

# Hachette UK Pension Trust Ltd (Orion Publishing Group Limited Retirement Benefits Scheme)

## Implementation Statement



cardano

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## Introduction

This implementation statement (“Statement”) is produced alongside the Trustee Report and Accounts and is required by pensions regulations<sup>1</sup>. Hachette UK Pension Trust Ltd, the ‘Trustee’ of the Orion Publishing Group Limited Retirement Benefits Scheme (the ‘Scheme’) has prepared this Statement to provide stakeholders with a transparent and accurate review of how it has acted in line with the stewardship and engagement policies set out in the Statement of Investment Principles (the “SIP”) for the Orion Publishing Group Limited Retirement Benefits Scheme (the ‘Scheme’) during the accounting year.

This Statement includes details of:

- Compliance against the stewardship and voting policies;
- Any changes made to the stewardship and voting policies (“Stewardship Policy”) during the year; and
- Specifically, how the Scheme’s investment managers voted and engaged on our behalf.

This statement has been prepared by the Trustee to cover the period 1 January 2022 to 31 December 2022.

The Statement is publicly available at <https://www.hachette.co.uk/landing-page/huk-pensions-v2/>

## Executive summary

The day to day management of the Scheme’s assets is delegated to Cardano Risk Management Limited (the “Fiduciary Manager”). In advance of the appointment, the Trustee took steps to ensure that the management of the Scheme’s assets and the Fiduciary Manager’s policies were aligned with the Trustee’s own policies. The Trustee continues to monitor the Fiduciary Manager, as part of its regular interactions with them.

We monitor the voting and engagement activity of the Scheme’s investment managers, and, through the Fiduciary Manager, challenge their decisions.

The Trustee focuses its efforts on those investment managers where voting and engagement is material. The policies of those investment managers are summarised in this Statement, along with examples of the type of activity which took place during the period covered by this Statement. Some of the investment managers use investment approaches where stewardship is less likely to be relevant or significant. The Trustee is comfortable that our Fiduciary Manager has an appropriate approach to assess the stewardship and voting policies for all investment managers, and we receive a summary of the Fiduciary Manager’s overall assessments once a quarter.

<sup>1</sup> The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended)

## 1. Our Stewardship Policy

### 1.1. What is Stewardship?

“Stewardship” is the responsible allocation, management and oversight of capital to create long-term value for members, which should also lead to sustainable benefits for the economy, the environment and society. In practice, stewardship is affected through exercising the right to vote on any shares which are owned by the Scheme and engaging with the management of any companies or properties where an investment has been made.

### 1.2. What is our Stewardship Policy?

The Stewardship Policy in force during the financial year was:

**“Undertaking engagement activities in respect of the investments**

*Where relevant, the Trustee prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.*

*The Fiduciary Manager is responsible for engaging with investment managers regarding those investment managers' voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustee monitors the Fiduciary Manager's activity in this regard).*

**“The exercise of the rights (including voting rights) attaching to the investments**

*The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager encourages the Scheme's investment managers to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.”*

**“Arrangements with all Investment Managers**

*...Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Fiduciary Manager, who will collate the qualitative and quantitative information required to allow the Trustee to review the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with its responsible investment approach.”*

### 1.3. Engagement

The Fiduciary Manager is responsible on an ongoing basis for engaging with our investment managers. For managers where it is expected to have a meaningful impact, the Fiduciary Manager monitors voting records and the level of engagement with underlying investments.

The Trustee has recently selected three stewardship priorities for manager engagement in order to improve alignment against our policies and beliefs as well as enhance disclosure. These priorities are linked to the UN Sustainable Development Goals with an international endeavour in mind and aim to improve sustainability within the portfolio and have a direct real-world impact to our members' current and future landscape. The Trustees' three stewardship priorities are:

- **Climate Crisis** (with a focus on climate change and net zero greenhouse gas emissions)
- **Environmental Impact** (with a focus on biodiversity, deforestation and water)
- **Human Rights** (with a focus on living wages, gender equality and health & nutrition)

On behalf of the Trustee, the Fiduciary Manager has recently written to the Scheme's investment managers reaffirming and expanding on the Trustee's policy and expectations which align with our stewardship priorities. The Trustee expects the investment managers to incorporate these themes into their future voting practices and the Fiduciary Manager will monitor future manager disclosures to ensure alignment against our priorities.

## 1.4. How have we implemented our Stewardship Policy?

### Fund structuring

The Trustee holds investments primarily on an indirect basis through pooled funds. The reason for this approach is that:

- It provides a broader range of investment opportunities, which helps to improve the diversification of investments, which in turn helps to manage risk;
- Fixed costs are shared amongst other investors, thereby reducing our overall costs; and
- It simplifies the implementation process as existing funds can be used with standard terms and agreements, reducing the overall governance burden both on the Trustee and the Sponsor.

