AVON COSMETICS PENSION PLAN

IMPLEMENTATION STATEMENT FOR THE NEW MONEY PURCHASE SECTION

Introduction

This document is the first annual Implementation Statement (the "Statement") prepared by the Trustees of the Avon Cosmetics Pension Plan ("the Plan") in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. The Statement relates to the Plan's New Money Purchase Section ("the NMP Section") only and a separate Implementation Statement has been prepared covering the Plan's Defined Benefit Section.

The Statement covers the Plan year ending 31 December 2020 and its purpose is to:

- Confirm if the Trustees undertook a review of their Statement of Investment Principles ("SIP") during the year and to summarise any changes that were made as a result of the review;

- Set out the extent to which, in the opinion of the Trustees, the SIP has been followed during the year; and

- Describe the voting behaviour by, or on behalf of, the Trustees during the year.

The Trustees' Statement of Investment Principles

Under Section 35 of the Pensions Act 1995, the Trustees are required to prepare and keep under review a statement of investment principles that sets out their investment objectives and policies for the Plan, including the NMP Section. In line with this requirement, for the NMP Section, the Trustees' SIP covers the following:

- The division of responsibilities between the Trustees, their advisers and investment managers;

- The Trustees' investment objectives for the NMP Section and how they have taken into account the risks faced by members;

- The range of investment options that the Trustees have made available to members of the NMP Section, including the default investment strategy;

- The Trustees' policies on corporate governance and socially responsible investment; and

- The circumstances in which the Trustees will undertake a review of their SIP.

Changes to the SIP during the year to 31 December 2020

In line with new regulations governing the content of statements of investment principles, the Trustees reviewed and updated their SIP in September 2020. As part of this review, the Trustees took advice from their investment consultants for the NMP Section, Willis Towers Watson ("WTW"), and consulted with the Plan's Principal Employer, Avon Cosmetics Limited.

The principal changes made by the Trustees were in respect of their arrangements with their chosen investment managers, in particular:

- How the Trustees incentivise the investment manager to (a) align its investment strategy and decisions with the Trustees' investment policies and (b) make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity;

- How the method of the evaluation of the investment manager’s performance and the remuneration are in line with the Trustees’ policies;

- How the Trustees monitor portfolio turnover costs; and

- The duration of the arrangement with the investment manager.

The Trustees also made small changes to the NMP Section’s objectives.

Following the above changes, an updated version of the SIP (dated September 2020) was formally adopted by the Trustees, replacing the previous version dated September 2019. All references to the Trustees’ SIP in this statement refer to the version dated September 2020.

A copy of this Implementation Statement (and the equivalent statement for the Defined Benefit Section), together with a copy of the Trustees’ current SIP, can be found on the following website:

www.avon.uk.com/pages/pensions.

The Trustees adherence to the SIP

The Trustees believe they have followed their investment objectives and policies for the NMP Section as set out in their SIP that were in place for the Plan’s year ending 31 December 2020. Further information on how they did this is set out in the remainder of this section.

Governance

The NMP Section’s provider

The Trustees have appointed Scottish Widows as the NMP Section’s provider using a ‘bundled’ arrangement under which Scottish Widows provide both administration services and the investment platform from which the Trustees’ select the range of pooled investment funds in which members can invest their pension savings.

Through the provision of quarterly reports provided by their advisers, WTW, the Trustees monitor Scottish Widows throughout the year. For the Plan’s year ending 31 December 2020, the Trustees concluded that Scottish Widows remained a suitable provider for the NMP Section.

The Trustees’ governance framework

The Trustees have a number of responsibilities that are summarised in Appendix A of their SIP and in order to meet these responsibilities, the Trustees have adopted an appropriate governance framework to monitor the NMP Section’s investment strategy and the performance of the individual pooled investment funds, including those that make up the default investment strategy. At the current time, for the NMP Section, the

Trustees consider that it is best for these governance activities to be undertaken by the Trustee board as a whole as part of their quarterly Trustee meetings (for the Plan's Defined Benefit Section, investment matters have largely been delegated to the Defined Benefit Investment Committee).

The Trustees review their investment objectives and strategy at least once every three years in order to ensure they remain appropriate for the NMP Section's membership. These reviews consider such matters as the demographic profile of the NMP Section's membership, the benefit choices members may make at retirement, the likely risk tolerances of members, developments in the defined contribution pensions market and any relevant legislative changes. The last review was completed in 2019 in conjunction with WTW, the Trustees' investment advisers for the NMP Section, and the next review is due to commence towards the end of 2021.

The performance of each of the pooled investment funds (which include those that make up the default investment option) is reviewed at each of the Trustees quarterly meetings using a report provided by Scottish Widows. As all the pooled investment funds are passively managed (except for the Deposit and Treasury and Money Market funds), each fund's performance is measured against its benchmark index.

