



# Engagement Policy Implementation Statement

## Stanplan F – The Governors of Sherborne School

This paper has been produced for Entrust Pension Limited as Trustee of Stanplan F – The Governors of Sherborne School (the “Scheme”), as the Trustee prepares its Engagement Policy Implementation Statement (“EPIS”) for the Scheme year to 31 August 2022.

### 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 they have 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 Scheme year and state any use of the services of a proxy voter.

This Statement has been commissioned by Entrust Pension Limited (the “Trustee”) as Trustee of Stanplan F – The Governors of Sherborne School.

As set out in the Scheme’s Statement of Investment Principles, the Trustee invests the Scheme’s assets in Aon’s Delegated Consulting Service. Under this arrangement, the implementation of the Scheme’s investment strategy is delegated to Aon Investments Limited (“AIL”), acting within parameters set by the Trustee.

Over the Scheme year, the assets were invested in a diversified return-seeking fund, the Managed Growth Strategy, as well as four “Fruition” strategies which contain growth assets and liability matching assets. The strategic allocation to each strategy is determined by the target level of return, and target hedging of interest rates and inflation.

This document sets out the actions undertaken by the Trustee, AIL and the underlying investment managers selected by AIL, to implement the stewardship policy as set out in the SIP. This document includes voting and engagement information that has been gathered from the investment managers by AIL.

The Trustee has used a combination of information covering the year 30 September 2022.

Prepared for: Entrust Pension Limited  
Prepared by: Aon Solutions UK Limited  
Date: 7 March 2023

## The Scheme's stewardship policy

The relevant extract of the SIP covering the Scheme's voting and engagement policy is as follows:

*As part of AIL's management of the Scheme's assets, the Trustee expects AIL to:*

- *Ensure that (where appropriate) underlying managers exercise the Trustee's voting rights in relation to the Scheme's assets; and*
- *Report to the Trustee on stewardship activity by underlying managers as required.*

## Relevant Scheme activity

### Responsible Investment (RI) policy development

The Trustee's RI policy was created following an exercise to collate the individual views of the Trustee's team with respect to different RI issues. The Trustee reviewed the conclusions from this exercise alongside the features of the Scheme and its investment arrangements to help it formally establish its RI views, beliefs and objectives. This exercise resulted in the establishment of a stand-alone RI policy by the Trustee. Throughout the year, the Trustee ensured the RI policy remained relevant and up to date.

### Ongoing monitoring

The Trustee receives regular updates on RI matters from its investment adviser, Aon.

The Trustee is a member of Aon's Responsible Investment Network, which provides the Trustee with access to regular, interactive events focused on RI and regular updates on RI market innovations and developments.

### Sponsor consultation

The Trustee believes that the views of the sponsor, where applicable, should be aligned to the Scheme's RI policy and objectives. The sponsor is consulted with any amendments to the SIP.

## Engagement - Fiduciary Manager

The Trustee delegates the management of the Scheme's assets to its fiduciary manager, AIL. AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers on behalf of the Trustee.

The Trustee has reviewed AIL's latest Annual Stewardship Report and believes it shows that AIL is using its resources to effectively influence positive outcomes in the funds in which it invests.

Over the year, AIL held several engagement meetings with the underlying managers in its strategies. AIL discussed Environmental, Social and Governance ("ESG") integration, stewardship, climate, biodiversity and modern slavery with the investment managers. AIL provided feedback to the managers after these meetings with the aim of improving the standard of ESG integration across its portfolios.

Over the year, AIL engaged with the industry through white papers, working groups, webinars and network events, as well as responding to multiple consultations.

In 2021, AIL committed to achieve net zero emissions by 2050, with a 50% reduction by 2030 for its fully delegated clients' portfolios and DC default strategies (relative to baseline year of 2019).

AIL also successfully renewed its signatory status to the 2020 UK Stewardship Code (the Code).

### Engagement Example: Fixed Income Manager

In October 2021, Aon engaged with an underlying fixed income manager. The manager had effective models to analyse ESG data and identify securities associated with controversial activity which Aon found encouraging. The manager also shared its engagement activity and literature on ESG issues.

Aon identified that the manager needed to develop clearer policies which would lead to better engagement decisions. Aon hopes the manager will develop a process for carrying out thematic engagements and greater formalisation for climate risk engagement.

