

## Trustee Report (continued)

For the year ended 31 December 2020 (continued)

### Implementation Statement

#### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations. The regulations amongst other things require that the Trustee outlines how it has ensured that the stewardship policies and objectives set out in its Statement of Investment Principles ("SIP") have been adhered to over the course of the year.

This is the first engagement policy implementation statement the Trustee has prepared and covers the year ending 31 December 2020.

This document sets out the actions undertaken by the Trustee, its service providers and investment managers, to implement the stewardship policy set out in the Statement of Investment Principles ("SIP"). The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

#### The Fund stewardship policy

The Fund SIP was updated in September 2020 in line with regulatory requirements to make explicit policies on costs monitoring and arrangements with asset managers. The following section is an extract of the Fund's stewardship policy within the SIP. The full SIP can be found here:

<https://www.psgovernance.com/communications/Air-Canada.html>.

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

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise voting rights in relation to the Fund'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 also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset managers, which supports the Trustee in determining the extent to which the Fund's engagement policy has been followed throughout the year.

From time to time, 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.

Through this Statement, the Trustee reviews how the actions of its asset managers have aligned with its expectations and principles set out in the SIP. The Trustee will set out where they expect more information or engagement to be undertaken by its managers.

## Trustee Report (continued)

For the year ended 31 December 2020 (continued)

### Implementation Statement (continued)

#### Fund activity over the year

##### Ongoing Monitoring

Over the year, the Trustee reviewed their investment consultant's quarterly monitoring report which noted there were no changes to the manager ratings and all applicable managers remain at least 2 rated (out of 4) on ESG.<sup>1</sup> Simply put, this rating means that the fund management team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.

Aon's manager research team engage on behalf of the Fund (and all their clients) with Buy rated strategies regularly on a variety of ESG issues, one example is discussing with BlackRock their role and level of involvement as new signatories to CA 100+.<sup>2</sup>

##### Manager Meetings

Over the year, the Trustee invited Barings to attend a Trustee meeting to present a regular update for their Global High Yield Credit Strategy held by the Fund. Within the presentation, Barings gave an update on their ESG integration approach which is applied to the strategy. The Trustee were able to ask questions on any points and were satisfied with Barings' approach.

#### Voting and Engagement Behaviour on Behalf of the Fund

##### Walter Scott Global Equity Fund

###### Summary Voting Statistics

|   | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 |
|---|---------|---------|---------|---------|
| % resolutions voted                       | 100%    | 100%    | 100%    | 100%    |
| % of resolutions voted against management | 0%      | 4%      | 3%      | 5%      |
| % resolutions abstained                   | 0%      | 0%      | 0%      | 2%      |

Walter Scott does not use a service provider to vote on their behalf. They use Institutional Shareholder Services (ISS) for information purposes only and voted themselves on all proxies where they were eligible to do so. Walter Scott exercise discretionary proxy-voting authority with a view to safeguarding their clients' best interest. They state that they consider it their duty to vote client proxies in a manner consistent with the client's best interest without regard for the fund manager's business needs. Clients may choose to vote their own proxies in segregated accounts.

###### Significant vote – Alphabet

The following are examples of significant votes made by Walter Scott with regards to Alphabet's pay practices. Walter Scott state that Alphabets' compensation remains egregious and whilst there has been some improvement they are insufficient in quantum and demand. The cost of the stock plan is still excessive and permits the transfer of awards without stockholder approval. Consequently, the same as in previous years, Walter Scott voted against both the advisory vote on compensation and the stock plan at the June 2020 AGM. Also, the same as in previous years, Walter Scott withheld on the re-election of the Compensation Committee members. Walter Scott's preferred stance was to vote against these Directors, however, this option was not permissible. Furthermore, the same as in previous years, Walter Scott voted for a shareholder proposal (against management) to approve recapitalization plan for all stock to have one- vote per share. In addition, they supported another shareholder proposal (also against management) to require a majority vote structure for the election of Directors as this improves corporate governance by increasing shareholder influence on the election of Directors. An email was sent to Alphabet outlining their voting decision and rationale.

## Trustee Report (continued)

### For the year ended 31 December 2020 (continued)

#### Implementation Statement (continued)

#### Voting and Engagement Behaviour on Behalf of the Fund (continued)

##### **Walter Scott Global Equity Fund (continued)**

###### *Engagement*

Walter Scott is signatory to a range of responsible investment initiatives, namely: UNPRI, UK Stewardship code, Japanese Stewardship Code, CDP (Formerly Carbon Disclosure Project), Climate Action 100+, International Corporate Governance. The Trustee welcomes partnerships such as these will encourage increased activity, focus and collaboration on improving standards in ESG integration and stewardship on the Fund's behalf.

Walter Scott take a tailored approach to company engagement. They do not have a standardised starting point for engagement across sectors, geographies and capitalisations but typically, material issues or those that are a cause of concern to the team or client, are prioritised. As decision-making is team-based, all members of the team are familiar with all stocks in the portfolio. Because of this familiarity, issues and questions are raised at Research team meetings (occurring three times weekly) and are part of their regular discussions with management.

Over 2020 Walter Scott engaged with 339 companies (579 meetings and calls) where ESG engagements accounted for 321 of these meetings. Some aspect of environmental, social or governance issues will have been discussed at these meetings however, those focused around governance and related matters tend to be more common during proxy voting season.

