

# The Assay Office Retirement Benefits Scheme – Implementation Statement 2022

## 1. Introduction

This document reviews the extent to which the Trustees of The Assay Office Retirement Benefits Scheme (the “Scheme”), have adhered to the policies and procedures on the exercise of rights (including voting) and undertaking of engagement activities with investment managers, as set out in the Scheme’s Statement of Investment Principles (“SIP”) dated January 2022. This was the SIP in place at the Scheme’s year-end date, 31 March 2022.

## 2. Executive summary

Over the Scheme year, the Trustees have:

- Implemented a new investment strategy, following a formal review and consultation with the Sponsoring Employer;
- Updated the Scheme’s SIP in January 2022 to reflect changes to the investment strategy;
- Appointed a new Investment Consultant, Quantum Advisory; and
- Reviewed the voting eligibility and activity of those funds that invest in equities. The Trustees are generally satisfied that their investment managers have appropriately carried out their stewardship duties. The stewardship activities for funds that do not hold equities have not been reviewed as part of this exercise, as the Trustees feel there is less scope to influence the practices of these issuers.

As part of this exercise, the Trustees have reviewed the voting activity of funds where there is an increased ability to influence positive practises (namely those that invest in equities). The following funds invested in equities during the Scheme year:

- LGIM Dynamic Diversified Fund
- Vanguard Life Strategy 40% Equity Fund (sold during the Scheme year)
- 7IM AAP Balanced Fund (sold during the Scheme year)
- Dimensional World Allocation 60/40 Fund (sold during the Scheme year)

## 3. Voting policies and activities

### Trustees’ voting and stewardship policies

The Trustees acknowledge the constraints they face in terms of influencing change due to the size and nature of the Scheme’s investments and given the Scheme invests in pooled funds. Furthermore, the Trustees note that the investment strategy and decisions of the investment managers cannot be tailored to the Trustees’ policies and the managers are not remunerated directly on this basis.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring the existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the selection of underlying funds and stewardship of their investments.

The voting policies and processes of the investment managers are set out in Appendix 1.

### Voting statistics

The table below sets out the key statistics on voting eligibility and actions over the Scheme year.

Statistic	LGIM Dynamic Diversified	Vanguard Life Strategy 40% Equity	7IM AAP Balanced	Dimensional World Allocation 60/40
Number of equity holdings	6,747	32,456	Not provided	13,017
Meetings eligible to vote at	7,193	32,833	13	3,727
Resolutions eligible to vote on	71,658	383,617	75	40,709
Proportion of eligible resolutions voted on (%)	100	99	100	99
Votes with management (%)	80	95	100	90
Votes against management (%)	19	4	0	10
Votes abstained from (%)	1	1	0	<1
Meetings where at least one vote was against management (%)	65	23	0	42
Votes contrary to the recommendation of the proxy adviser (%)	11	<1	N/A	N/A

Source: LGIM, Vanguard, 7IM and Dimensional. Totals may not sum to zero due to rounding.

Note: Vanguard voting information covers the period 31 December 2020 to 31 December 2021 due to availability of information.

The Trustees are satisfied with the level of voting activity that has been undertaken by the managers.

### Significant votes

The Trustees have reviewed the significant votes cast by the investment managers and are generally satisfied with their voting behaviour. A cross section of the most significant votes cast is contained in Appendix 2.

## 4. Conflicts of interest

This section reviews whether the managers are affected by the following conflicts of interest, and how these are managed.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;
2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;

3. The asset management firm's stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;
4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer; and
5. Differences between the stewardship policies of managers and their clients.

### **LGIM**

LGIM has refrained from directly commenting on which of the conflicts of interest, detailed above, it is impacted by. Instead, LGIM refers investors to its conflicts of interest policies, which include several examples of conflicts and how these might be managed. Further details of the conflicts of interest policy can be found here: [Conflicts of interest policy August 2021 \(lgim.com\)](#)

### **Vanguard**

Vanguard manages potential conflicts between funds, or with other types of accounts, through its policies and procedures, which include allocation policies and procedures; internal trading review processes; compliance department trading oversight; and oversight by directors, auditors, and regulators. Vanguard operates under a Code of Ethics that sets forth fiduciary standards that apply to all personnel, incorporates an insider trading policy, and governs outside employment and receipt of gifts. Moreover, proxy voting is separated, in both execution and oversight, from client-facing functions; documented guidelines eliminate potential conflicts in the proxy voting process. Vanguard funds' proxy voting procedures require voting personnel to act as fiduciaries, and conduct their activities at all times in accordance with the following standards: fund shareholders' interests come first; conflicts of interest must be avoided; and, compromising situations must be avoided. More information about the Conflicts of Interest policy can be found here: <https://global.vanguard.com/documents/Vanguard-Engagement-Statement.pdf>