## Voting and Engagement – Underlying Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds within the Managed Growth Strategy. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period.

### Equity

The material equity investments held in the Managed Growth Strategy over the year were:

- Legal and General Investment Management ("LGIM") Multi Factor Equity Fund; and
- BlackRock Emerging Markets Equity Fund.

The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

#### LGIM Multi Factor Equity Fund

##### Voting

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from the Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

The table below shows the voting statistics for LGIM's Multi-Factor Equity Fund for the year to 30 September 2022.

Number of resolutions eligible to vote on over the period	11,772
% of resolutions voted on for which the fund was eligible	99.7%
Of the resolutions on which the fund voted on, % that were voted against management	20.2%
Of the resolutions on which the fund voted, % that were abstained	0.2%

Source: Manager

##### Voting Example - Accenture

In January 2022, LGIM voted against the management of Accenture, a professional services company, on a resolution to elect Arun Sarin as a Director. In addition to the proposed role, Arun is Chief Executive Officer ("CEO") of Vodafone. LGIM voted against the proposal because it expects board members not to hold too many external positions to ensure they can undertake their duties effectively. The vote passed with 86% votes in favour of the resolution.

LGIM will continue to engage with its investee companies publicly to advocate its position on this issue. LGIM considers this vote to be significant as it is an escalation of an engagement by vote on the topic of the combination of the board chair and CEO.

##### 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

LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all its clients.

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

At the time of writing, LGIM had not provided engagement examples for the fund. The Trustee's fiduciary manager, ALL, has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this. The example provided below is at a firm level, i.e. it is not specific to the fund the Scheme is invested in.

#### Engagement Example - Antimicrobial resistance (firm level)

Over 2021, LGIM engaged with a number of companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

LGIM believes it is important to promote an enhanced and standardised approach to antimicrobial resistance through influencing the regulatory landscape. As such, it is also working with its peers in the Investor Action on Antimicrobial Resistance initiative.<sup>1</sup>

### **BlackRock Emerging Markets Equity Fund**

#### Voting

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. BlackRock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

BlackRock subscribes to research from the proxy voting advisers ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

The table below shows the voting statistics for BlackRock's Emerging Markets Equity Fund for the year to 30 September 2022.

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<sup>1</sup> A coalition between the Access to Medicine Foundation, the FAIRR Initiative, the Principles for Responsible Investment and the UK Government Department of Health and Social Care to galvanise investor efforts to address global antimicrobial resistance

Number of resolutions eligible to vote on over the period	32,351
% of resolutions voted on for which the fund was eligible	97.0%
Of the resolutions on which the fund voted on, % that were voted against management	11.0%
Of the resolutions on which the fund voted, % that were abstained	4.0%

Source: Manager

#### Voting Example – China Tower Corporation Limited

In January 2022 BlackRock voted against a proposal for China Tower Corporation Limited (“China Tower”), a telecommunications company, to elect a director. BlackRock voted against this director election due to concerns about the lack of gender diversity on the board. BlackRock noted that the proposed board composition would fail to comply with the local regulatory requirements on gender diversity.

BlackRock communicated its concerns to China Tower. BlackRock believes that the company should take a more proactive approach towards achieving gender diversity. The vote passed. BlackRock will continue to engage with China Tower, and the companies it invests in the Asia Pacific region, to provide constructive feedback as companies seek to enhance diversity in the boardroom and to monitor progress.

#### Engagement

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock’s priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company’s ability to generate long-term financial returns. The BIS team’s stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, company impacts on people.

More information can be found here: <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

#### Engagement Example – Vale S.A.

At a strategy level, BlackRock has engaged with Vale S.A. (“Vale”), a Brazilian mining company, since 2019. In January 2019, a tailings dam at one of Vale’s iron ore mines collapsed and killed approximately 270 people. Tailings dams are used to store water and waste that are by products from the mining process. The collapse also caused significant environmental damage.

Over the course of 2020 and 2021, BlackRock held frequent engagements with Vale. Vale provided updates on the dam collapse, including the status of the investigation and the final settlement. Vale provided additional context on the frequent public announcements about: 1) the steps taken to strengthen risk management and governance policies to ensure the safety of people and operations; and 2) the remediation measures regarding the environmental damage and socio-economic impact on the local community.

