

Bristol Street Pension Scheme – Annual Engagement Policy Implementation Statement (the ‘Statement’)

Introduction

This Statement sets out how, and the extent to which, the Engagement Policies in the Statement of Investment Principles (‘SIP’) produced by the Trustee have been followed during the year to 5 April 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 the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The investment 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 is therefore aiming to achieve a funding level of 100% of the Scheme’s Technical Provisions and thereafter to maintain 100% funding.

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 September 2020.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their Investment Consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was held on 11 April 2019.

The following work was undertaken during the year 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.

1. Engagement

- The Trustee requested that the investment managers confirmed compliance with the principles of the UK Stewardship Code. All managers confirmed that they are signatories of the current UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.
- The investment managers’ performance reports are reviewed by the Trustee on a quarterly basis.
 - one of the reports includes ratings from the Investment Consultant (both for general investment prospects and specifically on the extent to which ESG factors are integrated into the managers’ investment process for the corporate bond and liability hedging assets).
- The types of investment funds held by the Trustee do not offer significant opportunities for ESG engagement by the investment managers. The positions taken by the diversified growth fund (‘DGF’) managers are taken across total markets (i.e. taking exposure to US equities for example) as well as picking individual stocks. This reduces the scope for ESG factors to be taken into account. Despite this the Investment Consultants’ ESG ratings for the three DGFs which the Scheme was invested in during the year are in line with, or better, than the average of those for

other similar DGFs. ESG based decision making is also more challenging for the balance of the Scheme's assets invested in corporate bonds and government debt based funds as these investments do not have voting rights (as is the case with equities for example). Again, the Investment Consultant's ESG ratings for these funds are in line with or better than the ESG ratings of similar funds.

- When selecting a new investment manager the Trustee takes into account the ESG ratings of the prospective managers. The investment performance report from each manager includes how they are delivering against their specific mandates.
- The investment managers have provided the following examples of engagement activity over the year.
 - The Scheme's investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance 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. 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 positive outcomes. These engagement initiatives are driven mainly through regular engagement meetings with the companies in which the managers invest or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate their support for (or against) the resolution to the company's management.
 - Examples where the Scheme's managers had engaged with companies they were invested in/about to invest in which resulted in a positive outcome are as follows:
 - **BlackRock:**

BlackRock has engaged with companies they are invested in about business oversight and risk management. For example, in the year they engaged with Amazon.com Inc, Mitsubishi Corporation, Nestle SA and many more companies about this topic.
 - **Newton:**

Newton engaged with PepsiCo Inc to discuss a number of corporate governance practices ahead of its AGM. Newton encouraged the company to improve its general governance and remuneration frameworks, which they recognised as being strong in the context of its US peers.
 - **Standard Life:**

Standard Life have engaged with companies about board structure, climate change, COVID-19 Vaccine development, employee management amongst other topics. As a company specific example, they engaged with AstraZeneca about their COVID-19 Vaccine Deployment.
 - **M&G:**

M&G have engaged with companies they are invested in about ensuring there is closer engagement with lenders and improved quality of reporting. In one case,

M&G pushed for a call amongst lenders, bringing to light a number of issues and inconsistencies with the reporting. M&G also requested the involvement of the lender's technical advisor ("LTA"), who further reviewed key assumptions in the reporting provided that was under dispute by the lenders. The LTA should have always played a more proactive role in monitoring the project, but over the years, their involvement became increasingly limited. This led to the rejection of the borrower's dividend request and in turn, the borrower engaging more constructively with the lenders despite earlier rejections for a call. M&G's request for an all-party call was finally accepted. They understand this was the first meeting between the borrower/lenders since construction completion in 2017, despite several open technical issues and disputes, highlighting the poor communication between parties. M&G had only joined the lending group in 2019 and immediately sought to improve collaboration between parties. The borrower provided a helpful update on the project's performance, addressed specific queries and provided lenders with the opportunity to raise our concerns. M&G established their expectations on the standard of future reporting and laid out timescales / process for approval of future requests; issues that contributed to significant frustration in the past amongst project parties. Importantly, the borrower agreed to share contact details to individual lenders, and establish direct dialogue as needed.

- Mercer:

During a meeting with Mercer's Manager Research team in January 2021, LGIM (manager within the Mercer Tailored Credit Fund I in which the Scheme is invested) were able to demonstrate that they had come a long way in their approach to integrating ESG factors into credit investing. The wider business has dedicated significant resources to ensuring LGIM can offer a compelling ESG service and this was demonstrated by the various internal tools that have been developed. ESG factors are fully considered during the investment process and ESG forms an explicit part of LGIM's credit analyst's performance goals. As a result LGIM's ESG rating was upgraded from ESG3 to ESG2. All three managers in the Mercer Tailored Credit Fund I now have achieved a "2" rating which is significantly above the universe average.