Where investments are made in pooled funds the Trustee follows the voting and engagement policies of the investment managers of the pooled funds. However, the Trustee remains responsible for ensuring that the investment managers our Fiduciary Manager appoints act consistently with the Scheme's Stewardship Policy.

### External engagements

The Trustee assesses that the Fiduciary Manager has been aligned with our Stewardship Policy throughout the year. The Fiduciary Manager has been a signatory to the UN Principles for Responsible Investment since 2011 and they are a signatory to the UK Stewardship Code 2020.

In addition, the Fiduciary Manager is a member of a range of sustainable investment organisations noted below.



### Engagement beliefs

The development of engagement beliefs is an important Trustee responsibility. We have delegated the day-to-day implementation of our beliefs to the Fiduciary Manager, having concluded that the Fiduciary Manager's core beliefs are consistent with our own. The beliefs driving the Fiduciary Manager's approach to engagement are as follows.

#### Quality over quantity

- The Fiduciary Manager is interested in a few meaningful quality engagements, with strong reporting (rather than, being interested in the quantity of votes). They want managers to prioritise the highest sustainability impacts in their portfolios

#### Long-term

- The Fiduciary Manager encourages underlying managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years

## Real world impact

- The Fiduciary Manager is interested in engagement on topics that contribute to positive real-world sustainability impact (such as, reduction in absolute carbon emissions)

## Transparency

- Some engagement, perhaps even most engagement, will be unsuccessful. The Fiduciary Manager is realistic, and they prefer transparency from managers

## Collaboration

- Engagement is more efficient when managers collaborate – not just for the managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). The Fiduciary Manager encourages underlying managers to participate in collaborative initiatives, such as Climate Action 100+

## Innovation

- The Fiduciary Manager welcomes innovation, for example, third-party tools to assess a company's conviction on sustainability topics

## Integrated

- The Fiduciary Manager is interested in how (if at all) stewardship contributes to the investment thesis and whether managers link their stewardship to other engagement activity (for example, policy engagement)

## Manager selection and monitoring

When selecting investment managers, the Fiduciary Manager scrutinises the stewardship, voting and engagement policies. Activities of investment managers are assessed before the initial investment to ensure they align with our Stewardship Policy. The Fiduciary Manager monitors our investment managers on an ongoing basis; ensuring their activities align with our Stewardship Policy and engaging with our investment managers to help them improve their stewardship approach. The Fiduciary Manager closely monitors investment managers who do not meet our stewardship standards and actively works with them to improve their policies, processes and reporting.

The Trustee monitors voting and engagement activity of our investment managers and challenges their activity through the Fiduciary Manager. We categorise our managers according to how material voting and engagement is in their mandate, focusing efforts on managers where voting and engagement is material.

## Compliance statement

To the best of our knowledge, the Trustee has complied with the Stewardship Policy over the year.

## 2. Voting Activity

The Shareholder Rights Directive (SRD II) and the UK Stewardship Code 2020 both emphasise the importance of institutional investors and asset managers engaging with the companies in which they invest. They stress the importance of exercising shareholder voting rights effectively. Voting only applies to equities held by the Scheme and given the use of pooled funds, there is limited scope for the Trustee to directly influence voting. Voting is carried out by the investment managers on behalf of the Trustee.

### 2.1. How did our managers vote?

The tables below provide a summary of the voting activity undertaken by our managers during the year.

Note: the managers included denote those where voting and engagement are seen as material aspects of their investment process, rather than necessarily those investments we have the largest exposure to. In addition, not all managers in this category will always have voting opportunities in any given year. Although all investment managers that the Scheme invests with, directly or indirectly, are subject to the Scheme's engagement policy and monitored accordingly, some managers are not subject to engagement / stewardship disclosure obligations.

#### Amia

	Manager response
Number of meetings the manager was eligible to vote at over the year	3
Number of resolutions the manager was eligible to vote on over the year	40
% of eligible resolutions the manager voted on	100%
% of votes with management	100%
% of votes against management	0%
% of resolutions the manager abstained from	0%

#### CC Japan

	Manager response
Number of meetings the manager was eligible to vote at over the year	91
Number of resolutions the manager was eligible to vote on over the year	273
% of eligible resolutions the manager voted on	100%
% of votes with management	95%
% of votes against management	0%
% of resolutions the manager abstained from	5%



## Egerton

	Manager response
Number of meetings the manager was eligible to vote at over the year	32
Number of resolutions the manager was eligible to vote on over the year	374
% of eligible resolutions the manager voted on	84%
% of votes with management	92%
% of votes against management	6%
% of resolutions the manager abstained from	2%

## MI Metropolis

	Manager response
Number of meetings the manager was eligible to vote at over the year	25
Number of resolutions the manager was eligible to vote on over the year	407
% of eligible resolutions the manager voted on	100%
% of votes with management	94%
% of votes against management	6%
% of resolutions the manager abstained from	0%