During the Plan's year to 31 December 2020, as well as over the medium to long term, the passively managed funds performed within acceptable tolerances of their relevant index benchmark. The Trustees accept that there may be small deviations in a fund's performance from its index benchmark and provided these are over short periods of time or are within acceptable tolerances over the medium to long term, the Trustees will not normally take any action. However, sustained or longer-term deviations would be investigated further.

The Trustees also ensure that the Plan meets all relevant legal requirements and expectations as set out in the Pensions Regulator's Code of Practice no. 13 "Governance and administration of occupational trust-based schemes providing money purchase benefits".

Professional advice

In all matters relating to the NMP Section's investments, the Trustees take professional advice from their appointed investment advisers, WTW. The Trustees also take advice from WTW on the suitability of their SIP and when making any changes to the SIP, which they did when making the changes referred to earlier in this statement.

In order to ensure that the advice received is appropriate and in line with the Trustees requirements, the Trustees have agreed a number of investment objectives for WTW that will help the Trustees in meeting their own investment objectives for the Plan. The Trustees will keep WTW's objectives under review and will also refer to them when assessing the performance of WTW as their investment advisers.

Investment objectives

The Trustees' principal objective is that the NMP Section's overall investment strategy (particularly the default investment option) remains appropriate as the membership changes over time.

In order to meet the above principal objective, the Trustees:

- Provide members with a range of investment options and pooled investment funds to satisfy their differing risk appetites and retirement goals;

- Offer an appropriate lifestyle strategy as the default investment option for those members who do not feel able to make decisions on how their contributions should be invested;

- Offer three alternative lifestyle strategies to the default investment option that allow members to make limited investment decisions, while still being able to tailor their pension planning to suit their personal circumstances;

- Offer a range of suitable investment funds for members to invest in while being able to mitigate the risks they face; and

- Monitor the fund choices to ensure they are consistent with the strategic objectives of the Trustees' SIP and that performance is consistent with that expected.

To meet the above objectives, the investment options currently available to members are summarised below.

The NMP Section's default investment option

The NMP Section's default investment option used for members who decide not to make their own investment choice is the Scottish Widows Passive Interim Lifestyle (Avon). This aims to provide:

- A a suitable investment solution from the point at which the member joins until the point at which the member is sufficiently comfortable to make an investment decision, in particular how they might wish to manage their income in retirement;

- Capital growth over the long term by investing in a range of multi-asset funds that provide increasing levels of capital protection as members approach retirement by automatically moving into funds that are less likely to experience changes in value.

As part of the last review of the default investment option, based on analysis of the demographics and risk profile of the NMP Section's membership at the time, the Trustees agreed that the above default investment option was in the most appropriate for members who do not make their own investment choice.

The default investment option also satisfies the DWP's auto-enrolment regulations, including the cap on charges. Currently, the charges for the investment funds that make up the Scottish Widows Passive Interim Lifestyle (Avon) range from 0.345% per annum to 0.357% per annum. These compare to the cap on charges of 0.75% per annum.

The NMP Section's alternative lifestyle strategies

As an alternative to the default investment option, members of the NMP Section have the choice of three further lifestyle investment strategies, being:

- The Scottish Widows Passive Immediate Spend Lifestyle (Avon);

- The Scottish Widows Passive Securing Lifelong Income Lifestyle (Avon); and

- The Scottish Widows Passive Flexible Retirement Lifestyle (Avon).

The NMP Section's self-select fund range

In addition to the default investment option and three alternative lifestyle strategies, members have a choice of seven pooled investment funds that provide the option to invest in equities (both in the UK and overseas), UK Government gilts (both fixed and index-linked), corporate bonds and cash. Members are also able to select from the seven individual investment funds that are used in the default investment option and alternative lifestyle strategies.

Except for the cash funds, all the funds are passively managed with the objective of tracking a specified benchmark index chosen by the investment manager.

Managing risks

The Trustees recognise that members of the NMP Section face various investment risks, as referred to in their SIP. For the three key investment risks, inflation risk, pension purchase risk and capital risk, the way the Trustees help members manage them is summarised below.

- *Inflation risk* – investing in equities is considered to be the most effective way of managing inflation risk because over the medium to long term, equity markets are expected to grow faster than inflation. Therefore, to help members manage the risk that their pension savings do not grow at least in line with inflation, under the default investment option and the alternative three lifestyle strategies, a higher proportion is invested in equities while a member is a long time from their retirement, which then reduces as they approach retirement. For members who select their own investment funds, the Trustees provide both UK and overseas equity funds.

