# 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 - Rical 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 out 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 any 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 2019 calendar year, plus the first quarter of 2020. |

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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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| Scheme activity over the year | **Trustee training**  Over the year, the Trustee received responsible investment ("RI") training which provided the Trustee with an introduction to responsible investment. The training also 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 in 2019 and 2020 relating to ESG considerations.  **Responsible investment policy development**  Following on from this initial training, in March 2019, the Trustee began to consider specific issues relating to responsible investment. Each member of the Trustee’s team took part in an exercise to provide their own personal input on 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.  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 | Over the past year, AIL's commitment to responsible investment has resulted in several rapid, positive evolutions in the way that they integrate ESG matters within their investment solutions. This includes formalising their ESG integration process; holding deep-dive meetings with the underlying equity and fixed income managers that their funds invest with; and publishing their first annual stewardship report (2019).  In line with their ESG integration process, AIL have undertaken a considerable amount of engagement activity during the first half of 2020. AIL held 22 ESG deep-dive meetings covering the equity and fixed income managers that they invest in across their delegated funds. This is in addition to many more engagements that the same managers have had with Aon’s investment manager research team. These meetings have enabled AIL to gain deeper insight into the RI approaches of their underlying managers and provided an opportunity to discuss portfolio positioning from an ESG perspective. AIL were also able to analyse and discuss the voting and engagement activities undertaken during 2019.  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 Managed Growth Fund managed by AIL, which had exposure to two global equity funds at the year-end:   1. Legal & General Investment Management ("LGIM") Alternative Indexation Multi Factor Fund; and 2. BlackRock Emerging Markets Equity Fund.   AIL only invest in equity managers that meet their minimum ESG rating criteria and are working closely with their managers to improve ratings wherever there is scope to. AIL have confirmed that all managers received at least a 2 rating on its ESG ratings scale (with the highest score being a 4), which means that a fund management team is aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.  The Principles for Responsible Investment ("PRI") is the world’s leading proponent of ESG and a global standard setter for better practice. LGIM has been a PRI signatory since 2010 and BlackRock has been a PRI signatory since 2008.  **LGIM Alternative Indexation Multi Factor Fund**  Summary Voting Statistics   |  |  |  | | --- | --- | --- | |  | **2019** | **Q1 2020** | | % resolutions voted | 98.5% | 99.1% | | % of resolutions voted against management | 14.9% | 14.5% | | % resolutions abstained | 0.0% | 0.0% |   Voting Summary  LGIM use ISS as a proxy advisor for voting on this fund. LGIM regularly monitor the proxy voting services through quarterly due diligence meetings to ensure execution is in line with their voting policy. LGIM receive an electronic alert for rejected votes which require further action. LGIM are audited annually and receive an assessment report on their voting activities.  LGIM are currently in the process of building a tool to pull specific engagement and voting data at a strategy level and will align this and their definition of a significant vote with PLSA guidelines. LGIM also strengthened its voting policy in 2020 to state they will vote against misaligned pensions for directors. Weekly voting meetings are recorded and audited annually within the team, with all votes having a rationale behind them.  LGIM provided a number of significant voting examples and rationale. One example of LGIM voting against a shareholder proposal was for Rio Tinto, a mining company, the proposal was to set out a transition plan and publish targets aligned with the Paris agreement. LGIM considered this resolution to be too prescriptive under current technology limitations for the sector but has been pushing the company to tackle this through their engagement.  In addition, LGIM supported and was a co-filer in the shareholder proposal put forward by Climate Action 100+ for BP to publish a strategy consistent with the Paris Agreement, including capital expenditure and targets. This was supported by over 99% of shareholders at the company's AGM, and support from the board was achieved.  Engagement Summary  A common misconception within the investment industry is that passive management removes an investor's ability to influence the companies held within the portfolio, compared to an active manager with a more concentrated portfolio of companies they know very well. Despite this, LGIM has become an industry leader in stewardship activities for index tracking funds and is arguably setting best practice for other managers to follow.  Passive managers' difficulties lie in the fact that their funds invest in hundreds and sometimes thousands of companies across the world, meaning that they don't necessarily have the resource to engage on granular, company specific issues with each investment they hold. This could therefore result in less effective forms of stewardship for this style of investing.  LGIM began working on a solution to this issue by deciding to focus on key engagement themes that they thought would drive the greatest levels of progress and client value. Holding client forums in 2017 provided LGIM with broad engagement themes to focus and prioritise their engagement activity.  As part of their Climate Impact Pledge, LGIM publish a list each year comprising of companies that are deemed candidates for exclusion as a result of them not reaching LGIM's sustainability expectations. If engagements with these companies are unsuccessful, LGIM may divest from the company.  **BlackRock Emerging Markets Equity Fund**  Summary Voting Statistics   |  |  |  | | --- | --- | --- | |  | **2019** | **Q1 2020** | | % resolutions voted | 95.4% | 98.6% | | % of resolutions voted against management | 8.5% | 9.2% | | % resolutions abstained | 4.0% | 4.8% |   Voting Summary  BlackRock state that it "votes (or refrains from voting) proxies for each Fund for which we have voting authority based on our evaluation of the best long-term economic interests of shareholders, in the exercise of our independent business judgment, and without regard to the relationship of the issuer of the proxy (or any shareholder proponent or dissident shareholder) to the Fund, the Fund’s affiliates (if any), BlackRock or BlackRock’s affiliates, or BlackRock employees".  BlackRock votes in accordance with guidelines for each relevant market, which are reviewed regularly and changed in line with developments within those markets. 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.  BlackRock ordinarily refrain from abstaining from both management and shareholder proposals unless abstaining is the valid vote option (in accordance with company by-laws) to signal concern to management; there is a lack of disclosure regarding the proposal voted; or an abstention is the only way to implement their voting.  One example of a situation where BlackRock voted against management was with regards to the Airport of Thailand Public Co. Ltd in January 2020. BlackRock voted against the election of Manu Mekmok and Sarawut Benjakul as directors under the rationale that they are "non-independent directors on inadequately independent boards".  In another instance in March 2020, BlackRock voted against the management of Akbank TAS in the election of directors and approval of director remuneration due to a lack of information being disclosed.  Engagement Summary  BlackRock state that they aim to enhance the long-term value of client assets through their proxy voting and engagement activities. BlackRock's Investment Stewardship team engage with companies in both active and indexed investment strategies, noting the importance of engagement within index-based strategies where divestment is not an option. BlackRock use engagement as a tool to raise concerns regarding governance and sustainability issues that may affect the long-term performance of the company.  BlackRock are improving their engagement disclosures this year, with the aim to:   * Move from annual to quarterly voting data; * Give prompt explanations of key voting decisions; and * Enhance disclosure of company engagement. |

