Engagement Policy Implementation Statement

Carl Kammerling International Limited Life Assurance and Pension Plan

This paper has been produced for the Trustee of the Carl Kammerling International Limited Life Assurance and Pension Plan, as the Trustee prepares its Engagement Policy Implementation Statement ("EPIS").

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 during that year.

This Statement has been commissioned by Entrust Pension Limited (the “Trustee”) as Trustee of the Carl Kammerling International Limited Life Assurance and Pension Plan (the “Scheme”).

As set out in the Scheme’s Statement of Investment Principles (the “SIP”), 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.

The Scheme assets may be invested in a combination of return-seeking funds, including the Managed Growth Fund and four funds which contain growth assets and liability matching assets. The strategic allocation to each fund 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 to 30 June 2021.

Prepared for:	Entrust Pension Limited
Prepared by:	Aon Solutions UK Limited
Date:	30 June 2021

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 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. Throughout the year, the Trustee ensured the responsible policy remained relevant and up to date.

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.

Sponsor consultation

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

Engagement - Fiduciary Manager

The Trustee's fiduciary mandate is managed by Aon Investments Limited (AIL). AIL appoint underlying asset managers to achieve an overall target return.

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 it invests.

AIL have undertaken a considerable amount of engagement activity over the period, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings in 2020 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 in the area of responsible investment ("RI") moving forward. Meetings have progressed through the beginning of 2021.

Aon Solutions UK Limited ("Aon") also actively engage with asset managers and this is used to support AIL in their fiduciary services. Over the period, Aon's Engagement Programme maintained a dialogue with one of its leading global asset managers ("the manager") on behalf of many of their clients which invest with the manager. This culminated towards the end of 2020 in a discussion with their Global Head of Stewardship with respect to numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals. Discussions were held regarding the following:

- Aon's analysis of the manager's voting actions over the period showed that the manager had not been voting in a manner consistent with their public pledges nor rhetoric on the importance of sustainability issues. The manager acknowledged that there was a disconnect between vote decisions made in the first half of 2020, but that they had markedly changed their voting policies in the second half of 2020, and reassured Aon that moving forward, vote decisions would better align with their stated positions on such ESG matters. Aon expect to see this reflected in voting actions by mid-2021.

- Aon expressed concern that given the level of potential influence the manager had; the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged Aon's concern and agreed to follow up with further detail. While its situation has not yet changed, it is possible that regulatory restrictions may be eased in the future allowing the manager to use shareholder resolutions as a tool. The manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations, to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. For example, in areas such as the transition to the low carbon economy; diversity, equity and inclusion; voting on shareholders proposals.

Aon welcome the improved stance on ESG issues from the manager and their proactive updating of their policies to more closely align with their responsible investment goals. Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

Voting and Engagement – Underlying Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds within the Managed Growth Fund. 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 Fund 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.

Voting statistics for the equity managers are noted in Appendix 1.

LGIM Multi Factor Equity Fund

Voting

LGIM make use of the Institutional Shareholder Services' ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary environmental, social and governance ("ESG") assessment tools, but do not outsource any part of the strategic decisions. They have 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.

Voting Example: Pearson

In September 2020, LGIM voted against a remuneration policy put forward by an investee company Pearson.

The company put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy at an extraordinary general meeting ("EGM"), which was tied to the appointment of a proposed CEO. Shareholders supportive of the new leadership were therefore unable to separately evaluate the remuneration policy.

LGIM spoke with the chair of Pearson's board in relation to plans for the change in leadership and discussed the shortcomings of the company's current remuneration policy. Additionally, LGIM relayed their concerns prior to the

EGM that the performance conditions within the remuneration policy were not appropriate and should be re-evaluated to best align management incentives with those of the shareholders.

In the absence of any changes to the proposal, LGIM took the decision to vote against the amendment to the remuneration policy. In all, 33% of shareholders voted against the remuneration policy and the appointment of the new CEO. While the proposal received sufficient support to be passed, the engagement highlighted concerns around governance, which LGIM has stated will be challenged through continued engagement going forward.

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
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

Engagement Example: Proctor and Gamble ("P&G")

P&G use 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 (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.

Following these engagements, LGIM voted in favour of the resolution as P&G has introduced objectives and targets to ensure their business does not impact deforestation.

However, LGIM felt P&G were not doing as much as it could, and asked P&G to respond to a Carbon Disclosure Project Forests Disclosure and continue to engage on the topic with P&G and other companies to ensure more of their pulp and wood is from Forest Stewardship Council-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

Blackrock use the ISS electronic platform to execute their 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 the period, BlackRock have increased their 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 a number of criteria such as level of public attention, and impact of financial outcome.

Voting Example: Yanzhou Coal Mining Company

In 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 their 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 are 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). BlackRock believe 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 decarbonisation targets.

BlackRock communicated these concerns with management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures ("TCFD"). BlackRock Investment Stewardship team will continue to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf

Engagement

The Blackrock Investment Stewardship ("BIS") 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 noted in the 2020 annual stewardship report that over 2020, BIS had over 3,500 engagements (an increase of 35% against 2019) with 2,110 unique companies, covering nearly 65% by value of their clients' equity investments. They also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020:

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Fixed Income

While equity managers may have more direct influence on the companies they invest in, fixed income managers are also increasingly influential in their ability to encourage positive change.