- *Pension purchase risk* – investing in fixed and index-linked bonds is seen as the most effective way of managing pension purchase risk as in general, annuity prices are linked to bond yields. Therefore, to help manage this risk for those members wishing to provide a secure level of income when they retire (through the purchase of an annuity), the Trustees offer the Scottish Widows Passive Securing Lifelong Income Lifestyle (Avon) that gradually switches the majority of a member's pension savings into the Scottish Widows Passive Annuity Purchase Fund as they approach retirement. For members who select their own investment funds, the Trustees provide a selection of both fixed and index-linked bond funds.

- *Capital risk* – investing in cash is an effective way of managing the risk that the part of a member's savings that they intend to take as a tax-free lump sum falls in value as they near retirement. Therefore, to help manage this risk, the default investment option and the three alternative lifestyle strategies switch at least 25% of a member's pension saving into a cash fund as they near retirement. For members who select their own investment funds, the Trustees provide a cash fund.

In addition, the Trustees recognise that members of the NMP Section also face the following risks:

- *Communication risk* – to manage the risk that communications to members lead to wrong decisions being made, the Trustees take appropriate advice when preparing member communications to ensure they are clear and appropriate for the members;

- *Inappropriate member decision* – to manage the risk that members make inappropriate decisions, the Trustees recommend that independent financial advice is sought if members are uncertain of the best choice to make.

Corporate governance and socially responsible investments

The Trustees have no direct interaction with the investment managers (Scottish Widows, BlackRock and Legal & General Investment Management) of the pooled investment funds that make up the default investment option, the three alternative lifestyle strategies and the self-select fund range. The Trustees have therefore delegated responsibility for the selection, retention and realisation of the investments held by each of the pooled investment funds to the relevant investment managers.

Due to the inherent constraints that arise from the NMP Section being delivered via a 'bundled' arrangement with Scottish Widows, and the fact that the pooled investment funds offered to members are predominately passively managed, the Trustees take a pragmatic approach to sustainable investment factors. These are factors arising from environmental, social and corporate governance (commonly referred to as 'ESG' factors), including climate change. This is reflected in the Trustees' policy on corporate governance and socially responsible investments set out in their SIP.

The Trustees recognise that long-term ESG factors, including climate change, may have a material impact on investment risk and outcomes. However, the Trustees' current investment strategy is to offer members a range of passively managed pooled investment funds (that include the funds that make up the default investment option and three alternative lifestyle strategies) that do not explicitly take account of ESG considerations in the selection, retention and realisation of investments. However, the Trustees do review their investment strategy on an ongoing basis and will look to reflect these factors as far as possible in any subsequent changes to the default investment option, alternative lifestyle strategies or range of pooled investment funds.

The Trustees will continue to develop their approach to ESG integration and monitoring.

Voting policy and behaviour

Investments in the Plan are made using pooled investment funds available through the Plan's platform provider, Scottish Widows (SW). Consequently, for those funds that invest in UK and overseas equities, the voting rights arising from the underlying investments held by each fund are exercised on behalf of the Trustees by each fund's investment manager. The Trustees expect the investment managers to use their engagement activity to drive improved performance over the medium to long term.

The main pooled investment funds that contain voting rights are:

Fund	Investment Manager
The SW Legal & General 30:70 Currency Hedged Global Equity Index fund	Legal & General Investment Management (LGIM)
The SW BlackRock Aquila UK Equity Index fund	BlackRock
The SW BlackRock Aquila World ex-UK Equity Index fund	BlackRock

In addition, the Scottish Widows Passive Interim Lifestyle (Avon), the default investment option, and the three alternative lifestyle strategies, invest in the BlackRock Aquila UK Equity Index fund and the BlackRock Aquila World ex-UK Equity Index fund as well as the following funds that also contain voting rights:

- The iShares Emerging Markets Equity Index fund
- The BlackRock Continental European Equity Tracker fund
- The BlackRock Climate Transition World Equity fund
- The BlackRock Aquila Pacific Rim Equity fund

However, as the proportion invested in each of the above four funds is relatively small, the Appendix to this statement only contains a summary of the voting activity during 2020 for each of the three main funds shown in the table on the previous page.

The Trustees of the Avon Cosmetics Pension Plan
August 2021

Appendix

The tables below provide a summary of the voting policies and activity for LGIM and BlackRock. In addition, the Stewardship reports for each investment manager can be accessed at the following links:

LGIM: https://www.lgim.com/uk/ad/insights/our-thinking/long-term-thinking/active-ownership-global-engagement-to-deliver-positive-change/

BlackRock: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-voting-history

Investment Manager: Legal & General Investment Management (LGIM) **Fund: SW Legal & General 30:70 Currency Hedged Global Equity Index Fund**
Voting policy
What is Legal & General's policy on consulting with clients before voting? LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients. Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.
Please provide an overview of Legal & General's process for deciding how to vote All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.
Please describe whether Legal & General has made use of any proxy voter services LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our 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 we receive from ISS for UK companies when making specific voting decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We retain the ability in all markets to override any vote decisions, which are based on our custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.

