

Annual Implementation Statement – for scheme year ending 5 April 2021

Valspar UK Pension Plan

Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Valspar UK Pension Plan (the “Plan”) covering the scheme year to 5 April 2021.

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the engagement policy under the Plan’s Statement of Investment Principles (“SIP”) has been followed during the year
- describe the voting behaviour by, or on behalf of, the Trustees over the year.

A copy of this implementation statement will be made available on the following website <https://www.valsparpaint.co.uk/valspar-uk-pension-plan/>.

Trustees’ voting and engagement policy

The Trustees have delegated all day-to-day investment decisions to the Plan’s sole investment manager – Legal & General Investment Management (“Legal & General”). The Plan’s assets are entirely passively managed and invested in Legal & General pooled arrangements.

Due to the passive nature of the Plan’s investments, the Trustees recognize that no material decisions are taken by the investment manager on the holdings to be included in the portfolio. However, the Trustees expect that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment manager in the exercise of their delegated duties.

The Plan’s investment manager is signed up to the UK FRC Stewardship Code. The Trustees encourage Legal and General to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council. The Trustees will monitor the activities of its manager on a regular basis but appreciates that its applicability may be limited for certain asset classes such as bonds.

The Trustees receive regular updates from the investment consultant on the investment manager’s performance and whether there have been any changes to the investment manager’s research ratings. This is discussed at Trustees’ meetings together with whether the manager is performing in line with the Plan’s objectives. The Trustees are satisfied that the manager is engaging with investee companies in a manner aligned with the Plan’s long-term investment objectives.

The Trustees’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Summary of voting over the year

The Plan’s equity investments are managed by Legal & General Investment Management (LGIM) via a pooled fund on an index-tracking basis. Given the indexed nature of the mandates, LGIM are limited by the equities they must hold in the portfolio, but the Trustees believe they have a strong engagement process.

A summary of the voting on behalf of the Plan is provided in the table below. As the voting data as at 5 April 2021 is not available, the data provided below is as at 31 March 2021.

Fund	Number of votes eligible	% of votes exercised	% of votes with management	% of votes against management	% abstained
Legal & General UK Equity Fund	943	100.00%	92.94%	7.05%	0.01%
Legal & General World (ex-UK) Equity Fund	3243	99.83%	80.25%	19.16%	0.60%
Legal & General World (ex-UK) Equity Fund GBP Hedged	3243	99.83%	80.25%	19.16%	0.60%

Voting information on the Plan's bond funds is not provided as the vast majority of loan and debt securities do not come with voting rights.

Significant votes

The table below demonstrates the most significant votes cast on behalf of the Plan over the year to 31 March 2021:

Fund	Most significant votes cast
Legal & General UK Equity Fund	<p>LGIM determined eleven votes over the year to be "most significant", with most being votes against recommended remuneration policies. An example of one such significant vote is described below. Overall LGIM voted against management recommendations on nine of the eleven significant votes.</p> <p>Most significant vote – Plus500 Ltd. Type of resolution: Management Resolution: Approve Special Bonus Payment to CFO Elad Even-Chen at the company's special shareholder meeting held on 16 September 2020. Company Management Recommendation: For How the manager voted: Against</p> <p>At its AGM on 16 September 2020, Plus500 proposed a number of pay-related proposals for shareholder approval. Amongst these, the board recommended the approval of a substantial discretionary bonus offered to the CFO of around \$1.2 million, for his successful work with Israeli tax authorities over a number of years, resulting in a significant tax-saving for shareholders. The bonus is in addition to his annual variable pay and outside the normal bonus structure. LGIM does not support one-off discretionary bonuses (or transaction bonuses) as these are not within the approved policy to reward the achievement of preset targets.</p>

	<p>Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years.</p>
<p>Legal & General World (ex-UK) Equity Fund</p>	<p>LGIM determined fifteen votes over the year to be "most significant". As with the UK Equity Fund, many of these votes related to remuneration however there were also votes relating to environmental issues such as the example below. Overall LGIM voted against management recommendations on ten of the fifteen significant votes.</p> <p>Most significant vote – The Procter & Gamble Company (P&G) Type of resolution: Management Resolution: Report on effort to eliminate deforestation. Company Management Recommendation: N/A How the manager voted: For</p> <p>P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests. LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. We spoke to representatives from the proponent of the resolution, Green Century. In addition, LGIM engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies they invest their clients' assets in are not contributing to deforestation. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources.</p>
<p>Legal & General World (ex-UK) Equity Fund GBP Hedged</p>	<p>As a hedged Share Class of the Legal & General World (ex-UK) Equity Fund, voting for the fund was as described above.</p>