###### *Engagement Example*

In February 2020, Walter Scott engaged with Novo Nordisk. There were two calls with the CFO where social factors were discussed alongside financial data points and direction. The first call, on the cusp of COVID-19 related lockdowns, focused on employee engagement and support, as well as maintaining supplies of its products and treatments. A second call in the summer with CFO allowed for further discussion around those supplies as well as the expansion of its free access programmes. At the beginning of the year, Walter Scott had a governance-focused call with the Chairman and CEO, and they also engaged with the Chief Science Officer as well as having a formal catch-up with the investor relations team over the course of the year. Towards the end of 2020, Walter Scott also attended an ESG call which was hosted by the CEO. The call focused on the "Purpose and Sustainability" one of the four broad pillars of Novo Nordisk's Strategic Aspirations 2025 Plan. This continues to be an ongoing engagement for Walter Scott.

###### **Engagement – fixed Income**

The Fund is invested in Fixed Income through Barings Global High Yield Credit Strategies Fund and M&G All Stocks Corporate Bond Fund.

Both managers have shared with the investment adviser substantial information on their engagement policies and work done to generate improved long-term outcomes in the companies they invest.

The Trustee also welcomes that all the managers are actively involved in ongoing industry initiatives and are signatories to the Principles for Responsible Investment (PRI) and the UK Stewardship Code.

The following examples of practices and case studies illustrate the engagement activity carried out on behalf of the Fund over the year.

## Trustee Report (continued)

### For the year ended 31 December 2020 (continued)

#### Implementation Statement (continued)

#### **Engagement – fixed Income (continued)**

##### **Barings Global High Yield Credit Strategies**

Barings' Global High Yield Investment Group policy is to engage with all their portfolio companies with a focus on changing behaviour in key risk areas and improving disclosure on key ESG topics in a part of the market which generally lags equities and investment grade credit. They view the analyst teams as best placed to undertake this engagement process given their specific knowledge of the companies and strong relationships with management and financial sponsors.

The process of compiling credit grades within their proprietary Barings Credit Grade system, allows them to give all companies held in any portfolios an internal quantitative rating and undertaking due diligence on the companies allows the analyst to identify key risk areas on which to engage with the company.

In 2020, Barings engaged with a jewellery retailer, a loan issuer where they hold underweight positions across their loan portfolio. The company paid €52M dividend out of the group and the action was reviewed as very poor corporate governance as the payment was made at a point in time when the company knew there was potential for significant upcoming disruption from COVID -19. Barings engaged with senior management and sponsors to demand repayment into the business and Barings also leveraged their scale as a significant lender to make their consent to a separate company amendment. This engagement was successful for the business with sponsors and management.

Barings publicly supports the TCFD recommendations. They are currently working on the implementation of these recommendations (for example in relation to metrics, targets, governance) and hope to have an implementation plan by 2021. Their Quantitative Research Team is developing carbon reporting using the weighted average carbon emissions of portfolios and benchmarks and are able to provide a carbon footprint report of the Fund upon request.

##### **M&G All Stocks Corporate Bond Fund**

Throughout 2019 M&G developed their engagement process, adopting the Sustainable Accounting Standards Board (SASB) framework to structure their research and engagement activity, allowing them to incorporate ESG factors into the investment process for their holdings at all stages. Over the period, M&G have created a question databank of over 600 sector-specific ESG questions, which identifies key material risks and themes as identified by both SASB and their own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative (TPI) and World Economic Forum (WEF) Climate Governance guidelines to further build their capability to identify financially material risks on a sector by sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies dependent of their sector and ensures that when there is a potentially material risk, M&G are able to identify and act on it in an efficient way. Engagement cases can then be easily prioritised and through M&G's hashtag system, which allows their analysts across asset classes to monitor material ESG risks across the capital structure.

## Trustee Report (continued)

### For the year ended 31 December 2020 (continued)

#### Implementation Statement (continued)

#### Engagement – fixed Income (continued)

##### **M&G All Stocks Corporate Bond Fund (continued)**

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G's Fixed Income teams to understand their engagement activities, participate in ESG related engagements and help to coordinate engagements across asset classes where appropriate. In 2019, M&G's Fixed Income teams undertook 91 ESG-specific engagements. The fund itself had 21 ESG engagements over 2020.

An example of an engagement relevant to the fund was in April 2020 when M&G engaged with GlaxoSmithKline to discuss their climate change strategy and enquire into the transparency in their supply chain. M&G held a dedicated engagement with senior individuals across the environment, anti-microbial and supply chain teams, and shared agendas and questions on issues such as board responsibility for meeting climate targets, managing extreme weather events across supply chains, and technical expertise on climate change. The engagement has concluded, and the outcome was that the board now aims to focus more on environmental issues including what positioning it wants to develop. In addition, the company does not yet have any climate-related targets linked to incentivisation but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made.

While the Trustee acknowledges the ability to engage and influence companies may be limited in comparison to equity holdings, the Trustee has high conviction that these fixed income managers are taking advantage of their market size and reputation to encourage positive outcomes in the issuers/assets they invest in.

#### **Conclusion**

From the evidence gathered and reviewed, the Trustee is of the opinion that all of the Fund's managers appear to be exercising their respective voting and engagement abilities in a thoughtful, responsible manner and that the Trustee's stewardship policy is being appropriately implemented on their behalf.

The Trustee notes that the various initiatives managers are undertaking represents the importance in this area and that there is continued room for improvement in monitoring financially material factors and engaging with companies and issuers accordingly.

<sup>1</sup> More information on the ESG Ratings process can be accessed here: <https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx>

<sup>2</sup> Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change