### **Dimensional**

Dimensional has established and implemented written policies and procedures in order to prevent violations of federal securities laws or applicable regulations and to attempt to mitigate potential conflicts of interest. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises. To address the limited instances in which a potential conflict may arise, with respect to a proxy vote, Dimensional maintains an explicit policy on managing potential conflicts, which is focused on the principle of preserving shareholder value. The procedures Dimensional follows in the event a potential conflict of interest arises with respect to a vote are set out in a specific section of Dimensional's Proxy Voting Policies, which is available here: <https://eu.dimensional.com/gb-en/about-us/investment-stewardship>. Engagements are generally handled by the Investment Stewardship Group, and in certain cases Portfolio Managers are involved. During engagements, Dimensional seeks to handle any communications with portfolio companies in accordance with a standard protocol and consistent with Dimensional's Proxy Voting Policies regarding conflicts.

### **7IM**

7IM confirmed that no conflicts of interest (pursuant to the above criteria) were recorded over the period.

## Appendix 1 – Investment manager voting policies and procedures

### LGIM

LGIM's Investment Stewardship team make all voting decisions, in accordance with LGIM's Corporate Governance & Responsible Investment and Conflicts of Interest policy documents.

LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM's 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 are received from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any voting decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by the service provider.

### Vanguard

Vanguard Investment Stewardship team makes every effort to cast proxy votes at all meetings at which their funds are eligible to vote. Each fund advised by Vanguard has adopted a voting policy, which details the general positions of the funds on recurring proxy proposals at public companies. In some cases, country-specific guidelines for key markets are applied. An experienced team of analysts evaluates each proposal on a case-by-case basis and casts the funds' votes in accordance with their voting guidelines, and based on their analysis of the impact of the proposal on long-term value. The guidelines for these case-by-case items set forth the general frameworks for their analysis. Proposals for which specific guidelines are not defined will likewise be voted on a case-by-case basis in the best interests of each fund consistent with the principles articulated in their proxy voting guidelines and each fund's investment objective.

Proxy voting responsibilities for Vanguard's externally-managed active funds are performed by those funds' external advisors. The external managers have proxy voting guidelines designed to ensure they vote consistent with their fiduciary obligations. Each manager has its own policies and guidelines that govern their voting decisions. A number of qualitative and quantitative considerations inform these decisions, including context around the company, the industry, and the region in which business is being conducted. The external managers are carefully selected to ensure their investment principles and processes align with the best interest of the Vanguard funds they manage. The externally managed funds hold their portfolio managers to high standards of portfolio management and compliance, and are confident in the managers' ability to act in the best interest of the funds.

### Dimensional

Dimensional's proxy voting policy and guidelines are developed by an Investment Stewardship Committee and updated at least annually, considering information from academic research, industry participation, client feedback, and portfolio company engagement. The policies are accompanied by standard voting guidelines that apply to most portfolios, but also allow Dimensional to implement custom voting guidelines for strategies that incorporate sustainability and social considerations in their design. Specific steps involved in developing the proxy voting policy and guidelines may include:

- Reviewing academic research from the disciplines of law, economics, and environmental science.
- Conducting internal research and analysis.
- Soliciting feedback from internal stakeholders, such as Portfolio Managers and Dimensional client representatives.
- Discussing stewardship issues with clients to gather their perspectives.
- Reviewing positions taken by industry groups, proxy advisors, non-profits, regulators, and investors, both globally and regionally.
- Participating in industry groups and contributing to the public dialogue.

Dimensional’s proxy voting policy is principles-based, setting out their views on certain governance practices and providing the framework by which they analyse key proposal types. To the extent the proxy voting policy and its guidelines do not cover specific voting issues, they may consider the spirit of the policy and guidelines and instruct the vote on such issues in a manner that they believe would be in the best interests of the relevant client(s). In cases of particularly complicated votes, including those that present a potential conflict of interest, input is sought from the Investment Stewardship Committee

More information about the Dimensional “Proxy voting policies, procedures, and guidelines” is available here: <https://eu.dimensional.com/gb-en/about-us/investment-stewardship>.