What process did you follow for determining the “most significant” votes?

As regulation on vote reporting has recently evolved with the introduction of the concept of ‘significant vote’ by the EU Shareholder Rights Directive II, LGIM wants to ensure we continue to help our clients in fulfilling their reporting obligations. We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account.

For many years, LGIM has regularly produced case studies and/ or summaries of LGIM’s vote positions to clients for what we deemed were ‘material votes’. We are evolving our approach in line with the new regulation and are committed to provide our clients access to ‘significant vote’ information.

In determining significant votes, LGIM’s Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This 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.

We provide information on significant votes in the format of detailed case studies in our quarterly ESG impact report and annual active ownership publications.

The vote information is updated daily and with a lag of one day after a shareholder meeting is held. We also provide the rationale for all votes cast against management, including votes of support to shareholder resolutions.

Please include here any additional comments which are relevant to LGIM’s voting activities or processes

It is vital that the proxy voting service are regularly monitored and LGIM do this through quarterly due diligence meetings with ISS. Representatives from a range of departments attend these meetings, including the client relationship manager, research manager and custom voting manager. The meetings have a standing agenda, which includes setting out our expectations, an analysis of any issues we have experienced when voting during the previous quarter, the quality of the ISS research delivered, general service level, personnel changes, the management of any potential conflicts of interest and a review of the effectiveness of the monitoring process and voting statistics. The meetings will also review any action points arising from the previous quarterly meeting.

LGIM has its own internal Risk Management System (RMS) to provide effective oversight of key processes. This includes LGIM's voting activities and related client reporting. If an item is not confirmed as completed on RMS, the issue is escalated to line managers and senior directors within the organisation. On a weekly basis, senior members of the Investment Stewardship team confirm on LGIM’s internal RMS that votes have been cast correctly on the voting platform and record any issues experienced. This is then reviewed by the Director of Investment Stewardship who confirms the votes have been cast correctly on a monthly basis. Annually, as part of our formal RMS processes the Director of Investment Stewardship confirms that a formal review of LGIM's proxy provider has been conducted and that they have the capacity and competency to analyse proxy issues and make impartial recommendations.

Voting activity for the year ending 31 December 2020

Summary

• How many meetings were you eligible to vote at?	7,188
• How many resolutions were you eligible to vote on?	77,223
• What percentage of resolutions did you vote on for which you were eligible?	99.7%
• Of the resolutions on which you voted, what % did you vote with management?	84.5%
• Of the resolutions on which you voted, what % did you vote against management?	14.8%
• Of the resolutions on which you voted, what % did you abstain from?	0.7%

Significant votes (examples)

Qantas Airways Ltd

Resolution: Resolution 3 - Approve participation of Alan Joyce in the Long-Term Incentive Plan, Resolution 4 - Approve Remuneration Report.

How voted: LGIM voted against Resolution 3 and supported Resolution 4.

Reason: The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as we wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. In collaboration with our Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express our concerns and understand the company's views.

The voting decision ultimately sat with the Investment Stewardship team. We supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, our concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against resolution 3 to signal our concerns.

Whitehaven Coal

Resolution: Resolution 6 - Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

How voted: LGIM voted for the resolution.

Reason: The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

Barclays

Resolution: Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change, Resolution 30 - Approve ShareAction Requisitioned Resolution

How voted: LGIM voted for Resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.

Reason: The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.

Investment Manager: BlackRock

Funds: SW BlackRock Aquila UK Equity Index Fund and SW BlackRock Aquila World ex-UK Equity Index Fund

Voting policy

What is BlackRock's policy on consulting with clients before voting?

Investment stewardship is how we use our voice as an investor to promote sound corporate governance and business practices to help maximize long-term shareholder value for our clients, the vast majority of whom are investing for long-term goals such as retirement. We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our website. Each year we publish an annual report as well as quarterly stewardship reports which provide a global overview of our investment stewardship engagement and voting activities during the quarter, including market developments, speaking engagements, and engagement, and voting statistics. Additionally, we make public our market specific voting guidelines for the benefit of clients and companies with whom we engage. We also publish commentaries to share our perspective on market developments and emerging key themes.

At a more granular level, we publish quarterly our vote record for each company that held a shareholder meeting during the period, showing how we voted on each proposal and explaining any votes against management proposals or on shareholder proposals. For shareholder meetings where a vote might be high profile or of significant interest to clients, we publish a voting bulletin shortly after the meeting, disclosing and explaining our vote on key proposals. We also publish a quarterly list of all companies we engaged, and the key topics addressed in the engagement meeting.

