# Engagement Policy Implementation Statement

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| Introduction | This statement has been commissioned by Entrust Pension Limited (the “Trustee”) as Trustee of the Stanplan F – Acrastyle Limited (the “Scheme”).  As set out in the Scheme’s Statement of Investment Principles (the “SIP”), the Trustee has decided to invest 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.  The Scheme’s assets may be invested in six different AIL investment funds as set out in the SIP; the Managed Growth Fund, the Absolute Return Bond Fund and four liability matching funds.  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 entire 2020 calendar year. |

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| 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.* |

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| Relevant Scheme activity | **Trustee training**  Over the year, the Trustee received responsible investment ("RI") training which covered regulatory requirements, a recap of the Aon's ESG ratings process, and a discussion of the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance ("ESG") factors in investment decisions.  This training supported the Trustee in its development of its SIP policies relating to ESG considerations.  **Responsible investment 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 responsible investment views, beliefs and objectives. This exercise resulted in the establishment of a stand-alone responsible investment policy by the Trustee.  **Ongoing monitoring**  The Trustee receives regular updates on responsible investment matters from its investment adviser, Aon. This includes examples of how Aon is actively engaging with the Scheme's underlying investment managers on behalf of the Trustee.  The Trustee is a member of Aon's Responsible Investment Network, which provides the Trustee with access to regular, interactive events focused on responsible investment and regular updates on responsible investment market innovations and developments. |

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| Fiduciary manager - stewardship policy implementation | Under the Trustee's fiduciary mandate managed by AIL, AIL appoint underlying asset managers to achieve an overall target return. The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated '2' or above on AIL’s four-tier ESG rating system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.  The Trustee has reviewed the AIL Annual Stewardship Report and is content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.  AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held approximately 35 ESG specific “deep-dive” meetings predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL’s clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting areas of improvement and discussing manager strategy around RI moving forward.  Overall, AIL have been impressed with the commitment of their underlying managers to integrating ESG within their investment processes. AIL believe most managers are engaging with investee companies in ways that will generate positive impacts on ESG factors. With that said, AIL set an extremely high bar of expectation for their best-in-class managers and have identified several themes that they believe some of them can and should improve on, AIL have provided feedback to their managers in this regard. As AIL continue their journey to lift the standard of ESG within their own funds, they will monitor the development of their managers against the feedback they have provided. AIL's ongoing engagements will enable them to keep pushing for further improvements as the industry evolves. |

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| Voting and engagement - equity investments | Over the year, the Scheme was invested in the AIL Managed Growth Strategy Fund. The material equity investments held in the scheme over the year were:   * Legal and General Investment Management (LGIM) Multi Factor Equity Fund; * BlackRock Emerging Markets Equity Fund; and * Nikko Japanese Equity (first invested in July 2020).   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 Alternative Indexation Multi Factor Fund**  Voting   |  |  | | --- | --- | |  | **1 January 2020 - 31 December 2020** | | % resolutions voted | 99.71% | | % of resolutions voted against management | 17.90% | | % resolutions abstained | 0.12% |   LGIM makes use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. LGIM has put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example if engagements with the company have provided additional information.  An example of significant votes at a company was in May 2020, when LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders.  The company had received press coverage due to the largely negative sentiment related to its governance profile and its initial management of the COVID-19 pandemic. This was an important topic for LGIM's multiple engagements with the company over the past 12 months, as well as the separation of CEO and board chair roles, a desire for directors to participate in engagement meetings, and details about the data transparency committed to in their Climate Pledge. The Stewardship team at LGIM received more inquires related to Amazon than any other company this season.  Engagement  LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:  1. Identify the most material ESG issues,  2. Formulate the engagement strategy,  3. Enhancing the power of engagement,  4. Public Policy and collaborative engagement,  5. Voting, and  6. Reporting to stakeholders on activity.  More information can be found on LGIM's engagement policy here:  <https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf>  An example of engagement over 2020 was with Proctor and Gamble (P&G). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.  Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.  Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced several objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here:  <https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf>  **BlackRock Emerging Markets Equity Fund**  Voting   |  |  | | --- | --- | |  | **1 January 2020 - 31 December 2020** | | % resolutions voted | 97.1% | | % of resolutions voted against management | 8.7% | | % resolutions abstained | 3.0% |   BlackRock uses Institutional Shareholder Services’ (ISS) electronic platform to execute its vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock’s voting decisions are informed by internally developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.  Over 2020, BlackRock has increased its level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on criteria such as level of public attention and the impact of the financial outcome. BlackRock provided an interesting example of a significant vote over the period.  On 9 December 2020, BlackRock voted against the management proposal and recommendation that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited.  In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group in seven business entities for a total cash consideration of CNY 18.4 billion. The key assets to be acquired include a coal liquefaction project, a supporting coal mine and a coal-fired power plant, as well as other ancillary facilities.  BlackRock noted Yanzhou Coal’s rationale for making the acquisition, namely, to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believes it is in its clients’ best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of potential stranded asset risk.  With respect to the latter, BlackRock is cautious about the potential stranded asset risks at Yanzhou Coal following the asset purchase. The transaction was announced shortly after China pledged to achieve carbon neutrality by 2060 with carbon emissions peaking by 2030. Yet Yanzhou Coal as a state-owned enterprise did not articulate how the acquisition of these coal-related assets aligns with China’s stated goals, including the new Nationally Determined Contributions to be updated at the UN Climate Change Conference (COP 26). Concerns remain about Yanzhou Coal’s decision to acquire a coal-fired power plant as part of this transaction. The coal-fired power sector in China is already facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilisation hours. The sector is expected to become even more challenged as more provinces anticipate grid parity for renewable energy. Therefore, such an acquisition could well exacerbate the company’s stranded asset risks and delay progress to achieve the company’s decarbonization targets.  Engagement  The Blackrock Investment Stewardship Team's stated key engagement priorities include:  1. Board quality  2. Environmental risks and opportunities  3. Corporate strategy and capital allocation  4. Compensation that promotes long-termism  5. Human capital management.  Blackrock has increased its engagement activity year on year significantly on a variety of key issues, including having over 400 engagements with companies where they discussed the impact of COVID-19. More information can be found in the Blackrock Investment Stewardship Annual Report 2020:  <https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf>  **Nikko – Japanese Equity (invested in July 2020)**  Voting  Nikko use their own research and voting team based on their own voting policy to make voting decisions without the use of service providers. More detail on their guidelines for exercising voting rights can be found here: <https://en.nikkoam.com/voting-rights>  At the shareholder meetings of 2,306 Japanese companies in which Nikko Asset Management Co., Ltd. (Nikko AM) held voting rights between July 2019 and June 2020, the firm cast 2,758 negative votes against 23,012 company generated proposals. This translates to 12.0% of the total.  Voting and Engagement example  An example of an engagement within the period was on a proposed appointment of an outside director prior to a general meeting of shareholders for a Nikko investee company. Before the company’s 2020 annual general meeting of shareholders, Nikko discussed with management its proposal to appoint an outside director. Given that the candidate was from the top management of a major lender to the company, Nikko expressed their concern about the independence of the candidate. The company’s management responded that they intended to bring an experienced director with financial and accounting knowledge onto the board of directors and they wanted a candidate who currently held an active management position. In light of this explanation, Nikko comprehensively considered matters including the following: (1) the candidate was currently not an executive officer, (2) the investee company’s finances were sound and it was not at a high risk of having to be highly dependent on its lenders, and (3) the possibility for the candidate to bring significant knowledge and experience to the role given their position as a member of a bank’s top management. Based on those considerations, Nikko voted in favour of the proposal. |