## **7IM**

7IM has a policy in place on voting and disclosure of voting activity in line with its Stewardship Code (which takes the UK Corporate Governance Code and other governance frameworks into consideration). There are relatively few direct holdings for which 7IM retain voting rights. 7IM vote in line with management as a default measure however, they retain their discretion to override this and vote against management where they consider it appropriate if they are dissatisfied by a company’s adherence to the governance codes. 7IM do not make use of a proxy voting adviser, as they believe votes made in house will better reflect 7IM’s governance views. 7IM retain the services of Broadridge to enact proxy voting.

## Appendix 2 – Most significant votes

The tables below set out a cross section of significant votes undertaken by the investment managers of the funds held by the Scheme. Information on further significant votes undertaken by the Scheme’s investment managers has been reviewed by the Trustees.

### 7IM AAP Balanced Fund

7IM were unable to provide examples of significant votes cast on these funds. The firm’s rationale for such was that (as a fund of funds manager) the voting on the funds would have been largely undertaken by the third-party managers and not directly by 7IM. As part of the fund due diligence process 7IM is currently interrogating all its third-party fund managers to ascertain their voting activity

### LGIM Dynamic Diversified Fund

LGIM has determined significant votes to be:

- High profile votes which has such a degree of controversy that there is high client / public scrutiny.
- Significant client interest for a vote communicated directly to the Investment Stewardship team at their annual roundtable event.
- Sanction a vote as a result of a direct or collaborative engagement.
- Votes directly linked to an LGIM engagement campaign in LGIM’s investment Stewardship’s 5-year ESG priority engagement.

This list is not exhaustive.

Company Name	Microsoft Corporation	Apple Inc.
<b>Date of Vote</b>	November 2021	March 2022
<b>Summary of the resolution</b>	Elect Director Satya Nadella	Report on Civil Rights Audit
<b>How the firm voted</b>	Against	For
<b>Outcome of the vote</b>	Pass	Pass
<b>On which criteria has this vote to be "most significant"?</b>	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. The vote is in line with LGIM’s Investment Stewardship team’s priority engagement themes for ESG over the next five years.	A vote in favour as LGIM supports proposals related to diversity and inclusion policies. LGIM views diversity as a financially material issue for clients.

Source: Investment Manager.

### Vanguard Life Strategy 40% Equity Fund

Vanguard has identified a range of criteria that contribute to a vote being deemed as a 'Significant vote', but have not provided further detail on what these specific criteria are. Their criteria are applied to companies that are held in internally managed equity portfolios. Vanguard report significant vote data at an entity level in accordance with SRD II requirements. It is important to note that under the framework they expect to see variations in the number of significant votes identified per period.

Company Name	Rio Tinto Plc	Dignity Plc
<b>Date of Vote</b>	April 2021	April 2021
<b>Summary of the resolution</b>	Approve Remuneration Report for UK Law Purposes	Elect Gary Channon, a Shareholder Nominee to the Board
<b>How the firm voted</b>	Against	Against
<b>Outcome of the vote</b>	The vote did not pass.	The Vote passed
<b>On which criteria has this vote to be "most significant"?</b>	Vanguard voted against management.	The shareholder proposal received strong support and the vote passed.

Source: Investment Manager.

### Dimensional World Allocation 60/40 Fund

When determining significant votes, Dimensional prioritises votes on the issues that they believe are key to protecting shareholder interests. Dimensional believes that a well-functioning board, executive remuneration aligned with company performance, and the effective management of environmental and social risks may be reflected in increased valuations through a combination of lower discount rates and higher cash flows. Dimensional's intention is to demonstrate how their proxy voting policy addresses failures in these areas. They also considered the collective holdings of Dimensional's clients in the Company and the overall outcome of the shareholder vote.

Company Name	Shenandoah Telecommunications Company	Dave & Buster's Entertainment, Inc.
<b>Date of Vote</b>	April 2021	June 2021
<b>Summary of the resolution</b>	Elect Member of Audit Committee	Elect Directors
<b>How the firm voted</b>	Against	Against
<b>Outcome of the vote</b>	The vote passed	The vote passed
<b>On which criteria has this vote to be "most significant"?</b>	Dimensional voted against members of the Audit Committee for failure to remedy the underlying material weakness in internal controls identified by company management in FY2019 and FY2020. The failure of the Audit Committee to remedy the issue in a timely manner raises concerns over the efficacy of oversight by the Audit Committee.	Dimensional believes that the market for corporate control should be able to function without undue restrictions. Failure to do so can lead to entrenchment of management and reduced accountability at the board level.

Source: Investment Manager.