixed Income team undertakes around 1,250 engagements each year with companies, industry bodies, regulators and governments/government entities. L&G carries out an ESG assessment for each issuer, which is tailored to the specific sector the issuer falls into, for example, there is a greater emphasis placed upon environmental factors when assessing Oil & Gas issuers.
- CQS (UK) LLP ("CQS") is not currently a signatory of the UK Stewardship Code, however, it plans on becoming a signatory to the 2020 UK Stewardship code in Q1 2021. CQS views engagement as a means to seek to influence long-term changes in companies. The manager also believes it can use engagement and working with businesses to improve ESG factors, and would like to use its position to seek ESG improvements from its borrowers.
- Apollo Global Management ("Apollo") is not a signatory of the UK Stewardship Code but supports the principles of the Code. It is a signatory to UNPRI (United Nations Principles for Responsible Investment) and the IFC Operating Principles for Impact Management. Apollo's ESG program is based on three "pillars": diligence, engagement and transparency. It believes the processes underlying these "pillars" helps to better position company management teams and Apollo's investment professionals to improve performance on ESG issues.
- Ares Management LLC ("Ares") is not a signatory of the UK Stewardship Code but the manager has adopted a UK Stewardship Code Disclosure Statement. Ares incorporates ESG factors into the investment process; however, the manager does not have a specific engagement policy post-investment given the fixed income nature of their investments. Prior to making an investment, Ares completes a comprehensive review evaluation, taking into account all applicable considerations, including ESG. Ares engages with borrowers on a case-by-case basis on various topics and only if deemed appropriate.

- HSBC Global Asset Management (“HSBC”) is a signatory of the UK Stewardship code and has been since it was introduced. HSBC engaged with over 2,500 companies / bond issuers over the 12 months to 31 October. Due to the nature of the underlying assets of the Plan’s mandates, most of HSBC’s engagement activity occurs prior to the investment (deals marketed on the primary market). HSBC also engages post-investment by attending investor days. Since the start of 2020 HSBC has engaged with 10 sponsors of the bonds held within the Plan’s portfolio, which covers c.22% of the Plan’s exposure.
- M&G Investments (“M&G”) is a signatory of the UK Stewardship Code and will be on the first list of signatories for the new Code. M&G’s engagement process is outcome-driven, systematic and aims to achieve specific objectives. For both the Real Estate Debt Fund (“REDF”) and Long Dated Asset Fund (“LDAF”), M&G stresses the importance of assessing ESG and improving ESG outcomes but note that as a debt holder it does not have the same level of control as an equity holder. In 2019, M&G’s Fixed Income team had 91 ESG-specific engagements with the majority relating to leadership and governance.
- Goldman Sachs Asset Management (“GSAM”) is a signatory of the UK Stewardship code, with the Plan’s Liquid Reserves Fund falling under this umbrella. However, the Merchant Banking Division (“GSMBD”), which manages the Broad Street Loan Partners III and IV funds, is not a signatory of the Code. GSMBD aims to integrate ESG throughout the each investment’s lifecycle; from sourcing to due diligence, and while the asset is held and realised. GSMBD applies its ESG approach across the portfolio by identifying and managing potential risks, enhancing efficiencies and investing in key sustainable themes with the aim of delivering attractive risk-adjusted returns.
- Insight Investment Management Limited (“Insight”) is a signatory of the UK Stewardship code. Insight recognises the importance of stewardship and engagement in encouraging high standards of corporate governance, which helps to underpin the long-term success of companies. Insight incorporates ESG principles into its investment decision-making process. As part of Insight’s stewardship responsibilities, it seeks to manage the bank counterparty risk associated with swaps and repos through careful counterpart selection and daily collateralisation.

The Plan’s investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific to ESG) from the investment adviser. The investment performance report includes how each investment manager is delivering against their specific mandates.

Voting Activity

The Trustee has delegated its voting rights to the investment managers. The Trustee expects the Plan’s investment managers, unless impracticable, to exercise all voting rights attaching to shares or securities and take account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code, where applicable. Where relevant, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. As such, the Trustee considers the voting and engagement policies of the investment managers to be in line with the Trustee’s policy as outlined in the SIP.

The Trustee does not use the direct services of a proxy voter. Due to the nature of the underlying holdings, only the equity managers are able to provide voting information. Over the last 12 months, the key voting activity on behalf of the Trustee is outlined below.

SSGA – Global Equity

- SSGA uses the services of proxy voting company, Institutional Shareholder Services (“ISS”).
- There have been 5,367 votable meetings over the year, of which SSGA has voted in 5,337 of these meetings on behalf of the Trustee. In these meetings, there were a total of 58,125 votable proposals.
- SSGA has participated in the vote for 57,608 of the 58,125 votable proposals. In around 87% of these votes for proposals, SSGA has indicated its support to the companies’ managements, while voting against around 13% of the proposals.
- At this stage SSGA have been unable to provide the key voting information. They have initiated a project on the criteria for reporting the information and will provide this once finalised.

L&G – Small Cap Equity

- L&G uses the services of ISS for proxy voting.
- There have been 3,739 votable meetings over the year, of which L&G was eligible to vote on behalf of the Trustee. In these meetings, there were a total of 36,842 votable proposals.
- L&G has participated in the vote for 36,419 of the 36,842 votable proposals. In around 78% of these votes for proposals, L&G has indicated its support to the companies’ managements, while voting against around 22% of the proposals.
- LGIM provided the 2019 Active Ownership Report which focuses on key engagement and voting activity throughout 2019. At this stage the 2020 report is not available which will contain key voting activity for the majority of the year to 31 October 2020.