



# Engagement Policy Implementation Statement

## The Society of Radiographers Pension and Life Assurance Scheme

This paper has been produced for the Trustee of the Society of Radiographers Pension and Life Assurance Scheme (the "Trustee" of the "Scheme"), as the Trustee prepares its Engagement Policy Implementation Statement ("EPIS").

### At a glance...

The first part of this document, provides guidance to the Trustee of the Scheme in relation to the preparation of the EPIS, including information regarding the regulatory background, data gathered, significant votes and next steps.

The remainder of the document includes the draft EPIS that has been prepared for the Trustee to review.

### Regulatory background

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that from 1 October 2020, the pension scheme trustees of defined benefit schemes outline how they have ensured that the stewardship policies and objectives set out in the Scheme's Statement of Investment Principles ("SIP") have been adhered to, by preparing an EPIS. The EPIS must:

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

### Why bring you this paper?

This document provides the information relating to preparation of the EPIS, and the initial draft of the EPIS for the year ending 30 June 2021.

### Next steps

- The Trustee should review the details in relation to preparing the EPIS.
- The finalised EPIS must be included in the Scheme's Annual Report and Accounts.
- The EPIS must also be published on a publicly accessible website.

Prepared for: The Trustee Board

Prepared by: Aon Responsible Investment Team

Date: 14 October 2021

Pension scheme trustees are also required to include the EPIS in the annual scheme Report and Accounts.

## Preparing the EPIS

### Data

Aon has gathered information from your investment managers, when preparing this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time we expect industry wide templates to be more widely adopted and more consistent information received from respective managers. We believe it is reasonable to use the information in this document for the purpose of this year's EPIS.

While information was gathered and reviewed from all managers, to keep the statement relatively concise we have disclosed detailed stewardship information in a proportionate way.

### Significant votes

The investment managers have provided the voting statistics (where relevant) and examples of "significant" votes. Each of the managers has their own criteria for determining whether a vote is significant. In terms of what constitutes a significant vote, this can be described as a vote:

- that was contentious and that had more than 15% against management; and/or
- against a management recommendation or different from the service provider recommendation; and/or
- that is connected to a wider engagement initiative with company management; and/or
- that demonstrates clear and considered rationale; and/or
- that the Trustee considers inappropriate or based on inappropriate rationale; and/or
- that has significant relevance to members of the Scheme.

### Materiality considerations

This statement does not disclose stewardship information on any investments in gilts, liability driven investments ("LDI") or cash due to the limited materiality of stewardship to those asset classes.

## Next steps

The Trustee should review the document to ensure that they are comfortable with the statements being made on its behalf. Once the Trustee has reviewed the document, it should agree and finalise the EPIS.

The EPIS is required to be included in the Scheme's Report and Accounts. In addition, the Trustee is required to publish a copy of the EPIS on a publicly available website.



# Engagement Policy Implementation Statement

## The Society of Radiographers Pension and Life Assurance Scheme

### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual implementation statement which:

- Explains how and the extent to which they have followed the engagement policy, which is outlined in the Statement of Investment Principles ("SIP").
- Describes 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 states any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The engagement policy implementation statement ("EPIS") has been prepared by the Trustee of the Society of Radiographers Pension and Life Assurance Scheme (the "Scheme") and covers the period 1 July 2020 to 30 June 2021.

### Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in force over the majority of the reporting year.

- The Trustee recognises the importance of its 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 ultimately this creates long-term financial value for the Scheme and its beneficiaries.
- The Trustee receives and reviews annual reports from the Fiduciary Manager which include detailed voting and engagement information from underlying managers, and annual reporting will be made available to Scheme members.
- As part of the Fiduciary Manager's management of the Scheme's assets, the Trustee expects the Fiduciary Manager to:
  - Where relevant, assess the integration of ESG factors in the investment process of underlying managers;
  - Use its influence to engage with underlying managers to ensure the Scheme's assets are not exposed to undue risk;
  - Report to the Trustees on its ESG activities as required;
  - 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.

The full SIP can be found here: <https://www.sor.org/about-us/statutory-documents/society-radiographers-life-assurance-pension-scheme-statement-investment-principles>

## Scheme Stewardship Activity Over the Year

### Training

Over the year, the Trustee had responsible investment briefings from their investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

### 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 quarterly factsheets provided to the Trustee by Aon Investments Limited ("AIL") in its role as the Scheme's Fiduciary Manager. In addition, on a regular basis (typically annually) the Trustee receives a presentation from AIL that includes environmental, social and governance ("ESG") ratings for the underlying managers and highlights any areas of concern. 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 conversations 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.

### Discussions with the sponsor to align applicable ESG objectives

The views of the sponsor, where applicable, have been aligned to the Scheme's ESG objectives. For example, this includes manager appointments and changes to the SIP. Furthermore, the Trustees and sponsor have jointly received training, delivered by Aon, on regulatory matters relating to stewardship and responsible investment in a broader context. In September 2020, following consultation with the sponsor, the Trustee implemented revised wording and updated the SIP to meet the regulatory requirements.

## 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 their most material investment managers were able to disclose strong evidence of voting and engagement activity where appropriate.

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.

Further details are provided for the asset classes in which the Scheme invests.

