# 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 2022. This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) 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.
- The Trustee recognises that to satisfy the objectives set out above, a portfolio of investments, the elements of which carry different risks and rewards, is required. For example, a portfolio composed entirely of gilts would best protect against changes in the value placed on the liabilities but may not provide the returns required to achieve the primary investment objectives. Therefore, the Trustee takes the balance of risk and reward into account when selecting investments.

## 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 initially held on 11 April 2019. The ESG ratings of the investment managers, provided by the investment consultant, and the approach which the investment managers take on ESG were discussed at the Trustee meeting in August 2021.

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 BlackRock, the diversified growth fund ("DGF") manager, are 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 rating for the BlackRock DGF, which the Scheme was invested in during the year, is in line with the average of 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:

          Over the year BlackRock's engagement priorities were to engage with companies they are invested in about climate risk management and the operational sustainability. For example, in the year they engaged with Central Asia Metals PLC, Bloomsbury Publishing PLC, The Pebble Group PLC and Bank of America Corp and many more companies about these topics. BlackRock engaged with 825 companies over the year up until 31 March 2022. 712 of BlackRock's engagement topics were climate risk management or operational sustainability related.

        - 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 engaged with Premier Foods to improve Board gender diversity at food manufacturer Premier Foods. M&G initially sent a letter to the company's chair and communicated their concerns that they do not think enough is being done in regard to board diversity. Following the letter, M&G had a call with the Chair. As a result of the engagement it was established that diversity is a priority for the board and something that has been addressed throughout the organisation, not just at management level. The board currently has two male shareholder representatives, which brings down the board diversity number. Succession planning is underway and M&G expect to see progress prior to the 2022 AGM.

- Mercer:

  Insight, which is a manager within the Mercer Tailored Credit Fund I, which the Scheme invests in, were able to demonstrate that they are continuing to focus on ESG initiatives. This can be seen through their engagement with Exxon. Insight engaged with Exxon on their limited efforts to mitigate their impact on biodiversity and the evidence provided showed that they were trying to reduce their carbon emissions. Insight expressed concerns about the lack of independent directors on the board who were also experts in energy. Exxon have committed to reducing greenhouse gas emissions by 30% for the upstream business, however this accounts for less than half of Exxon's total emissions. Additionally, Exxon are not making any renewable energy investments. Instead Exxon are focusing on Global Thermostat technology, which involves removing carbon dioxide directly from the atmosphere. The results of this are yet to be seen. The combination of the lack of engagement response from the issuer and poor climate scores has led us to vastly reduce exposure to this issuer across our book.

  In addition to the above, Insight have focused on their human rights initiatives. This can be seen through their engagement with Home Depot. Home Depot have a large workforce of over 415,000 employees which presents relatively high exposure to challenges related to employee attrition, applying labour practices uniformly and labour discord. As such, Insight decided to engage with senior management as part of a group meeting. The key area of focus of the meeting was centred around Home Depot's labour management and human resources governance. Insight talked through workplace safety, pay, hours and managing through COVID. While Home Depot offers a wide-range of benefits, and has instituted engagement channels, the leadership development programs appear to be modest. The company has an Insight ESG Prime rating of 2 out of 5 (5 being the lowest possible score).

## 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 1013 votable meetings over the year to 31 March 2022 and in these meetings, there were a total of 12,949 votable proposals;
    - BlackRock voted on 93.7% of the votable proposals for investments held within the DDGF over the year to 31 March 2022 on behalf of the trustee. BlackRock voted against management for 5.6% and abstained from voting for 1.3% of these votes. Examples of key votes are summarised below:
      - Berkshire Hathaway Inc. – In May 2021, BlackRock voted for Berkshire Hathaway to produce a report on Climate-Related Risks and Opportunities. This is because the company does not meet BlackRock's expectations for disclosing a plan for how their business model will be compatible with a low-carbon economy. The company also does not meet BlackRock's expectations for disclosure of natural capital policies and/or risk. The outcome of this vote was fail, but BlackRock will continue to monitor this going forward.
      - General Electric Company – In May 2021, BlackRock voted against the election of Director Sebastien Bazin. BlackRock voted against the compensation committee member because pay is not properly aligned with performance and/or peers. Furthermore, the vote against sitting CEO is due to him serving on an excessive number of public company boards which BlackRock believe raises substantial concerns about his ability to exercise sufficient oversight on this board. The outcome of this resolution was a pass.
    - 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 funds hold no equity investments so therefore voting is not applicable in the underlying investments.