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| Voting and engagement - fixed income and alternatives | The Scheme invests in fixed income securities through the arrangement with AIL in their fund of fund approach.  The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all managers are rated '2' or above on AIL’s four-tier ESG rating system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.  While equity managers may have more direct influence on the companies they invest in, fixed income managers are increasingly influential in their ability to encourage positive change.  A high-profile example of this is from Robeco, a Multi Asset Credit manager within the AIL fixed income strategies, that have ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Whilst Robeco was supportive of this step, Robeco was not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a two-year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.  The Trustee believes that engagements of this nature are key to managing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.  The Scheme also invests in several alternative strategies. These include asset classes such as managed futures, insurance linked securities, risk parity and gold.  The Trustee recognises that the respective investment processes and potentially illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, both the Trustee and AIL still expect all their managers to open a dialogue and engage with the issuers/companies they invest in should they identify concerns that may be financially material. |

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| Conclusion | Overall, the Trustee believes the stewardship carried out on behalf of the Scheme is adequate and in line with the stewardship policy as stated in the SIP.  The Trustee notes examples of the willingness and ability of LGIM and BlackRock to take proactive votes against management where appropriate. The Trustee also notes the efforts from AIL in monitoring the appointed underlying managers and encouraging better practices where possible and appropriate.  The Trustee acknowledges that stewardship may be less applicable to certain asset classes such as insurance-linked securities and property, but generally would still expect to see RI policies and processes formalised and developed over time.  The Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continue to expect improvements 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. |

# Appendix - Aon Investments Limited (AIL) Responsible Investment Policy Information

Aon Investments Limited (AIL) has a responsible investment framework to ensure that underlying managers are incorporating ESG factors into their investment processes, and in turn ensures robust integration of ESG factors into the Scheme's portfolio. The key steps of this process are as follows.

* **Assessment:** The underlying managers are rated on ESG as part of Aon's initial 'Buy' rating process. AIL will only invest in managers rated a 2 or above. The ESG rating is reviewed annually.
* **Monitor:** The underlying managers provide detailed reporting on ESG matters and Aon holds ESG-specific research meetings with the underlying managers. Third party data is used to analyse ESG exposures within portfolios.
* **Engage:** Aon Investments engages with underlying managers to identify and highlight areas that can be improved and collaborates with other Aon teams to influence change.

The ESG ratings for underlying managers are explained below:

* **ESG Rating 4:** The Fund Management Team demonstrates high awareness of all known and potentially financially material ESG risks in the investment strategy and, at present, has incorporated appropriate processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
* **ESG Rating 3:** The Fund Management Team demonstrates an above average awareness of potential ESG risks in the investment strategy and has taken essential steps to identify, evaluate and potentially mitigate these risks.
* **ESG Rating 2:** The Fund Management Team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.
* **ESG Rating 1:** The Fund Management Team appears unaware or unconcerned with ESG risks in the investment strategy and has not taken any material steps to address ESG considerations in the portfolio.

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