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

Robeco Institutional Asset Management ("Robeco")

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

With respect to ESG considerations, the manager is particularly focused on improving business conduct and function of the companies they invest in. Robeco carry out extensive research on the companies they invest in, measure changes in company performance relative to engagement objectives and allow three years for engagement. Any cases closed unsuccessfully are considered for exclusion from the manager's funds.

Engagement Example: Australian Iron Ore Company

In 2020, Robeco engaged at a strategy level with an Australian iron ore company across a range of topics including water risk, tailing dam safety and asset retirement planning. Robeco's engagement program aims to gain a better understanding of how companies are addressing key environmental issues at the group and operational levels. Robeco call on companies to improve disclosures on their performance at the asset level and urge them to take further action to mitigate adverse impacts (Sustainable Development Goals 6 and 12).

Robeco engaged through calls and emails. Since, the manager noted positive progress on some of the engagement objective of tailing safety management. In addition, Robeco continue to hold the view that there is room for improvement in terms of disclosures of water use performance and target setting, and thus, welcome the company's decision to set water-related disclosures and will review these once published.

Robeco will continue to engage the company until late 2023 on these topics and have an agenda for further discussion topics with the company including cybersecurity and staff remuneration.

BlackRock

BlackRock believe bond investors, with their often-multiyear perspective, are well-positioned to engage collaboratively with management to endorse and promote sound ESG practices. Such engagement enhances BlackRock's credit analysis, by providing them with more comprehensive credit profiles of their borrowers.

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship ("BIS") is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock's Global Fixed Income ("GFI") Responsible Investing ("GFI-RI") team may partner with the BIS team both to reflect ESG related topics from GFI investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in GFI portfolios, and the issuer is flagged as low rated or controversial by external ESG rating providers or is highlighted by their credit research.

Engagement Example: Exxon Mobil

An example of an engagement by the GHI-RI team was that with Exxon Mobil. In their discussion with the company, they discussed several engagement topics such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the GFI-RI team including, the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

The Trustee believes that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, while contributing to the transition towards a low carbon economy.

Aegon Asset Management ("Aegon") European ABS Fund

Through AIL the Scheme invests in European Asset Backed Securities ("ABS") managed by Aegon. For Aegon, ESG analysis forms a critical aspect of its risk mitigation analysis. This is at 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.

Aegon's engagement efforts can be categorised according to three buckets: policy-based, thematic and product support. The reasons it starts these engagements include seeking to:

- Improve performance and promote companies' long-term financial performance.
- Monitor, manage and mitigate investment risk.
- Better understand companies and set expectations on company management.
- Set goals and timeframes to meet, to reach compliance with its policies.
- Improve ESG disclosure.
- Maximise positive sustainability outcomes, including those related to the SDGs (UN Sustainable Development Goals, which address global issues such as poverty, healthcare access and sustainability challenges).
- Encourage the issuance of green, social and sustainable bonds for the purpose of investment participation and growing sustainable business practices.

Engagement Example: Collateralised Loan Obligations (CLO)

At a fund level, Aegon has been engaging with managers issuing Collateralised Loan Obligations (CLO) to encourage them to improve the quality of CLO collateral pools by excluding loans that exhibit high ESG risk. Aegon sent the CLO managers ESG questionnaires specific for CLOs and had several meetings with management to discuss responses, ESG goals and any other areas which Aegon view to require improvement or more ESG awareness. The manager plans follow up meetings dependent on the specific engagement and targets set out in each case. Aegon engagements aim to encourage increasing ESG scrutiny on portfolios and explicit exclusion language in CLO documentation where appropriate, which creates appropriate incentives for the stakeholders behind the collateral pool.

A specific example of this would by with St Paul's CLO VII, where Aegon engaged in relation to the theme 'Good Health and Wellbeing (through preventing potential gambling addiction)'. Aegon engaged directly and independently with the stakeholders, as this allocation made up c.1% of the portfolio. The manager noted that the inclusion of assets related to gambling companies conflicted with their investment policies. In response, assets in relation to three gambling companies were removed from the portfolio. Aegon were satisfied with the collateral pool adjustment and proceeded with the transaction.

Alternative Investments

The Trustee recognises that the investment processes of alternative investments, such as those held within the Managed Growth Fund, 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 assesses specific ESG factors, examples include:

- Environmental impact including pollution prevention (via underwriting standards) and remediation (via providing capital for protection), reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards
- Social impact including human rights, welfare and community impact issues
- Governance issues including board structure, remuneration, accounting quality and corporate culture

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group ("MS&AD") and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and assessing ways to tackle climate change and mitigate the associated risks. Additionally, MS&AD are a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise, through which, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with climate-risk.

Leadenhall perform a detailed review of their investment counterparties policies and controls including those concerning their explicit ESG and corporate social responsibility ("CSR") frameworks. Where appropriate they make recommendations to avoid investment counterparties who are not aligned with ESG policies.

In Summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that its investment manager was able to disclose strong evidence of voting and engagement activity where appropriate.

The Trustee acknowledges that stewardship may be less applicable to certain asset classes such as fixed income and alternative investments, but generally would still expect to see responsible investment policies and processes formalised and developed over time.

The Trustee expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Appendix 1: Equity Manager Voting Statistics

30 June 2020 – 30 June 2021	LGIM Multi Factor Equity Fund	BlackRock Emerging Markets Equity Fund
% resolutions voted on for which the fund was eligible	100.00%	100.00%
% that were voted against management	18.29%	9.44%
% that were abstained from	0.13%	4.56%

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