In this way, we help inform our clients about the work we do on their behalf in promoting the governance and business practices that support long-term sustainable value creation.

Please provide an overview of BlackRock's process for deciding how to vote

The team and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. Our voting guidelines are market-specific to ensure we take into account a company's unique circumstances by market, where relevant. We inform our vote decisions through research and engage as necessary. Our engagement priorities are global in nature and are informed by BlackRock's observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients. We may also update our regional engagement priorities based on issues that we believe could impact the long-term sustainable financial performance of companies in those markets.

We welcome discussions with our clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them. As outlined in our Global Principles**,** BlackRock determines which companies to engage directly based on our assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of our engagement being productive. Our voting guidelines are intended to help clients and companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We inform our vote decisions through research and engage as necessary. If a client wants to implement their own voting policy, they will need to be in a segregated account. BlackRock's Investment Stewardship team would not implement the policy ourselves, but the client would engage a third-party voting execution platform to cast the votes.

Please describe whether BlackRock has made use of any proxy voter services

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team, which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

While we subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into our vote analysis process, and we do not blindly follow their recommendations on how to vote. We primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial. Other sources of information we use include the company's own reporting (such as the proxy statement and the website), our engagement and voting history with the company, and the views of our active investors, public information and ESG research.

In summary, proxy research firms help us deploy our resources to greatest effect in meeting client expectations

- BlackRock sees its investment stewardship program, including proxy voting, as part of its fiduciary duty to and enhance the value of clients' assets, using our voice as a shareholder on their behalf to ensure that companies are well led and well managed
- We use proxy research firms in our voting process, primarily to synthesise information and analysis into a concise, easily reviewable format so that our analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial
- We do not follow any single proxy research firm's voting recommendations and in most markets, we subscribe to two research providers and use several other inputs, including a company's own disclosures, in our voting and engagement analysis
- We also work with proxy research firms, which apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to us any meetings where additional research and possibly engagement might be required to inform our voting decision

- The proxy voting operating environment is complex, and we work with proxy research firms to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting

We use Institutional Shareholder Services' (ISS) electronic platform to execute our vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, we work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to us any meetings where additional research and possibly engagement might be required to inform our voting decision.

What process did you follow for determining the "most significant" votes?

BlackRock Investment Stewardship (BIS) prioritizes its work around themes that we believe will encourage sound governance practices and deliver sustainable long-term financial performance at the companies in which we invest on behalf of our clients. BIS' year-round engagements with clients to understand their focus areas and expectations, as well as our active participation in market-wide policy debates, help inform these priorities. The themes we have identified are reflected in our global principles, market-specific voting guidelines and engagement priorities, which underpin our stewardship activities and form the benchmark against which we look at the sustainable long-term financial performance of investee companies.

BIS periodically published "vote bulletins" on key votes at shareholder meetings to provide insight into details on certain vote decisions we expect will be of particular interest to clients. These bulletins are intended to explain our vote decisions relating to a range of business issues including ESG matters that we consider, based on our global principles and engagement priorities, potentially material to a company's sustainable long-term financial performance. Other factors we may consider in deciding to publish a vote bulletin include the profile of the issue in question, the level of interest we expect in the vote decision and the extent of engagement we have had with the company. The bulletins include relevant company-specific background, sector or local market context, and engagement history when applicable.

BIS publishes vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders on our approach to the votes that we consider to be most significant and thus require more detailed explanation. We publish details of other significant votes (including vote rationales, where applicable) quarterly on the BIS website.

Please include here any additional comments which are relevant to BlackRock's voting activities or processes

None provided.

Voting activity for the year ending 31 December 2020

Summary: SW BlackRock Aquila UK Equity Index Fund

• How many meetings were you eligible to vote at?	769
• How many resolutions were you eligible to vote on?	11,035
• What percentage of resolutions did you vote on for which you were eligible?	100%
• Of the resolutions on which you voted, what % did you vote with management?	95.2%
• Of the resolutions on which you voted, what % did you vote against management?	4.8%
• Of the resolutions on which you voted, what % did you abstain from?	0%

Summary: SW BlackRock Aquila World ex-UK Equity Index Fund	
• How many meetings were you eligible to vote at?	2,185
• How many resolutions were you eligible to vote on?	26,839
• What percentage of resolutions did you vote on for which you were eligible?	93.2%
• Of the resolutions on which you voted, what % did you vote with management?	93.9%
• Of the resolutions on which you voted, what % did you vote against management?	6.1%
• Of the resolutions on which you voted, what % did you abstain from?	0%

Significant votes (examples): SW BlackRock Aquila UK Equity Index Fund

Exxon Mobil Corporation

Resolution: Item 1.2: Elect Director Angela F. Braly, Item 1.4: Elect Director Kenneth C. Frazier, Item 4: Require Independent Board Chair

