

VTB Capital plc (Defined Benefits) Scheme (the “Scheme”)

Annual Engagement Policy Implementation Statement

Year Ending 31 December 2020

Introduction

This Statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 31 December 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 (as amended) and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. In agreement with the Scheme’s sponsor, the Trustee’s long term target is to fully fund all of the Scheme’s liabilities through buyout (or buy in).

The Trustee’s objective is to invest the Scheme’s assets in the best interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustee’s primary objectives are as follows:

- To ensure the assets of the Scheme are sufficient to meet the liabilities as an ongoing scheme.
- To limit the volatility of future pension costs caused by volatility of asset returns relative to the liabilities.
- To limit the risk of cash calls on the Company in difficult trading conditions.
- To achieve a favourable return on the investments held against each manager’s benchmark, with the benchmark set being consistent with the Actuary’s long term assumptions in determining the funding level of the Scheme.
- To maintain the funding position of the Scheme on an ongoing basis to at least 100% on the Technical Provisions basis.
- Over the longer-term, to achieve and then maintain a funding position of the Scheme on a low risk solvency or equivalent basis of 100%.

Policy on ESG, Stewardship and Climate Change

The Scheme’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 reviewed and updated in October 2020. The Trustee keeps the policies under regular review and monitors compliance with the SIP reviewed annually.

Engagement

- The Trustees consider how ESG, climate change and stewardship are integrated within the current investment manager's investment processes and seeks the views of their investment advisor in this area.
- The Trustee also received details of relevant engagement activity for the year from their investment manager, Legal & General Investment Management ("LGIM"). LGIM engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). LGIM provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the investment managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. Further information on LGIM's practices in this area can be found on their webpage:
<https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/>
- The discussion on stewardship is complemented, on a quarterly basis, by review of Mercer's assessment of research ratings for each of the funds in which the Scheme invests. The Mercer ratings provide an assessment of performance and ESG credentials and deteriorations in either rating would be flagged by Mercer to the Trustee for further consideration and possible action.

Voting Activity

The Trustee has delegated its voting rights to its investment manager. As a result, the Trustee does not use the direct services of a proxy voter, although the investment manager employs the services of proxy voters in exercising their voting rights on behalf of the Trustee.

LGIM is expected to provide voting summary reporting on a regular basis, at least annually.

Over the prior 12 months, the Trustee has not actively challenged the manager on its voting activity.

The key voting activity carried out on behalf of the Trustee over the year under review is detailed below. Votes for the AVC funds have not been considered as they are not considered to be material in the wider context of the Scheme.

LGIM – World Equity Passive

LGIM's Investment Stewardship team uses Institutional Shareholder Services, Inc.'s (ISS) 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. Their use of ISS's recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

LGIM's definition of significant voting 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 we note 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.

Voting undertaken over the prior year is summarised in the table below:

Fund	Votes cast			Significant vote example
	Votes in total ⁽¹⁾	Votes against management endorsement	Abstentions	
World Equity Index Fund	39,613	7,099	210	<p>BARCLAYS</p> <p>Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change</p> <p>Resolution 30 - Approve ShareAction Requisitioned Resolution</p> <p>Voting: LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.</p> <p>Rationale: "The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. LGIM are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome."</p>

⁽¹⁾The voting activity relates to the period 1 January 2020 to 31 December 2020

The remaining mandates with LGIM (Global Buy and Maintain Corporate Bonds and the liability-driven investment portfolio) are largely fixed income investments with no direct listed equity exposure and therefore have no voting rights attached.