Engagement Policy Implementation Statement

AbbVie Pension Fund

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustee produces an annual implementation statement which outlines the following:

- Explain how and the extent to which it has followed the engagement policy, which is outlined in the Statement of Investment Principles (SIP).
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the Fund year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement has been prepared by the Trustee and covers the Fund year from 1 April 2020 to 31 March 2021.

Stewardship Policy Summary

The below bullet points summarise the Fund Stewardship Policy in force over the majority of the reporting year to 31 March 2021. The full SIP can be found here: https://www.abbvie.co.uk/content/dam/abbvie-dotcom/gb/documents/AbbVie-Pension-Fund-SIP-July2020.pdf

- *The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term financial value for the Fund and its beneficiaries.*
- *As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:*
  - *Take into account social, environmental or ethical considerations in the selection, retention and realisation investments; and*
  - *Exercise the Trustee's voting rights in relation to the Fund's assets.*
- *The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seeks a more sustainable position but may look to replace the manager.*
- *The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Fund's asset managers and ensure their managers, or other third parties, use their*

influence as major institutional investors to carry out the Trustee’s rights and duties as a responsible shareholder and asset owner.

- *The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Fund members on request.*
- *The transparency for voting should include voting actions and rationale with relevance to the Fund, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the trustee or the asset manager.*
- *Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary in order to carry out voting actions.*
- *From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.*

The mangers' statements of corporate governance and voting activity are made available to the Trustee. These statements are also published on the respective websites of each manager.

Fund stewardship activity over the year

Training

Over the year, the Trustee had a responsible investment training session with their investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance (ESG) factors in investment decision making. The training session also highlighted some of AbbVie Inc.'s commitments to environmental and sustainability issues to help the Trustee determine the policies to adopt for the Fund.

Following this training session, the Trustee updated the SIP in July to comply with the new regulations.

Putting in place an action plan

To support their approach, the Trustee put in place a Responsible Investment, Stewardship and Cost Transparency action plan, which was also included in the Trustee's compliance calendar, to ensure a robust monitoring framework was in place.

Updating the Stewardship Policy

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in July 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Fund's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

The Trustee has commissioned the annual collection and analysis of the fees being incurred from the Fund's appointed investment managers in managing the Fund's assets. The Trustee reviews this data and will challenge any manager where the fees being incurred are out of line with expectations.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by their investment advisors, Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for 'Buy' rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Climate risk management (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) established a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to the clear communication of decision-useful information and therefore better-informed decision-making on climate-related financial risks. At this time the regulation in place does not mandate that the Trustee has to comply with the TCFD requirements in relation to the Fund, which are being phased in on pension scheme's based on their total asset value (with the current minimum asset size of £1bn being captured). The Trustee has agreed to obtain specialist training from Aon on how TCFD could impact the Fund in future.

Voting and Engagement activity – Equity funds

During the year, the Fund was invested in the following funds:

Manager	
Legal & General Investment Management (LGIM)	Global Developed Four Factor Scientific Beta Index Fund
	World Emerging Markets Equity Index Fund

Legal & General Investment Management (LGIM)

Voting

LGIM makes use of the Institutional Shareholder Services ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what they consider to be the minimum best practice standards all companies should observe. LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Over the year to 31 March 2021	Global Developed Four Factor Scientific Beta Index Fund	World Emerging Markets Equity Index Fund
Number of resolutions eligible to vote on over the year to 31/03/2021	15,664	36,036
% of resolutions voted on for which the fund was eligible	99.90%	99.89%
Of the resolutions on which the fund voted, % that were voted against management	17.99%	13.40%
Of the resolutions on which the fund voted, % that were abstained from?	0.23%	1.38%

Voting example

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against the resolution to amend the directors' remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new Chief Executive Officer ("CEO") would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant on the basis that LGIM voted against the board and the unusual approach taken by the company and LGIM.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement example for LGIM

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that 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. Furthermore, two of their suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity – Fixed Income and Real Estate

The Fund also invests in a number of fixed income and real estate strategies.

Manager	
Insight Investment Management (Insight)	Bonds Plus 400 Fund
M&G Investments (M&G)	Alpha Opportunities Fund
Schroder Investment Management (Schroders)	Enhanced Securitised Fund (ABS) UK Real Estate Fund
ICG Longbow	UK Real Estate Debt Investment V Fund

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited, in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making. Likewise, property owners have significant capacity to influence the resilience of their property portfolios through judicious engagement with tenants and active asset management initiatives.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Fund over the year.

Insight

Insight states within its responsible investment policy that it engages as a bondholder with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. Insight prioritises its engagement dependent on a variety of factors which can include portfolio position, materiality of issue and company access.

Engagement example for Insight

An example of engagement was in Q4 2020 with La Trobe Financial, in relation to residential mortgage backed securities. The originator, La Trobe, has strong governance and social scores, but it is disappointing with regards to providing information on the environmental risks. Insight has engaged with them on providing information on environmental metrics and stress tests and to incorporate climate change factors into its origination process.

There are also some areas that can be improved on the origination and servicing side such as the way origination teams are compensated and the setting of fee incentives for the services collection process. Insight would also like to see the complaints independently reviewed away from the service function.

M&G

M&G developed its engagement process, adopting the Sustainable Accounting Standards Board ("SASB") framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages. Since 2019 M&G has created a question databank of over 600 sector specific ESG questions, which identifies key material risks and themes, as identified by both the SASB and its own internal experience, of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative and World Economic Forum Climate Governance guidelines to further build its capability to identify financially material risks on a sector by sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies, dependent on their sector, and ensures that when there is a potentially material risk, M&G is able to identify and act on it in an efficient way. Engagement cases can then be easily prioritised through M&G's hashtag system, which allows its analysts across asset classes to monitor material ESG risks across the capital structure.