How voted: Item 1.2: Against, Item 1.4: Against Item 4: For

Reason:

Item 1.2: According to Exxon's disclosures, the company's Public Issues and Contributions Committee oversees operational risks such as those relating to employee and community safety, health, environmental performance, including actions taken to address climate-related risks, security matters, and reviews and provides advice on objectives, policies and programs related to political and other contributions.4Ms. Braly is the Chair of Public Issues Committee, and as such, BIS holds her accountable for lack of progress in driving greater action on climate risk in line with TCFD guidance, SASB recommendations, and BIS' feedback over several years

Item 1.4: We look to the Lead Independent Director and the Nominating and Governance Committee Chair for oversight of board composition and independence. This includes ensuring that the board is made up of directors with the right mix of skillsets and experience and who have sufficient leeway to exercise judgment that is independent from management to provide unfettered guidance to them. In this instance, we do not believe that the Exxon board has demonstrated that it is exercising its independent judgment in advising and overseeing management in assessing and disclosing material risks to the business relating to climate. In addition, we believe that having more directors with oil and gas industry experience would bolster the board's ability to act independently. As such, we are holding Mr. Frazier as the Lead Independent Director and Chair of the Nominating and Governance Committee, accountable. We also hold Mr. Frazier, as Lead Independent Director, responsible for lack of progress in driving greater action on climate risk in line with TCFD guidance, SASB recommendations, and BIS' feedback over several years. We supported all other directors and routine management items on the 2020 ballot.

Item 4: The non-binding shareholder proposal requests that the company establish an Independent Board Chair position in place of the present Lead Independent Director structure by appointing one of the independent members of the board to the Chair position. The Independent Chair proposal would be phased in for the next CEO transition. BIS typically defers to the board to establish the appropriate structure of governance. Our governance and voting guidelines do not normally necessitate an Independent Chair so long as there is evidence of strong independence in the boardroom that is facilitated by a Lead Independent Director. We acknowledge that the company has strengthened its disclosures around the stated roles and responsibilities of the Lead Independent Director. We also recognize that Mr. Frazier, Chair of the Nominating and Governance Committee, stepped into the Lead Independent Director Role this year. Nonetheless, we remain concerned about the board's responsiveness to shareholder feedback and concerns regarding climate risk management, and do not have confidence that an enhanced role on paper will lead to a demonstrable increase in independent leadership. This concern is also reflected in the fact that BIS took voting action in 2017 and 2019, including voting against both Mr. Frazier and former Lead Independent Director Steven Reinemund. However, we have still not seen the substantive action we would expect given the material climate risks facing the company, and the concern expressed to the company by investors, including BlackRock.5 In our view this lack of progress on robust GHG emissions reduction target setting and disclosure is a symptom of board independence issues. This now warrants an escalation in our approach, to encourage more independent leadership in this particular boardroom.

Royal Dutch Shell

Resolution: Item 21: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions

How voted: Against

Reason: The shareholder proposal (Item 21) requested that Shell set and publish targets across Scope 1, 2 and 3, aligned with the Paris Agreement. The proponent argued that Shell's ambition to reduce its net carbon intensity by 50% by 2050 in a growing energy system would not ultimately lead to the level of absolute emissions reduction necessary to achieve the goals of the Paris Agreement. The proponent asked for more "aspirational" targets.

Since the submission of the shareholder proposal, Shell has updated its climate commitments to more aggressively reduce its carbon footprint, and to become a "net-zero emissions energy business" by 2050 or sooner.4 This commitment now includes:

- Scope 1&2:net zero on all emissions from the manufacture of all products by 2050;
- Scope 3: reducing the Net Carbon Footprint of its energy products by around 65% by 2050 (up from a previous target of around 50%), and by around 30% by 2035 (up from a previous target of around 20%), both now consistent with the Paris Agreement goal to limit the average temperature rise to 1.5 degrees Celsius;
- A transition towards serving businesses and sectors that by 2050 are also net-zero emissions.

BIS has been engaged with Shell on its climate commitments for a number of years and was engaged with the company throughout the process of this latest upgrading of its commitments. Most of Shell's Scope 3 emissions are the Scope 1 emissions of their customers. Because no single oil & gas company is fully in control of the global energy mix, Shell's Scope 3 commitments will only be achievable if key stakeholders such as policymakers, businesses and consumers accelerate the development and use of low-carbon technologies, incentivize more energy efficiency, reduce demand for fossil fuels, and remove emissions from the atmosphere.

In determining our vote, we took into consideration that Shell already had some of the most ambitious climate targets in the industry on all relevant scopes (1,2,3), and that the company already makes strong TCFD disclosures. Furthermore, the shareholder resolution refers to Shell's previous climate commitments, which are now out of date and have been superseded by renewed and stronger commitments. As a result of Shell's responsiveness, BIS considers the request made in the resolution to have substantively been delivered.