BlackRock’s engagements with Vale also focused on board effectiveness and sustainability. It shared its expectations of board quality including composition, diversity, and independence. BlackRock also discussed the company’s sustainability disclosures and carbon emissions reduction targets.

## Fixed Income

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 is 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.

Some examples provided by the most material fixed income funds the Scheme invests in are outlined below for Robeco and Aegon who manage fixed income allocations within the Managed Growth Strategy.

### **Robeco Institutional Asset Management ("Robeco")**

The Managed Growth Strategy invested in two fixed income funds with Robeco over the period, a multi-asset credit and a short-dated credit fund.

#### Engagement

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments. Robeco engages with companies worldwide, in both their equity and credit portfolios.

Robeco carries out three types of engagement with the companies in which it invests:

- Value engagement;
- Enhanced engagement; and
- Sustainable development goals engagement.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

#### Engagement Example – Barclays

Robeco engaged with Barclays bank regarding its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The engagement started in 2017 and in 2020 Robeco decided to extend the engagement program by another year, as events, such as widespread problems around money laundering and ongoing regulatory investigations, had slowed down progress.

The culture and behaviour at Barclays were key areas of focus for improvement. Much work has been undertaken by Barclays to change its culture, with the bank now continuously reporting on the importance of behavioural aspects along with reinforcing an open culture. When it comes to combatting money laundering and financial crimes it seems that Barclays is largely in line with the approaches of the other European banks in its peer group. Robeco closed this engagement successfully with Barclays in Q4 2021.

### **Aegon Asset Management ("Aegon") European Asset Backed Securities ("ABS") Fund**

#### Engagement

Aegon believes that actively engaging with companies to improve ESG performance and corporate behaviour is generally more effective than excluding companies from its investment universe. Aegon's preference is for its engagements with portfolio companies to remain private to encourage a more open discussion. Engagement dialogues are conducted by investment managers, research analysts and its responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment. Aegon also seeks to strengthen its investor voice in engagement by actively participating in collaborative engagement platforms such as the Principles for Responsible Investment, UK Investor Forum, and Institutional Investors Group on Climate Change.

Aegon engages ABS issuers regularly through ESG questionnaires specific for consumer loan ABS. It then follows up with meetings to discuss the answers, companies ESG goals and areas where Aegon would like to see improvement.

#### Engagement Example: Collateralized Loan Obligations ("CLO")



In 2021 Aegon engaged with Brignole, an ABS issuer, to better understand the consumer loans issued by the company, so it could assess if the loans had any positive environmental impact. Further, Aegon suggested that the company increase borrowing for environmental purposes by offering a discount to borrowers with these intentions. To start the engagement, Aegon sent Brignole its ESG questionnaire. Aegon discussed the questionnaire responses with Brignole's management.

From the engagement, Aegon gained a better understanding of the loans, which helped Aegon make a thorough ESG analysis of the issuer. Brignole agreed to implement Aegon's suggestion to offer loans with environmental purposes at a discount. Aegon stated it will pursue similar engagements with other consumer loan issuers.

## Alternative Investments

The Trustee recognises that the investment processes of alternative investments, such as those held within the Managed Growth Strategy, mean that stewardship is potentially less applicable or may have a less tangible financial benefit.

Nonetheless, the Trustee still expects that the managers engage with external parties should they identify concerns that may be financially material.

### **Leadenhall Capital Partners ("Leadenhall") Insurance Linked Securities**

Leadenhall performs a detailed review of its investment counterparties' ESG policies and controls. Where appropriate, Leadenhall will avoid investment counterparties who are not aligned with its own ESG policies. Leadenhall assesses its investment counterparties' alignment with its own ESG principles by considering specific factors including:

- Environmental impact such as pollution prevention, reduced carbon emissions, and adherence to environmental safety standards.
- Social impact including human rights, welfare and community impact issues.
- Governance issues including board structure, remuneration, accounting quality and corporate culture.

## In summary

Based on the activity over the year by the Trustee, its fiduciary manager and its investment managers, the Trustee believes that the stewardship policy has been implemented effectively. The Trustee notes that its fiduciary manager and most of its investment managers were able to disclose good 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 Scheme through considered voting and engagement. In particular, the Trustee expects improvements from LGIM on its reporting of fund level engagement examples. The Trustee's fiduciary manager, AIL, has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this.

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