## Engagement - Fiduciary Manager



The Trustee's fiduciary mandate is managed by Aon Investments Limited. AIL appoint underlying investment 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. AIL have held around 27 ESG focussed meetings so far in 2021 with equity, fixed income, liquid alternative and property managers in which AIL's clients invest. At these meetings, AIL discussed ESG integration, voting and engagement activities undertaken by the investment managers, allowing the manager to form opinions on each managers' relative strengths and areas for improvement. AIL have provided feedback to managers following these meetings with the goal of continuing to lift the standard of ESG integration across portfolios. AIL will continue to execute on their ESG integration approach and engage with managers throughout the remainder of 2021.

- Aon Solutions UK Limited ("Aon") also actively engage with investment managers and this is used to support AIL in their fiduciary services.
- In Q3 2021, Aon was confirmed as a signatory to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken on behalf of the Trustee.

#### Engagement Example: Equity Manager

In May 2021, Aon's Engagement Programme ("EP") engaged with an underlying manager.

Aon highlighted in a meeting that the manager was behind its peers regarding reporting on engagement activities. While still in the early beginnings of building out its processes in this area, Aon welcomes the developments demonstrated by the manager. Currently, the manager offers only limited transparency as regards its stewardship activities and intentions. However, Aon expect this to improve with the launch of its sustainable website pages which will showcase its engagement activities and hopefully make public its responsible investment policies.

Reporting of stewardship actions on a granular basis remains a challenge for the industry. The manager currently reports on aggregated voting statistics and is aware of the need to report on a more granular basis in order to furnish clients with more decision useful material.

#### Engagement Example: Fixed Income Manager

In April 2021, Aon engaged with an underlying fixed income manager. The manager is currently in the early stages of broadening aspects of their ESG integration towards more active stewardship. It has yet to make their ESG mission clear for prospective or current investors. The manager recognises it needs to strengthen its approach towards active investment stewardship. During discussions, Aon discussed with the manager the use of establishing of engagement protocols which would serve to guide engagement discussions. Aon and the manager have agreed to revisit discussions around stewardship towards the end of the year. The engagement led to multiple goals being set for the manager, including:

- Establishing Engagement Protocols and to move away from using ISS (Institutional Shareholder Services) as a third-party provider, and
- Publishing Responsible Investment policies and for these to reflect their engagement protocols.

## Voting and Engagement – Underlying Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds via the Managed Growth Strategy which underlies the AIL Fruition Fund allocation. 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 Strategy over the year were:

- the Legal and General Investment Management ("LGIM") Multi Factor Equity Fund, and
- the BlackRock Emerging Markets Equity Fund.

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

### **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 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. Enhance the power of engagement
4. Public Policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity

#### Engagement Example: 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 its Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on efforts 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 its 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 its pulp and wood is from Forest Stewardship Council-certified sources.

### **BlackRock Emerging Markets Equity Fund**

#### Voting

BlackRock uses the 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, 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 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 a number of criteria such as level of public attention, and impact of financial outcome.

#### Voting Example:

In December 2020, BlackRock voted against a proposal and recommendation from Yanzhou Coal Mining Company Limited that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between the company and Yankuang Group Company Limited. In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yankuang 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 concerns over the valuation terms and stranded asset risk. In particular, the company did not articulate how the latter concern would be managed in light of the Chinese government's pledge to achieve carbon neutrality by 2060, with carbon emissions peaking by 2030.

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"). The BlackRock Investment Stewardship ("BIS") 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.

#### Engagement

The 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 its 2020 annual stewardship report that over the year, 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.

## Fixed Income

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited, in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making.

Below are some examples provided by the most material fixed income funds the Scheme invests in through the Managed Growth Strategy.

### **Robeco Institutional Asset Management ("Robeco")**

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

#### Engagement Example: Multinational Oil Company

In line with this focus, over the last few years, Robeco has had continued engagement with senior employees of a multinational oil company. The nature of the engagements was climate risk and the effects of this on the oil industry, principally significant transitional and physical risks.

The company announced its aim to reduce the net carbon footprint of its energy products by around half by 2050. Robeco was supportive of the target and continued to push the company to set short term targets and link these to remuneration packages. In addition to announcing its long-term goal, the manager agreed a joint statement with the company who agreed to start setting shorter term targets. The manager believes the company now leads the sector in terms of its planning and positioning for the energy transition.

### **BlackRock**

BlackRock believes 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. The BIS team 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 as to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock holds 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 GFI-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.

## Alternative Investments

The Trustee recognises that the investment processes and often illiquid nature of alternative investments, such as those held within the Managed Growth Strategy, may mean that stewardship is potentially less applicable or may



have a less tangible financial benefit. Nonetheless, the Trustee still expects that all of the Scheme's managers should engage with the issuers/companies they invest in, should they identify concerns that may be financially material.

### **Leadenhall Capital Partners ("Leadenhall") Insurance Linked Securities**

Leadenhall assesses specific ESG factors, and 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 performs a detailed review of its investment counterparties policies and controls including those concerning its explicit ESG and corporate social responsibility ("CSR") frameworks. Where appropriate, it make recommendations to avoid investment counterparties who are not aligned with ESG policies.

# Appendix: Equity Manager Voting Statistics

1 July 2020 – 30 June 2021	LGIM Multi Factor Equity Fund	BlackRock Emerging Markets Equity Fund
% resolutions voted on for which the fund was eligible	99.90%	96.77%
% that were voted against management	17.99%	9.21%
% that were abstained from	0.23%	2.77%



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