Finally, we understand from our engagement with the company that the recently revised targets will be kept under review, with a view to evolving them even further if possible. We will be monitoring closely the delivery against the targets set out to date. We will hold the management and board directors to account for lack of progress on their delivery through future voting on director elections. For now, we note that Shell's existing disclosure of 3-year net carbon footprint targets already makes the company a sector leader in the global oil & gas industry.

Given the company's progress towards aligning its reporting with TCFD recommendations, which has been one of BIS' key requests of large carbon emitters, and its responsiveness to shareholder engagement on portfolio resilience and reduction of scope 1, 2, and 3 GHG emissions, we are supportive of management for the time being.

For these reasons, BIS voted with management on all resolutions at the AGM.

We will continue to engage with the company on its governance practices, reporting on material factors including the alignment with the SASB guidelines, and on the development of its plans to achieve its ambitious climate commitments.

Volkswagen AG

Resolution: Multiple

How voted: Against for the discharge of a number of Management Board and Supervisory Board members (items 3.1, 3.3, 3.5 and items 4.1, 4.3, 4.6, 4.7, 4.8, 4.12, 4.13, 4.15, 4.16, 4.17, 4.18, 4.19, 4.21) and against to re-elect Dr. Hussain Ali Al Abdulla as Supervisory Board member (item 5).

Reason: Based on our analysis and multi-year engagements with the company, BlackRock voted against the following agenda items:

Items 3.1, 3.3, 3.5: Resolution on the formal approval for fiscal year 2019 of the actions of the members of the Board of Management H. Diess, J. Heizmann and A. Renschler who held office in fiscal year 2019

We voted against the discharge of members of the Board of Management who were already serving at the time of the emissions incident. In doing so, we are holding those individuals accountable for the deficiencies in VW's governance practices and management of its material risks. This is consistent with our approach since VW's 2016 AGM.

Items 4.1, 4.3, 4.6, 4.7, 4.8, 4.12, 4.13, 4.15, 4.16, 4.17, 4.18, 4.19, 4.21: Resolution on the formal approval for fiscal year 2019 of the actions of the members of the Supervisory Board H.D. Pötsch, H.A. Al Abdulla, B. Dietze, H.P. Fischer, M. Heiß, L. Kiesling, P. Mosch, B. Osterloh, H.M. Piëch, F.O. Porsche, W. Porsche, C. Schönhardt and S. Weil who held office in fiscal year 2019.

BIS has ongoing concerns with the insufficient level of independence on the Supervisory Board and its subcommittees. BIS' policy is to withhold support from the re-election or discharge of those members who are most accountable for Supervisory Board composition through their role on the Supervisory Board or membership of relevant board sub-committees. We voted against the discharge of nomination committee members H.D. Pötsch, W. Porsche and S. Weil for the insufficient level of independence on the Supervisory Board, and of Supervisory Board chair H.D. Pötsch for the insufficient level of independence on the sub-committees.

In light of BIS' concern regarding the independence of the external auditor, we voted against the discharge of Supervisory Board members B. Dietze, M. Heiß, B. Osterloh, F.O. Porsche and C. Schönhardt, all of whom served on the audit committee during fiscal year 2019.

We believe Supervisory Board members should be held accountable for the level of oversight provided on governance matters. We voted against the discharge of Supervisory Board members H.D. Pötsch, H.A. Al Abdulla, H.P. Fischer, L. Kiesling, P. Mosch, B. Osterloh, H.M. Piëch, F.O. Porsche, W. Porsche and S. Weil who were already serving at the time of the emissions incident. This is consistent with our approach since VW's 2016 AGM.

Significant votes (examples): SW BlackRock Aquila World ex-UK Equity Index Fund

AGL Energy Ltd

Resolution: Item 7b: Approve Coal Closure Dates

How voted: For

Reason: While we recognize the various regulatory challenges and energy generation requirements that AGL faces, our support for this proposal is intended to encourage the company in its efforts to proactively and ambitiously manage the climate risk in its business model. We expect that doing so would help offset the potential financial risks, and capture some of the opportunities of the global energy transition, thus protecting the long-term economic interest of shareholders.

We supported this proposal because we believe the company, and its shareholders, would benefit from a continued focus on long-term strategic planning covering several decades. AGL's 1.5-degree scenario analysis, aligned with the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD), implies it is possible to close the coal-fired Loy Yang plant twelve years ahead of the current scheduled closure. The proposal, and our support of it, affords the AGL board and executives the discretion to manage that timing to ensure an effective and safe closure at the appropriate time.