2. Voting Activity

The Trustee has delegated their voting rights to the investment managers.

Investment managers are expected to provide a voting summary report on a regular basis, at least annually. This summary reporting highlights key voting activity and the impact on the portfolio.

When the investment managers are invited to present to the Trustee at Trustee board meetings, the Trustee will ask the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustee does not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity on behalf of the Trustee is as follows:

- BlackRock – Dynamic Diversified Growth Fund ("DDGF") - Active

- BlackRock's in-house corporate actions team vote on its behalf. Key votes undertaken over the prior year are summarised below:
 - There were 977 votable meetings over the year to 31 March 2021 and in these meetings, there were a total of 12,398 votable proposals;
 - BlackRock voted on 96.3% of the votable proposals for investments held within the DDGF over the year to 31 March 2021 on behalf of the trustee. BlackRock voted against management for 5.9% and abstained from voting for 0.9% of these votes. Examples of key votes are summarised below:
 - Barclays Plc – In May 2020, BlackRock voted for the approval of Barclays' Commitment to tackling climate change. This is because the company sets a clear ambition to become net-zero and align to the goals of the Paris Agreement, addressing shareholders' concerns for the time being.
 - Chevron Corporation – In May 2020, BlackRock voted for reporting on Climate Lobbying Aligned with Paris Agreement Goals. This is because in BlackRock's view, the company could provide investors with a more detailed explanation of the alignment between Chevron's political activities and the goal of the Paris Agreement to limit global warming to no more than two degrees Celsius, which the company supports.
 - Over the prior 12 months, the Trustee has not actively challenged the manager on its voting activity.
- Aberdeen Standard – Global Absolute Return Strategies Fund – Active
 - Aberdeen Standard's in-house responsible investment team vote on its behalf. Key votes undertaken over the period from to 5 April 2020 to 29 September 2020 (the date which the scheme fully disinvested), are summarised below:
 - There were 184 votable meetings over the period from to 5 April 2020 to 29 September 2020, of which Aberdeen Standard voted in 181 of these meetings on behalf of the Trustee. In these meetings, there were a total of 2,649 votable proposals.
 - Aberdeen Standard voted on 2,598 of the 2,649 votable proposals (c.98.1%). In c.12.1% of these votes, Standard Life voted against the companies' management and abstained or withheld from voting for c.1.8% of the proposals. Aberdeen Standard view all votes as significant and vote all shares globally for which they have voting authority. Examples of key votes are summarised below:
 - JD Sports Fashion Plc – In July 2020, Standard Life voted against the approval of their Long Term Incentive Plan 2020.
 - Facebook Inc – In May 2020, Standard Life voted against management on electing a new director.
 - Over the period from to 5 April 2020 to 2 September 2020, the Trustee has not actively challenged the manager on its voting activity.
- Newton – Real Return Fund – Active

- Newton's in-house responsible investment team vote on its behalf. Key votes undertaken over the period from 5 April 2020 to 24 September 2020 (the date which the scheme fully disinvested) are summarised below:
 - There have been 64 votable meetings over the period from 5 April 2020 to 24 September 2020 at which Newton have voted on behalf of the Trustee. In these meetings, there were a total of 934 votable proposals.
 - Newton voted on 100% of these votable proposals. In 16.4% of these votes, Newton voted against the companies' management and did not abstain from any of the votable proposals. Examples of key votes are summarised below:
 - NIKE, Inc – In September 2020, Newton voted against the proposed pay arrangements on account of their lack of alignment with performance. The executive Long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, Newton were concerned that long-term awards could vest for below-median poor performance. Furthermore, the introduction of special remuneration awards through transaction-based bonuses were not considered to be ideal for promoting talent retention due to these generally being one-off in nature.
 - Mastercard Inc – In June 2020, votes were instructed against the executive compensation structure and the members of the compensation committee. Newton were concerned that a significant proportion of the long-term pay awards are subject only to time served and not performance.
- Over the prior 12 months, the Trustee has not actively challenged the manager on its voting activity.
- M&G – Illiquid Credit Opportunities Fund VII – Active
 - The fund holds no equity investments so therefore voting is not applicable in the underlying investments.
- Mercer – Liability Hedging Portfolio – Passive and Mercer - Tailored Credit Fund – Active
 - The fund holds no equity investments so therefore voting is not applicable in the underlying investments.