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| Voting and engagement - fixed income and alternatives | The Scheme is able to invest across four nominal and real liability matching funds with AIL in order to provide protection for the Scheme's liabilities against changes in interest rates and inflation. Voting, engagement and stewardship are less applicable to the hedging instruments – comprising UK government bonds – within the nominal and real liability matching funds.  However, each of the nominal and real liability matching funds have some underlying exposure to the Managed Growth Fund, which also had exposure to a number of fixed income assets, including asset backed securities, emerging market debt, multi-asset credit, absolute return bonds, short dated credit, managed futures, insurance-linked securities, physical gold and listed property. While equity managers may have more direct influence on the companies they invest in, fixed income and alternatives managers are also increasingly influential in their ability to encourage positive change.  During the first round of ESG deep-dive meetings with fixed income managers, AIL have seen various ways in which managers integrate RI into portfolios. As with equity managers, AIL only invest in fixed income managers that meet their minimum ESG rating criteria and AIL are working closely with their managers to improve ratings wherever there is scope to. AIL have confirmed that all managers received at least a 2 out of 4 ESG rating.  Several engagement case studies were provided by AIL for the Managed Growth Fund. Interesting case studies were provided for Robeco (positive long-term engagement with a large company), Reams (a manager that AIL engaged with to improve its ESG integration capabilities) and Aegon (which engages on ESG matters within the asset-backed securities space, ahead of many of its peers).  **Robeco**  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, they were 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.  **Reams**  AIL have been working with fixed income manager Reams to improve its ESG rating. Reams did not initially have an explicit focus on ESG and had not been challenged on ESG issues. Specifically, they lacked;   * An RI policy; * A metric for scoring securities on ESG criteria; and * Public commitments or collaborations to invest responsibly.   Following AIL's engagement with Reams on these issues, they quickly took action by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities.  Tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to RI by becoming a signatory to the Principles for Responsible Investment.  As a result of these improvements, AIL upgraded Reams’ ESG rating from a 1 to a 2, the minimum score at which AIL will consider investing. Reams has continued its commitment to RI following these initial improvements, demonstrating how AIL's engagements with underlying managers can generate positive shifts in their approaches to RI.  **Aegon**  Within the asset-backed securities space, a large proportion of the investment analysis is focused on downside risk rather than potential upside gains. When discussing Aegon’s approach to RI with their portfolio managers, AIL welcomed the fact that ESG analysis forms a critical aspect of Aegon's risk mitigation analysis. Their ESG analysis is conducted at the collateral, the originator and country of domicile levels, where each level is scored between one (best) and five (worst), with a weighted average taken to form their overall ESG score for the ABS bond.  The majority of ABS bonds within the Aegon European ABS fund have low ESG risks and score between two (minimal risk) and three (event risk potential) by Aegon. Aegon’s weighted average ESG rating for the fund was 2.5 as at February 2020, outperforming their estimated ABS universe score of three. Further to this analysis, Aegon actively engage with 100% of their ABS issuers to try to increase their ESG score and / or influence the transaction.  In 2019, Aegon invested in a Dutch Residential Mortgage Backed Security ("RMBS") issued by one of the largest mortgage lenders in the Netherlands. The lender has developed a green bond framework under which it issues green RMBS and uses the proceeds to finance a pool of mortgages with energy-efficient characteristics. Aegon, together with other investors, have pushed for standardisation and transparency among Dutch RMBS issuers. They also request additional information about ESG disclosures on deals, such as the energy efficiency of collateral (houses, offices, hotels). Off the back of Aegon’s engagements several issuers have improved their ESG policies. Taken together, AIL believe Aegon’s work to integrate ESG analysis and engage with their issuers is highly effective at mitigating ESG risks and is a crucial component of the strategy.  The Trustee believes that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, as well as contributing to the transition towards a low carbon economy.  **Alternatives**  The Scheme invest in a number of alternative strategies. These include insurance linked securities, listed property, and other risk premia strategies making use of options and futures.  The Trustee recognises that the respective investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustee still expect that all of its managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material. |

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| Conclusion | The Trustee recognises that it has a responsibility as an institutional investor and asset owner to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in.  Overall, the Trustee believes the stewardship carried out on behalf of the Scheme to be appropriate. The Trustee delegates responsibility to AIL to encourage and monitor improvement in this area with the appointed underlying managers.  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 will continue to use its influence to drive positive behaviour and change among the managers that it has employed to invest the assets of the Scheme, and with other third parties that the Trustee rely on such as its investment advisor. The Trustee will monitor, assess and ultimately hold them to account to ensure that the assets of the Scheme are appropriately invested. |

# 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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