Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 31 March 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and subsequent amendments, and the guidance published by the Pensions Regulator.

On the basis of materiality (size of AVCs relative to total Scheme assets) and due to the lack of available information from the Scheme’s AVC provider at the time of writing, this Statement focuses on the Trustee’s Engagement Policy in relation to the main Scheme investments only.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Scheme included in the SIP are as follows:

“The Trustee’s primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when they fall due. The Trustee’s current objective is to achieve a level of return which, when compared to changes in the value of the liabilities, is expected in conjunction with the deficit recovery plan, to improve the Scheme’s funding position.

The risk adopted to generate such a level of return will be consistent with the Trustee’s and Principal Employer’s tolerance to risk and will take account of the Scheme’s liability profile and financial position. The Trustee has set an objective of reducing risk as far as practicable, whilst achieving the target level of return, in order to reduce the likelihood of requiring additional deficit contributions beyond those agreed as part of the current deficit recovery plan.”

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustee’s policy on Environmental, Social and Governance (“ESG”) factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in Q3 2020.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on
29 August 2019. As part of this training, the Trustee undertook a beliefs survey designed by their investment consultant to assist the Trustee with establishing their policy in this area. The results of this survey were presented at the training session on 29 August 2019, with the policy being incorporated into the SIP following this exercise. The Trustee keeps its policies under regular review, with the SIP subject to review at least triennially.

The Trustee’s policy in relation to ESG factors, stewardship and climate change, as set out in the SIP, is as follows:

“The Trustee believes that ESG factors have a financially material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee will take into account the expected lifetime of the Scheme when considering how to integrate these issues into the investment decision-making process.

The Trustee will consider, amongst other factors, how ESG, climate change and stewardship are integrated within investment processes in the selection, retention and realisation of investments.

The Trustee will consider the ESG credentials of investment managers in the selection of investment managers, making use of the Investment Consultant’s ESG ratings.

The Trustee has given the appointed investment managers full discretion when evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme’s investments. This includes undertaking engagement activities, in accordance with their own ESG and stewardship policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee has not set any ESG related investment restrictions on the appointed investment managers, but may consider this in future.

The Trustee will review the ESG credentials of their managers on a regular basis using the Investment Consultant’s ESG ratings.

Non-financial matters are not currently taken into account in the selection, retention and realisation of defined benefit investments (for this purpose, non-financial matters means the views of the members and beneficiaries including, but not limited to, their ethical views and their views in relation to social and environmental factors).

The Trustee does not consider the ESG policies of existing annuity providers and AVC providers as these contracts are a small proportion of total assets.”

The following work was undertaken during the year to 31 March 2021 relating to the Trustee’s policy on ESG factors, stewardship and climate change, and sets out how the Trustee’s engagement and voting policies were followed and implemented during the year.
Engagement

- The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code.
  
  - The majority of the Scheme’s investment managers (c.91% of assets under management as at 31 March 2021) confirmed that they are signatories of the current UK Stewardship Code. One of the Scheme’s managers confirmed that they are not signatories of the current UK Stewardship Code, but intend to submit the required reporting to the FRC by the end of 2021.

- The Scheme’s investment performance report is reviewed by the Trustee on a quarterly basis. This includes ratings (both general and specific to ESG) from the investment consultant. All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective, the Trustee continues to monitor and engage with those managers where appropriate. The investment performance report includes how each investment manager is delivering against their specific mandates.

- The Trustee also requested details of relevant engagement activity over the year from each of the Scheme’s investment managers.
  
  - The Scheme’s investment managers engaged with companies over the year on a wide range of different issues, including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).
  
  - The Scheme’s managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives were driven mainly through regular engagement meetings with the companies that the managers invest in, or by voting on key resolutions at companies’ Annual General Meetings. Examples are set out below.

Engagement activity

Nordea Alpha 10 Multi-Asset Fund

Nordea made two engagements with portfolio company boards during the year. Engagement was focused on corporate governance, specifically concerning labour rights and instances where companies had violated their supply chain policies, which Nordea had identified during the year.

One such engagement was with Cisco systems. Cisco appeared as one of several multinationals in a report highlighting the issues of Uyghur repression and forced labour across manufacturing sites in China. Nordea subsequently engaged with the company to get a better understanding of how Cisco deal with supply chain issues such as these. Specifically, some manufacturing plants which allegedly employed forced Uyghur labour were doing business with some of Cisco’s tier 2 suppliers. Nordea’s Responsible Investment Team met with Cisco’s Investor Relation and senior Supply Chain representatives to discuss the issue. Cisco
confirmed and evidenced that it does not work with any of the companies or manufacturing sites named in the report. Additionally, the company does not source any product or material from the most exposed province of Xinjiang. In general, Nordea's Responsible Investment Team was pleased by the positive outcome of the engagement and it highlighted Cisco's strong commitment to supply chain matters.

LGIM Equities and UK Corporate Bonds

LGIM carried out a significant number of engagements during the year, with LGIM’s Investment Stewardship team holding 295 meetings or calls and 596 written engagements during 2020. Examples of such engagement are set out below.

