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 Trustee has been followed during the year to 5 April 2020.

This statement has been produced in accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set for the Scheme.

The Trustee's overall investment policy is guided by the following objectives:

- To achieve a favourable return against the scheme specific benchmark;
- To avoid significant volatility in the contribution rate; and
- To ensure that the assets would be sufficient to exceed the liabilities as determined, in the event of the Scheme winding up.

Review of the SIP

During the year, the Trustee reviewed the Scheme's SIP in September, October and November 2019.

A revised SIP was agreed in September 2019 in order reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 to include policies in relation to:

- What financially material considerations are taken into account in selecting and retaining the Scheme's investments including ESG considerations and specifically, climate change).
- The extent to which non-financial matters are taken into account in selecting and retaining investments – that is, the views of Scheme members and beneficiaries on ethical, social and environmental matters.
- The approach to stewardship of investments – that is, exercising investment voting rights and engaging with companies in which the Trustee invests.

In October 2019, the SIP was updated to reflect the de-risking of the Scheme's investment strategy and the Scheme's new Liability Driven Investment ("LDI") mandate managed by Legal & General Investment Management ("LGIM"). The SIP was also updated in November 2019 to reflect the Asset Backed Contribution ("ABC") funding agreement with the Company.

Policy on ESG, Stewardship and Climate Change

As set out in the SIP, the Trustee has given appointed investment managers full discretion in evaluating how ESG factors, including climate change considerations are taken into account in selecting and retaining the Scheme's investments. The Trustee also considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers.

Investment Managers' Voting and Engagement Activity

The Trustee has delegated its voting rights to the investment managers. The Trustee expects that the votes attached to the Scheme's holdings are exercised whenever practical by the Scheme's investment managers and that managers should engage with the companies in which they have invested with the aim of ensuring ESG factors, including climate change considerations are properly taken into account in the companies' business strategies.

Investment managers are expected to provide voting summary reports (where applicable) on a regular basis, at least annually. The aim is for these to be reviewed on an annual basis going forwards as part of a wider ESG review of the Scheme's investment managers.

Of the Scheme's investment managers, the Voting and Engagement policies and activities are most relevant for the mandates where equities are held directly in the managers' pooled funds (Newton and LGIM, albeit following the year under review the Scheme no longer invests in equites with LGIM) or indirectly through the Diversified Growth Funds (Aberdeen Standard Investments and BlackRock).

- The Trustee going forward will review the Aberdeen Standard Investments and BlackRock (DGFs) and Newton (Equity) mandates regularly, at least annually, in regards to their approach to ESG and their voting and stewardship activities and ensure it remains comfortable the managers' engagement policies are in line with those of the Trustee.

- The investment performance report, produced by the Scheme's investment consultant, is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and ESG specific) from the investment consultant. Where managers may not be highly rated from an ESG perspective the Trustee has discussed the reasons with the investment consultant. When implementing a new manager, the Trustee will consider the ESG rating of the manager and how ESG considerations are integrated into the investment manager's investment process.
- The Scheme's investment managers engaged with companies over the period under review on a wide range of different issues, including ESG matters. 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 (e.g. those linked to the Paris agreement). The Scheme's investment managers provided examples of instances where they had engaged with companies they were invested in or about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the investment managers invest in or by voting on resolutions at companies' Annual General Meetings.

The Trustee expects to be more active in challenging the investment managers in relation to voting and engagement in the future. It is expected that, when the investment managers present to the Trustee at future meetings, the Trustee will ask the investment managers to highlight key voting and engagement activity and the impact on the portfolio.