## Polar

	Manager response
Number of meetings the manager was eligible to vote at over the year	54
Number of resolutions the manager was eligible to vote on over the year	544
% of eligible resolutions the manager voted on	100%
% of votes with management	85%
% of votes against management	15%
% of resolutions the manager abstained from	0%

## Sands

	Manager response
Number of meetings the manager was eligible to vote at over the year	64
Number of resolutions the manager was eligible to vote on over the year	436

% of eligible resolutions the manager voted on	100%
% of votes with management	94%
% of votes against management	5%
% of resolutions the manager abstained from	2%

## Sunriver

	Manager response
Number of meetings the manager was eligible to vote at over the year	22
Number of resolutions the manager was eligible to vote on over the year	231
% of eligible resolutions the manager voted on	100%
% of votes with management	95%
% of votes against management	3%
% of resolutions the manager abstained from	2%

## 2.2. Use of proxy voting services

Proxy voting services are specialist firms that provide an outsourced voting service. Some investment managers choose to use these services (rather than vote themselves). The reasons for using proxy voting services could include:

- The investment manager lacks the resource to research each vote and submit votes
- The investment manager wants to follow a recognised code of practice and the proxy voting service is an easy way to implement this

Using a proxy voting service does not necessarily mean that voting is done poorly. In fact, many professional proxy voting services are able to devote significant resource to researching AGM motions and are able to follow best practice guides like the Financial Reporting Council's (FRC) Stewardship Code.

We recognise that by having a suitable Stewardship Policy in place and using our Fiduciary Manager to monitor voting activity, investment managers can create more engagement over time; particularly smaller, more boutique managers with less in-house expertise and resource.

The table below outlines the use of proxy voting services by the Scheme's investment managers where voting is deemed to be of material importance.

Manager	Use of proxy voting service
Amia	Broadridge Proxy Edge Service. We use a ESG template provided by Broadridge, based on responses from ESG focused clients.
CC Japan	N/A
Egerton	We do not use a proxy advisor but do utilise the services of Proxy Edge to cast votes.

<b>MI Metropolis</b>	ISS
<b>Polar</b>	Polar Capital uses ISS as a proxy advisor. This highlights all situations where the proxy advisor recommends voting against management, key issues and produces research as part of recommendations. These are available to each fund management team for consideration. The fund management team then decides how they wish to vote.
<b>Sands</b>	ISS, Glass Lewis, and SES (for India Holdings) standard voting policy.
<b>Sunriver</b>	Sunriver has engaged an independent third-party proxy voting service, Institutional Shareholder Services. We license their standard policy ("ISS Proxy Analysis & Benchmark Policy").

## 2.3. Examples of significant votes

When collating voting statistics for our managers, we also asked our managers to provide examples of significant votes cast. The tables below outline a sample of responses received.

### Amia

Company Name	Summary of the resolution	Rationale / Outcome
Ukraine (Sovereign)	In July 2022, Amia voted for the proposed changes to the terms of certain Ukrainian Sovereign bonds in issue. The changes, amongst others, were to defer the dates on which certain payments of interest and/or principal were due, and on which the bonds were to mature.	Strong support for Ukraine's liability management program

### Egerton

Company Name	Summary of the resolution	Rationale / Outcome
Microsoft	Voted with a shareholder proposal (and against management recommendation) for cost-benefit analysis of diversity and inclusion	ESG Related

### MI Metropolis

Company Name	Summary of the resolution	Rationale / Outcome
Alphabet	Report on Metrics and Efforts to Reduce Water Related Risk	The proposed report would increase transparency into Alphabet's exposure to climate-related water risks, which we understand is of particular relevance to Google, given its intense use of water in data centre cooling. We therefore believe this report would be in the interest of shareholders.

## Sunriver

Company Name	Summary of the resolution	Rationale / Outcome
US Food Holdings Corp.	Shareholders request that US Foods adopt short, medium, and long-term science-based greenhouse gas emissions reduction targets, inclusive of emissions from its full value chain, in order to achieve net-zero emissions by 2050 or sooner and to effectuate appropriate emissions reductions prior to 2030.	Sunriver agreed with ISS that additional information on the company's GHG emissions reduction efforts would allow investors to better understand how the company is managing its transition to a low carbon economy and climate change related risks.

## 3. Engagement Activity

Engagement is considered to be purposeful dialogue with a specific and targeted objective to achieve positive change in the interests of beneficiaries, thereby a key action required for delivering good stewardship. The Fiduciary Manager is passionate about active engagement, as opposed to disinvestment or exclusions practices, in order create positive real-world change. Through engagement, asset managers can build relationships with the companies in which they invest, helping to steward companies on a range of topics, including sustainability.

