

# INDUSTRY-WIDE MINeworkERS' PENSION SCHEME

## ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

### 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 produce an annual Engagement Policy Implementation Statement ("EPIS") which outlines the following:

- Explain how and the extent to which the Trustee has followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on their behalf) during the Scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The EPIS has been prepared by the Trustee and covers the Scheme year 1 January 2020 to 31 December 2020.

### Scheme Stewardship Policy Summary

This is the first EPIS the Trustee has prepared and covers the year ending 31 December 2020. The below bullet points summarise the Scheme Stewardship Policy in force over the majority of the reporting year to 31 December 2020. The full SIP is available on the IWMPs website.

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the trustees or the asset manager.

Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary in order to carry out voting actions.

Where a significant concern is identified, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

## Scheme stewardship activity over the year

### Training

The Trustees were made aware of the upcoming regulatory changes and received training on these changes in July 2020. During this training, the Trustees discussed new wording to include in the SIP relating to their views on responsible investment.

### Updating the Stewardship Policy

Throughout the year, the Trustee has been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

### Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

## Voting and Engagement activity – Equity and multi-asset Funds

The Scheme invests in the following funds:

Manager	Fund Name
Legal & General Investment Management	UK Equity Index
Legal & General Investment Management	Europe (ex UK) Equity Index Fund (hedged & unhedged class)
Legal & General Investment Management	North America Equity Index Fund (hedged & unhedged class)
Legal & General Investment Management	Japan Equity Index Fund (hedged & unhedged class)
Legal & General Investment Management	Asia Pacific (ex Japan) Equity Index Fund
Legal & General Investment Management	World Emerging Markets Equity Index Fund
Invesco	Global Targeted Returns Fund
PIMCO	Global Investors Series Fund

## Legal & General Investment Management (LGIM)

LGIM make use of the Institutional Shareholder Services' ("ISS") proxy voting platform to electronically vote and augment its own research and proprietary Environmental, Social and Governance ("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 retains 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.

	Number of resolutions eligible to vote on over the year	% of resolutions voted on for which the fund was eligible	% that were voted against management	% that were abstained
UK Equity Index Fund	13,941	99.94%	6.95%	0.01%
Europe (ex UK) Equity Index Fund	10,695	99.87%	15.25%	0.37%
North America Equity Index Fund	10,174	99.90%	27.53%	0.04%
Japan Equity Index Fund	6,697	100.00%	13.11%	0.00%
Asia Pacific (ex Japan) Equity Index Fund	4,299	100.00%	25.40%	0.02%
World Emerging Markets Equity Index Fund	37,948	99.84%	12.93%	1.50%

The following examples demonstrate some of the significant voting activity being carried out on behalf of the Scheme over the year.

### Significant Voting Example – Procter & Gamble Company (P&G)

This example is in relation to the North America Equity Index fund.

One example of a significant vote was in the case of The Procter & Gamble Company in October 2020 wherein LGIM voted in favour of a resolution to report on the effort to eliminate deforestation. P&G uses both forest pulp and palm oil as raw materials within its household goods products. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. LGIM spoke to representatives from the proponent of the resolution, Green Century. In addition, LGIM engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution.

Although P&G had introduced a number of objectives and targets to ensure its business does not impact deforestation before the shareholder proposal, LGIM felt it was not doing as much as it could. The company had not responded to CDP Forest disclosure; this was a red flag for LGIM in terms of its level of commitment.

The resolution received the support of 67.68% of shareholders (including LGIM), and they will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.

### Significant Voting Example – Lagardère

This is a significant vote example in relation to Europe (ex UK) Equity Index fund.

An example of significant vote was LGIM voting in favour of five of the Amber-proposed candidates and voting against five of the incumbent Lagardère SB directors, on 5th May 2020, with respect to the resolution where Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).

Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where they were able to speak to the proposed new SB Chair, and also Lagardère, where they spoke to the incumbent SB Chair.

## **Legal & General Investment Management (LGIM) - *continued***

This allowed them to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.

The outcome of the vote was that even though shareholders did not give majority support to Amber's candidates, the proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board.

This vote is deemed significant as the LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.

### Significant Voting Example – Olympus Corporation

This is a significant vote in relation to the Japan Equity Index fund.

In July 2020, LGIM voted against the Olympus corporation to elect director Takeuchi, Yasuo at a company' annual shareholder meeting held on 30 July 2020.

On a global level LGIM consider that every board should have at least one female director. LGIM deem this a de-minimis standard. Globally, LGIM aspire to all boards comprising 30% women. Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. Last year in February, LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation.

In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100. LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue. 94.90% of shareholders supported the election of the director. LGIM will continue to engage with and require increased diversity on all Japanese company boards.