The Trustee does not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity within the equity and DGF mandates were as follows:

Newton – Global Equity

- Newton engages on ESG issues with companies, with an aim to achieve a better understanding of the company's management of material ESG issues. Additionally where necessary, they will try to encourage improvement or change in the behavior of a company, which they believe in turn, can protect and enhance investor value. Responsible investment engagement will include dialogue with relevant companies, along with collective engagement with other investors, industry bodies, non-governmental organisations, academics or other specialists, which Newton believes can provide valuable insight into an ESG issue or a company's activities.
- Over the last year, in terms of engagements with companies, of these, governance was a topic of engagement in c. 43% of cases, social issues were considered in c. 32% of engagements and c. 26% of cases focused on environmental engagement.
- Key information on the votes undertaken over the prior year are summarised below:
- Newton voted in in c99% of proposals over the year.
  - Of Newton's total number of votes, c.79% were votes for the proposal and c.21% were against.
  - For climate related votes, Newton have actively been involved with shareholder resolution relating to emissions and the "Climate Action 100+", which aims to help companies drive the clean energy transition and achieve the goal of the Paris Agreement of limiting global warming to well below two-degrees Celsius.

LGIM – Global Equity

- LGIM engaged with companies over the year under review on a wide range of different issues including governance, environmental impact, climate change, social issues, risk management and strategy.
- Key information on the votes undertaken over the prior year on a global firm level are summarised below:
- There have been 686 meetings which LGIM voted at across the firm over the year.
- There were at total of c59,066 votable proposals over the period, of which, LGIM participated in c87% of these.
  - Of LGIM's total number of votes, c.83% were votes for the proposal and c.17% were against.
  - For climate related votes, LGIM co-filled their first shareholder resolution, which led to oil major BP adopting industry-leading climate Targets. Furthermore, LGIM took sanctions against 11 companies named as laggards under their Climate Impact Pledge.

BlackRock – Diversified Growth

- BlackRock' Stewardship team engages annually with approximately 1,500 companies globally on ESG issues, meets with executives and board directors, communicates with the company's advisors and engages with other shareholders, where appropriate.
- In the 12 months to 31 March 2020, BlackRock has had 632 engagements with companies in the DDG portfolio. Governance was a topic of engagement in 93% of cases, social issues were considered in 30% of engagements and 39% of cases included environmental engagement. BlackRock's environmental engagements focused primarily on climate risk and environmental impact management as well as operational sustainability. The main focus of the governance engagement included board composition and effectiveness, corporate strategy and remuneration.
- BlackRock has established an internal ESG investment team, BlackRock Investment Stewardship, who are responsible for proxy voting. BlackRock's policy is to vote 100% of the underlying securities within all its pooled funds in line with the established voting policy.
- Key information on the votes undertaken over the prior year are summarised below:
  - BlackRock voted in c97% of proposals over the year, split between c97.5% management proposals and c2.5% shareholder proposals.
  - Of BlackRock's total number of votes, c90% were votes for the proposal and 5.9% were against. The remaining votes were split between withhold votes and abstained votes. BlackRock have noted that their policy is to refrain from abstaining votes, unless the valid option for voting against management is an abstain vote.
  - For climate related votes, BlackRock voted in favour of a shareholder resolution at BP relating to emissions and the "Climate Action 100+", which aims to help companies drive the clean energy transition and achieve the goal of the Paris Agreement of limiting global warming to well below two-degrees Celsius.
  - In addition, BlackRock voted in favour of Flowserve Corporation adopting a policy to reduce greenhouse gases.

Aberdeen Standard Investment – Diversified Growth

- ASI engaged with companies over the year under review on a wide range of different issues including remuneration, reporting, strategy, board matters, environment, social issues, cyber security and climate change. Examples of engagement on climate change specifically, included engagement with National Grid and LONGI Green on climate transition opportunities.
- Key information on the votes undertaken over the year on a global firm level are summarised below:
  - There have been 4,920 meetings which ASI voted at across the firm over the year.
  - There were at total of c53,790 votable proposals over the period which ASI participated in.
  - Of ASI's total number of votes, c.88% were votes for the proposal and c.6% were against. The remaining votes were split between withhold votes and abstained votes.
  - For climate related votes, ASI supported a shareholder resolution for their shares in mining giant BHP. The resolution asked the BHP board to suspend memberships of industry associations that they evaluated as undertaking lobbying or advocacy activities that were inconsistent with the Paris Agreement goals.

A key similarity between all four managers was that the majority of votes in the past 12 months were director and routine business related. Climate and ESG related votes represented a smaller proportion of the overall votes for the year.

Going forwards, when investment managers present, the Trustee will be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change.