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G’s Fixed Income teams to understand their engagement activities, participate in ESG-related engagements and help to coordinate engagements across asset classes where appropriate. The fund itself had 21 ESG engagements over 2020.

Engagement example for M&G

In September 2020 M&G engaged with Quadient on the topic of modern slavery. The objective of the engagement was to encourage further disclosure and policies relating to human rights and modern slavery from automation and communications specialist Quadient, in order to recognise the importance of these issues given the nature of the supply chain. M&G's engagement with Quadient allowed the company to explain its full ESG strategy and allowed M&G to look in greater depth at its approach to supply chain management, especially relating to conflict minerals and human rights.

M&G asked the company to publish full public policy documents on human rights, supplier practices, business ethics and data privacy. Quadient was extremely receptive to both the questioning and the suggestions for releasing public-facing policy documents. The company has assured M&G that it intends to publish these, and supplementary information, on its website in the near future. M&G will continue to monitor and follow up as appropriate.

Schroders

Schroders engagement activities combine the perspectives of their portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces. Intervention will generally begin with a process of enhancing their understanding of the company and helping the company to understand their position. The extent to which Schroders would expect to effect change will depend on the specific situation.

Schroders state that they generally engage for one of three reasons:

1. To seek improvement in performance and processes in order to enhance and protect the value of their investments;
2. To monitor developments in ESG practices, business strategy and financial performance within a company; and
3. To enhance their analysis of a company's risks and opportunities.

Further information can be found in Schroders' Environmental, Social and Governance Policy: https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf

For the UK Property Fund
https://www.schroders.com/en/sysglobalassets/email/uk/realestate/2020/schroder-real-estate-net-zero-carbon-pathway-december-2020_1621372_v1.pdf

Engagement example for Schroders ABS Fund

One example of an engagement Schroders undertook at a firm level on the topic of climate change was their engagement on Russian permafrost in December 2020. Schroders engaged with seven companies identified as operating in at-risk areas in Russia, via a tailored letter outlining their understanding of the permafrost risk relevant to each company's operations and how climate change is exacerbating the problem. Schroders states that their aim is to collate feedback and rank the firms based on the captured analysis.

The information gathered from company responses will not only allow Schroders to better assess companies' management of these risks, but also to further develop their in-house proprietary tool and monitor how these risks evolve in the coming years.

Where companies are not sufficiently managing current risks, or are not sufficiently prepared for future risks, Schroders seeks to engage further to influence them towards more sustainable business practices. Ultimately, Schroders wants to influence companies where the current permafrost assessment and management is not sufficient.

Engagement example for Schroders UK Property Fund

Schroders presented an example in relation to Battersea Studios, London which comprises two office buildings and is held within the UK Property Fund. A comprehensive review focusing on health and wellbeing credentials was undertaken by the manager to support understanding of tenant's needs. A wellness gap analysis was completed for the building and management operations against the Fitwel standard (a US based health and wellbeing assessment and certification routine for office buildings).

The review included conducting an occupant commuter survey to better understand transport requirements for building users (e.g. bike storage and showers), establishing an indoor air quality management policy and installing signs promoting stair use at lift call areas and handwashing in bathrooms.

Identified improvements have been implemented and the Fitwel certification completed in March 2019 with Building 1 officially awarded the first 'Fitwel for Workplace: Multi-Tenant Whole Building' Certification in Europe gaining a 1 Star rating. Schroders continue to develop their understanding of what health and wellbeing aspects contribute to improved tenant experience to further improve the building and the Star rating.

ICG Longbow (ICG)

ICG's Real Estate investment team regularly engages with its issuers pro-actively on industry wide ESG trends. Given the more specialised nature of the ICG Real Estate strategy, a bespoke ESG survey has been prepared for real estate portfolio companies, which it intended to roll out during Q4 2020, but it has not confirmed if this has happened.

Where ICG has significant influence in the ownership or capital structure of companies, or with the existing private equity sponsor, it engages with management to ensure it delivers high levels of corporate responsibility. Where appropriate ICG also exercises its influence at the board level of a portfolio company and engages with them on strategy, risk, performance and governance matters.

In strategies where ICG is a minority stakeholder or where the nature of the strategy limits its ability to influence management with regard to ESG, ICG seeks to monitor ESG risks and engage with management insofar as is feasible. In strategies where ICG has influence and access to management, it looks to maintain strong relationships with management at portfolio companies, and with controlling private equity sponsors, as relevant. These relationships allow ICG to maintain an ongoing dialogue around the ESG factors impacting the business and allow ICG to exert influence, wherever possible. For these companies, ICG circulates its Annual ESG Survey to better understand how they are managing ESG issues. ICG's Annual ESG survey includes questions on risk assessment and management, governance, environmental management, climate change, and social performance.

ICG also uses a Green Loan Framework ("GLF") to help prioritise engagements. The team will work with an external advisor to review the selection and evaluation criteria for eligible investments as well as an assessment of the GLF's alignment with the fund and ICG's environmental objectives. The GLF sets out ways to manage energy intensity and Green House Gas emissions and includes a rigorous third-party audit. An investor report will be made available on an annual basis, providing details of the different assets financed along with asset-level sustainability performance data reported by borrowers or sponsors.

In Summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that most of the applicable asset managers were able to disclose strong evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Fund through considered voting and engagement.