

John Deere UK Pension Scheme (“the Scheme”)

Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (‘SIP’) produced by the Trustees has been followed during the year to 31 October 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set.

The Trustees aim to invest the Scheme’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees’ main objectives are:

- to make sure that the obligations to the beneficiaries of the Scheme can be met.
- to pay due regard to the Sponsors’ interests on the size and incidence of the Sponsors’ contribution payments.

At the latest actuarial valuation, the Actuary assumed that the Scheme’s assets will achieve an investment rate of return on assets which exceeds that available from gilts. Based on advice from the investment consultant about realistic long-term assumptions, the Trustees expect the investment return resulting from the strategy adopted to at least meet the prudent expectations of the Actuary.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustees’ policy on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. This policy sets out the Trustees’ beliefs on ESG and climate change and the processes followed by the Trustees in exercising rights and stewardship obligations attached to the Scheme’s investments. The SIP was last reviewed in May 2020.

In order to produce this policy, the Trustees undertook investment training provided by their investment consultant on responsible investment. This was provided over two sessions in May 2019 and December 2019 and covered ESG factors, stewardship, ESG integration and climate change. The Trustees keep the policies under regular review with the SIP subject to review at least triennially.

The following work was undertaken during the year to 31 October 2020 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement policies were followed and implemented during the year.

Engagement

- The Scheme's investment manager, Legal & General Investment Management ("LGIM"), confirmed that they are signatories of the current UK Stewardship Code. LGIM plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 (effective from 1 January 2020).
- The Trustees consider how ESG, climate change and stewardship is integrated within the investment process when appointing new investment managers and monitoring LGIM. The Trustees monitor LGIM through the use of ESG ratings provided by the Scheme's investment consultant and are notified of any changes to these ratings. Furthermore, LGIM are asked to provide details of key engagement activity (where relevant) and the impact the actions have had on the portfolio when they present to the Trustees. The Trustees will challenge LGIM's actions if appropriate.
- LGIM engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).
- LGIM are able to provide multiple example of active and successful engagement with issuers. An example of a specific engagement relating to the Buy and Maintain Credit Fund in which the Scheme invests is BP. Specifically, LGIM engaged in relation to the firm's strategy and role in the energy transition to a low carbon economy. LGIM's key focus from a credit perspective was to re-enforce the stability of the credit rating and strength of the balance sheet as management take these decisions. Through investor calls and meetings with management and investor relations, LGIM highlighted their desire to see a credible plan to reposition the company and make it more resilient to the energy transition. In early August 2020, BP made a number of announcements that underline its shift towards low-carbon energy, at the expense of shrinking long term investment in fossil fuels.

Voting Activity

The Trustees delegate any voting rights attached to the Scheme's investments to LGIM. As the Scheme only invests in bonds, the Scheme does not hold any voting rights in relation to their invested assets.

The Trustees do not use the direct services of a proxy voter.