The tables below provide examples of engagement activity of the Scheme's investment managers where engagement should be a material activity in the management of the assets.

## CC Japan

Key points	Engagement activity
<p><b>Engagement Theme:</b> Diversity &amp; Inclusion</p> <p><b>Industry:</b> Construction</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>Improved diversity of the Board following the appointment of a female independent audit director</li> </ul>	<p>The Manager reflected their concern on the insufficient number of female directors on the board in November 2020, and subsequently had a 1-to-1 video conference call in September 2021 to discuss further the importance of female board representation.</p> <p>Since the initial discussion the Manager had in November 2020, the management made a step forward to work on gender diversity on the Board, with one female director being appointed as an independent audit director as of June 2021. The Company confirmed that the management had received advice to make an improvement on the gender diversity of the Board from various institutional investors along with the Manager's request.</p> <p>The Manager's engagement was made separately and aligns with UN Sustainable Development Goal #5: Promote Gender Equality.</p>

## Egerton

Key points	Engagement activity
<p><b>Engagement Theme:</b> Governance</p> <p><b>Industry:</b> Car manufacturing</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>• <b>Improved treatment for a variety of stakeholders,</b> particularly minority shareholders</li> <li>• <b>Greater stakeholder representation with improved voting rights</b></li> </ul>	<p>The Manager believes its engagement with the Company on governance issues has the ability to improve shareholder returns, as well as treatment of a variety of stakeholders, particularly minority shareholders, which in turn will bring about greater stakeholder representation and enable further positive change going forward.</p> <p>The Manager has frequent one-on-one discussions with the Chairman about governance where they convey a strong preference that minority shareholders should be better represented and receive a vote. The Manager recently proposed that the Company equalise or harmonise its dual share class structure of non-voting preference shares and voting ordinary shares into one share class of voting shares to afford shareholders such as Egerton better representation.</p> <p>In addition to harmonising the share class structure, the Manager proposed improving the supervisory board by including more independent directors.</p>

## Polar Capital

Key points	Engagement activity
<p><b>Engagement Theme:</b> <b>Human Capital Development, ESG Reporting and Disclosure</b></p> <p><b>Industry:</b> Biotechnology</p> <p><b>Outcome:</b></p> <ul style="list-style-type: none"> <li>• Improved alignment between practice and reporting</li> </ul>	<p>While the Company scores well overall on MSCI ESG ratings, particularly on governance and certain social issues (it is notably exemplary in product quality and safety), the Company lacks evidence of policies around human capital development and has experienced challenges on hiring and incentives. The Company is headquartered in Europe but has significant operations in the US where remuneration standards can be quite different.</p> <p>As a significant shareholder, the Manager has provided advice on the company plans but also highlighted the importance of disclosures on ESG to the investor relations team. The Manager is assured that the important aspects of social development are already deeply ingrained in the company culture and expects to see further progress in documentation and filings soon.</p> <p>In addition, the Manager's investment team conduct ongoing ESG due diligence on the investment thesis of the Company, which includes contacting the company directly to understand their commitment to ESG issues. This has led to improved policies and disclosures.</p>

## Sands

Key points	Engagement activity
<p data-bbox="118 396 576 555"><b>Engagement Theme:</b> Management accountability; board structure or composition; diversity and inclusion</p> <p data-bbox="118 613 304 689"><b>Industry:</b> Online retailer</p> <p data-bbox="118 743 603 1003"><b>Outcome:</b></p> <ul data-bbox="118 790 603 1003" style="list-style-type: none"><li>• By showing support for a well-structured and balanced board of directors, the overall governance of the Company is maintained</li><li>• Improved diversity within the board</li></ul>	<p data-bbox="628 389 1447 524">In June 2021, ahead of the annual general meeting, the Manager conducted a call with the company's chief financial officer to discuss proxy proposals related to board selection and management compensation.</p> <p data-bbox="628 560 1447 860">The Manager felt that the Company has a well-functioning board overall, in which all board members interact with management frequently and conduct one-on-one meetings with the Company's chief executive officer, who is also the founder. The board is currently majority independent and staggered. Because two director seats were up for election and one director was retiring, the Manager wanted to better understand the role of the board in guiding the business and the selection process for replacing the retiring directors.</p> <p data-bbox="628 896 1447 994">The Company looked for new directors whose skills complement those of the existing board members and structured its search efforts accordingly.</p> <p data-bbox="628 1030 1447 1263">The Manager also took a deeper dive into the Company's approach to improving gender diversity. They have a diversity and inclusion plan that includes a policy that requires two out of every three final candidates to be female. It followed this policy in the latest hiring process for the open board seat and is similarly focused on improving gender diversity at the board level.</p> <p data-bbox="628 1299 1447 1366">Overall, they believe management has been prudent in board selection and voted with management on all issues.</p>



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