AGL is both Australia's largest electricity generator and Australia's largest carbon emitter (~8% of the country's total emissions in 2019).2 The AGL board has an appropriate level of oversight of climate risk, demonstrates strong corporate governance practices, and reports in line with the TCFD. AGL has been responsive to investor feedback and has steadily improved its disclosures, including updating its most recent TCFD reporting to include a 1.5-degree scenario framework, based on relatively strident criteria.3 The company has also recently incorporated carbon transition performance metrics into its remuneration policy.4 That said, as our support for this proposal suggests, we believe there is room for improvement.

We have a long and constructive history of engagement with AGL. In our continuous dialogue with company leadership we have discussed a range of topics, including climate risk, corporate governance, remuneration, human capital management and risk oversight processes. We recognize AGL's thorough assessment of climate risk and its significant investment in renewables to date. Further, based on the company's disclosures and our engagement, we anticipate that AGL will continue to strengthen its approach to managing the climate risk inherent in its business, including considering future plant closures as discussed in its own TCFD scenario analysis:

"The results of the scenario analysis allow AGL to consider a series of options of what might happen over the next three decades. This in turn provides AGL with the ability to adjust our strategy to ensure continued resilience. AGL's commitment to not extend the life of our coal-fired power stations remains unchanged." The company has already publicly stated that "it will work responsively and responsibly to harness the power of these three forces – customers, community and technology – to support and enable the transition."

We encourage AGL to continue to develop its strategy to transition its business model to operating under a 1.5- degrees scenario and position itself to respond to the continued evolution of the energy sector and policy environment in Australia longer term. This is particularly relevant given the potential for the Loy Yang A plant to operate until 2048, when it would be over sixty years old, as operational concerns in relation to reliability and safety increase. Another significant factor is the capital expenditure needed to maintain this plant, which has been growing and will likely continue to increase as the plant ages.

Mizuho Financial Group

Resolution: Item 5: Shareholder Proposal. Amend Articles to Disclose Plan Outlining Company's Business Strategy to Align Investments with Goals of Paris Agreement

How voted: Against

Reason: Based on BlackRock's proxy voting guidelines, the independent fiduciary voted against.

The independent fiduciary reported that it took into consideration the company's policies and the announcements made since the shareholder proposal was filed. 6 [The independent fiduciary] determined that the company now has policies in place that address the issues raised in the proposal.

Total SA

Resolution: Item A: Instruct Company to Set and Publish Targets for Greenhouse Gas (GHG) Emissions Aligned with the Goal of the Paris Climate Agreement and Amend Article 19 of Bylaws Accordingly

How voted: Against

Reason: BIS has engaged with Total on its climate commitments for a number of years and was engaged with the company throughout the process of this latest revision of its commitments. Most of Total's Scope 3 emissions come from the Scope 1 emissions of Total's customers. Because no single oil & gas company is fully in control of the global energy mix, Total's Scope 3 commitments will only be achievable if key stakeholders such as policymakers, businesses and consumers work together to accelerate the development and use of low-carbon technologies, incentivize more energy efficiency, reduce demand for fossil fuels, and remove emissions from the atmosphere.

In determining our vote, we took into consideration that Total already had some of the most ambitious climate targets in the industry on all relevant scopes (1, 2 & 3), and that the company already makes strong TCFD disclosures. Even under the most ambitious energy transition scenarios, fossil fuels are likely to play a role in the global economy for the coming decades.

Furthermore, the shareholder resolution refers to Total's previous climate commitments, which are now out of date and have been superseded by renewed and stronger commitments. As a result of Total's responsiveness, BIS considers the request made in the resolution to have been substantively delivered.

Given the company's TCFD-aligned reporting, which has been one of BIS' key requests of significant carbon emitters, its commitment to continuous improvement and its responsiveness to shareholder engagement on portfolio resilience and reduction of scope 1, 2, and 3 GHG emissions, we are supportive of management at present.

Moreover, we do not believe it appropriate to amend Total's bylaws in the manner proposed. A company's bylaws define its purpose and the rules by which it is run, and are not meant to define the corporate strategy, which must, by its very nature, evolve in accordance with the company's operating environment. In this case, the proposed modification to Total's bylaws is an unsuitable mechanism by which to address climate-related matters and could have unforeseen and far-reaching consequences for both the company and its shareholders.

In summary, BIS voted against Item A due to the company's strong commitments and responsiveness to engagement with BIS and other shareholders on the issues in question; the consequent redundancy of many of the resolution's key areas of focus; and the unsuitability of a proposal to amend the bylaws to address a question of corporate strategy. For these reasons, BIS voted with management on all resolutions at the AGM.

We will continue to engage with the company and closely monitor the delivery against the targets Total has set out to date. We will hold management and board directors to account for progress on their delivery, through future voting on director elections, where appropriate.