### Engagement Policy

LGIM prioritise and identifies its engagements following a six-step approach:

1. Identify the most material ESG issues
2. Formulate the engagement strategy
3. Enhance the power of their engagement
4. Public policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on their engagement activity

More information on the LGIM Engagement Policy 2020 can be found on the LGIM website.

### Engagement Example

In 2020, following steps by the Brazilian government to loosen environmental protections, LGIM joined a new investor coalition to lobby the Brazilian government to take steps to halt deforestation in the country. The investor coalition sent letters to several Brazilian embassies in Europe and subsequently, a video conference was scheduled with key members of the Brazilian government. At the video conference the investor coalition called on the Brazilian government to commit to achieving a significant reduction in deforestation and to ensure that existing environmental legislation is enforced.

In response to these engagements, the Brazillian government announced a moratorium on setting fires in the Amazon. However, data released in July 2020 shows that the rate of deforestation in the Amazon is increasing. LGIM will watch developments closely and will continue to engage with the food companies in their portfolio with exposure to soy and cattle farming in Brazil to encourage them to root out deforestation from their supply chain.

Going forward, the remit of the investor group will expand to focus lobbying efforts in Southeast Asia too.

## Invesco

### Voting

Invesco views proxy voting as an integral part of its investment management responsibilities. The proxy voting process at Invesco focuses on protecting clients' rights and promoting governance structures and practices that reinforce the accountability of corporate management and boards of directors to shareholders. Voting matters are assessed on a case-by-case basis by Invesco's respective investment professionals considering the unique circumstances affecting companies, regional best practices and their goal of maximizing long-term value creation for their clients.

Invesco supplement their internal research with information from proxy advisory firms such as ISS, Glass Lewis and the Institutional Voting Information Service ("IVIS"). Invesco generally retains full and independent discretion with respect to proxy voting decisions.

Over the year to 31 December 2020 (Firm Level)	Q1 2020	Q2 2020	Q3 2020	Q4 2020
% resolutions voted	96%	97%	98%	98%
% of meetings where resolutions voted against management	6%	6%	5%	5%
% resolutions abstained	0%	1%	1%	0%

### Voting example – Aercap Holdings NC

In April 2020, Invesco cast a significant vote in support of management regarding capitalisation. The company wanted to authorise the board to exclude pre-emptive rights from share issuances. Invesco believed a vote for this proposal was warranted since it is in line with commonly used safeguards regarding volume and duration. This was classified as a significant vote since the company has greater than 1% Invesco Ownership and it includes a key ESG proposal.

### Engagement Example

In October 2020, National Grid reached out to Invesco to invite them to attend their 2020 ESG seminar, which was the launch event for their 2021 ESG Programme. During the webinar, National Grid outlined their ESG strategy, and the key role they will play in facilitating the electrification of carbon-intensive industries and products such as automobiles. They outlined their carbon reduction targets, which include a 2050 net-zero target as well announcing on the webinar an interim reduction target for indirect emissions by 2030. They also announced social objectives they are working on, including getting more women into science, technology, engineering and mathematics from a young age. Following the webinar, Invesco provided feedback to National Grid that although the overall vision set out is very strong, more clarity is needed about how their gas business can be decarbonised and the feasibility of proposed solutions such as renewable natural gas or hydrogen blending.

## Engagement activity – Fixed Income and Real Estate

The Scheme also invests in a number of other asset classes, such as fixed income and real estate. The following examples illustrate some of the engagement activity being carried out on behalf of the Scheme's managers.

### **PIMCO**

PIMCO's credit analyst and ESG team engaged with Lloyds Banking Group to obtain an update on the progress made on their ESG initiatives and developments. The issuer has limited direct exposure to transitions risks and has recently taken positive steps on carbon emissions. The discussion included their progress and plans on climate risk assessment, Paris alignment, sectoral policy, human capital support towards digitalization and how ESG is reflected into employee performance assessment. The discussion led to an update of PIMCO's ESG view for Lloyds. PIMCO aims to maintain the dialogue for follow-up discussion on these areas moving forward.

### **BlackRock**

The UK property fund invests directly in UK real estate, so the concept of stewardship and engagement is less applicable to these investments. However, BlackRock have stated that they recognise that the long-term and physical nature of real asset investments make ESG considerations especially important, and that attention is given to sustainability issues and trends, including the impact of climate change, resource constraints and demographic trends through their real asset investments. BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate, which aims to assess and benchmark the ESG and other related performance of real assets across the market.

## Summary

Based on the activity over the year by the Trustee and their service providers, the Trustee are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that most of their applicable investment managers were able to disclose strong evidence of voting and engagement activity.

The Trustee expects 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.