Oil companies have begun to adopt net zero emissions targets, relating not just to their operations, but also the use of their products (by far the largest source of emissions for the industry). BP plans to curb oil and gas production significantly, broadly in line with global climate targets. “We listened and we learned,” said Bernard Looney, BP CEO, reflecting on shareholder engagement co-led by LGIM, as part of the Climate Action 100+ investor coalition dismissed, and the company was delisted from Nasdaq in June 2020. But progress has not been uniform: having previously divested from ExxonMobil from some of their funds due to concerns over governance and climate targets, in 2020 LGIM announced they would be voting against the company’s chair-CEO, as well as several other directors. By contrast, Occidental Petroleum, another company formerly on the sanction list, in 2020 became the first US oil major to announce broad net zero targets.

As part of a collaborative engagement with other investors, LGIM have challenged FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015. Not only did LGIM want to highlight the importance of eradicating modern slavery throughout the supply chains of FTSE 350 companies, they also sought to raise the importance of eradicating modern slavery across global business. A secondary objective was to encourage a greater degree of challenge on social issues, specifically making use of shareholder rights, as LGIM believe that responsible investment currently does not focus enough on these concerns. Separately, they had numerous engagements with Boohoo Group in the second half of 2020 to discuss its response to criticisms of poor practices in its supply chain. As a consequence, Boohoo announced its Agenda for Change programme, with a focus on improving supply-chain management, driving more responsible sourcing and transparency.

PIMCO Unconstrained Bonds

PIMCO engaged with several portfolio company boards during the year, one of which was Tesco. PIMCO regularly engages with Tesco on a variety of ESG factors, including deforestation, sustainable bond issuance, and supply chain disruption. Early in the COVID-19 crisis, PIMCO actively inquired about plans on worker health and safety. Tesco demonstrated reasonable resilience and responsiveness in upholding expectations on employee health and benefits over a challenging year. It kept vulnerable staff and workers in self-isolation at home with full paid leave at the outset of the pandemic to minimise the health risk for its workforce. It continues to target more sustainable packaging by establishing a closed loop for plastics, and has worked with suppliers to remove hard-to-recycle materials.

Over the prior 12 months, the Trustee has not actively challenged its managers on their engagement activity.
**Voting Activity**

The Trustee has delegated its voting rights to the investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

The Trustee does not use the direct services of a proxy voter. However, some of the Scheme’s investment managers use research and proxy-related services to assist with the mechanics of voting.

Examples of key voting activity on behalf of the Trustee over the year is outlined in the table overleaf. There is no official definition of what constitutes a ‘significant’ vote; investment managers have adopted a variety of interpretations such as:

- The vote is severely against the manager’s principles and the manager feels they need to enact change in the company;
- There is a particular interest in a specific vote relating to an issue;
- The vote is expected to have a financially material outcome and therefore impact the investment manager’s clients;
- The size of the holding within the fund / mandate is significant

As equity exposure within the Insight Broad Opportunities Fund is gained through the use of derivatives, the Fund did not carry any voting rights in relation to equity holdings as at 31 March 2021. However, the Fund held infrastructure assets that did carry voting rights. Voting and engagement activity in relation to portfolio holdings within real assets is summarised in Insight’s annual Responsible Investment Report.
<table>
<thead>
<tr>
<th>Manager</th>
<th>Company</th>
<th>Date</th>
<th>Proposal</th>
<th>For/against management</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea</td>
<td>Nike</td>
<td>September 2020</td>
<td>Advisory Vote to Ratify Named Executive Officers' Compensation</td>
<td>Against</td>
<td>Nordea believe that bonuses and share based incentives should only be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. Nordea’s view was that for a large part of the incentive program, performance targets were still lacking. The outcome of the vote was for management. Nordea will continue to be critical of badly structured remuneration programs with large proportions of time-based variable compensation.</td>
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<tr>
<td>Oracle</td>
<td>November 2020</td>
<td>Report on Gender Pay Gap (shareholder proposal)</td>
<td>For</td>
<td></td>
<td>Oracle is lagging other large IT companies when it comes to reporting on the gender pay gap. The outcome of the vote was against management. Nordea will continue to support shareholder proposals on this issue as long as the company is not showing substantial improvements.</td>
</tr>
<tr>
<td>Imperial Brands plc</td>
<td>February 2021</td>
<td>Approve Remuneration Report and Approve Remuneration Policy</td>
<td>Against</td>
<td></td>
<td>The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association. An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Prior to the AGM, LGIM engaged with the company outlining what their concerns over the remuneration structure were. The outcome of both votes was for management.</td>
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<tr>
<td>LGIM</td>
<td>Barclays</td>
<td>May 2020</td>
<td>Approve Commitment in Tackling Climate Change and approve ShareAction Requisitioned Resolution</td>
<td>For (both resolutions)</td>
<td>The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. LGIM were particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome. LGIM’s focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. The outcome of the Commitment in Tackling Climate Change vote was for management, the resolution proposed by ShareAction went against management. LGIM plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.</td>
</tr>
<tr>
<td>LGIM</td>
<td>Medtronic plc</td>
<td>December 2020</td>
<td>Advisory Vote to Ratify Named Executive Officers' Compensation</td>
<td>Against</td>
<td>Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out. LGIM voted against as they are not supportive of one-off awards in general and in particular, when these are awarded to compensate for a payment for which the performance criterion/criteria were not met. Prior to the AGM, LGIM engaged with the company and clearly communicated their concerns over one-off payments. The outcome of the vote was for management.</td>
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