

# Engagement Policy Implementation Statement

## Brambles United Kingdom Pension Plan

### 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 outlines the following:

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

The engagement policy implementation statement ("EPIS") has been prepared by the Trustee and covers the reporting year 1 April 2020 to 31 March 2021.

### Plan's Stewardship Policy Summary

The below text summarises the Plan's Stewardship Policy in force over the majority of the reporting year to 31 March 2021:

*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 Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.*

*The Trustee has delegated responsibility to set the asset allocation to the fiduciary manager, Aon Investments Limited ("AIL").*

*As part of AIL's management of the Plan's assets, the Trustee expects it to:*

- *Ensure that (where appropriate) underlying investment managers exercise the Trustee's voting rights in relation to the Plan's assets; and*
- *Report to the Trustee on stewardship activity by underlying investment managers as required.*

*The Trustee may engage with AIL, who in turn is able to engage with underlying investment managers, investee company or other stakeholders.*

The full SIP can be found here: <https://www.ptluk.com/statement-of-investment-principles>

### Stewardship Activity Over the Year

#### Training and Updating the Stewardship Policy

In April 2020, the Trustee undertook a training session with its investment advisor (Aon) to provide updates on the evolving regulatory requirements that applied to them, and the importance of stewardship considerations in investment decision making.

In September 2020, the SIP was updated to capture the Trustee's views and principles. 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.

In March 2021, the investment advisor (Aon) provided the Trustee with a Responsible Investment training session, which focussed on the two key themes; climate risk and the Taskforce on Climate-related Financial Disclosures (TCFD).

### **Ongoing Monitoring**

Investment monitoring takes place on a quarterly basis with a monitoring report being provided to the Trustee by Aon. The reports include Environmental, Social and Governance ("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.

### **Engagement – Fiduciary Manager**

Management of the Plan's assets has been delegated to the fiduciary manager, AIL. AIL manage the Plan's assets in a range of funds which include multi-asset, multi-manager and specialist third party liability matching funds. AIL appoint the underlying investment managers on behalf of the Trustee to achieve an overall target return.

The Trustee delegates the monitoring of Environmental, Social and Governance ("ESG") integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system. This means that all the appointed investment managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

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, some examples of which have been outlined within this statement. AIL held around 35 ESG specific "deep-dive" meetings in 2020 predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of responsible investment ("RI") moving forward. Meetings have progressed through the beginning of 2021.

Aon Solutions UK Limited ("Aon") also actively engage with investment managers and this is used to support AIL in their fiduciary services.

#### **Engagement Example:**

Over the period, Aon's Engagement Programme maintained a dialogue with a leading global investment manager on behalf of many of their clients which invest with the manager. At the end of 2020, Aon had a discussion with the manager's Global Head of Stewardship with respect to

numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals.

Aon's analysis of the manager's voting actions over the period showed that the manager had not been voting in a manner consistent with their public pledges on sustainability issues. The manager acknowledged that there was a disconnect between voting decisions made in the first half of 2020 and their commitment to sustainability, but that they had markedly changed their voting policies in the second half of 2020, and reassured Aon that moving forward, vote decisions would better align with their stated positions on such ESG matters. Aon expect to see this reflected in voting actions by mid-2021.

Aon expressed concern that given the level of potential influence the manager had; the manager was unable to bring shareholder resolutions to those companies with which it had reason to engage. Reasons for this are regulatory and concern its investor classification status. The manager acknowledged Aon's concern and agreed to follow up with further detail. While its situation has not yet changed, the manager has since stated its intention to use its vote for shareholder resolutions brought by other organisations to greater effect.

The manager has since provided further information on how they are updating their policies in a manner consistent with their strategy of intensifying engagement on sustainability. Aon will continue to monitor and engage with the manager, scrutinising their voting and engagement actions. Aon is encouraged that the manager plans to strengthen their influence with invested companies to better effect, especially the changed stance around supporting appropriate shareholder proposals.

## Voting and Engagement – Underlying Managers

Over the period, the Plan was invested in a number of equity, fixed income and liquid alternative funds via AIL's Managed Growth Strategy and fixed income via the Low Risk Bonds Strategy. 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

Over the year, the Plan was invested in AIL's Managed Growth Strategy Fund. The material equity investments held in this strategy over the year were:

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

The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Plan or a vote where more than 15% of votes were cast against management.

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

#### **LGIM Multi Factor Equity Fund**

##### Voting

LGIM make use of third party provider Institutional Shareholder Services' ("ISS") proxy voting platform to electronically vote and augment their own research and proprietary environmental, social and governance ("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. Enhancing the power of engagement
4. Public Policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity

More information can be found on LGIM's engagement policy here: [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgim-engagement-policy.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf)

### *Engagement Example: Proctor and Gamble ("P&G")*

P&G use 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 their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on their effort to eliminate deforestation from their supply chain (voted on in October 2020), LGIM engaged with P&G, Green century 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 their business does not contribute to 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 and companies to ensure more of their pulp and wood is from Forest Stewardship Council-certified sources.

More detail on this stewardship example can be found here: [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/cg-quarterly-report.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf)

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

#### Voting

Blackrock use the ISS electronic platform to execute their 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, their 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 have increased their 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: Yanzhou Coal Mining Company*

In December 2020, BlackRock voted against the management proposal and recommendation that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group. The key assets to be acquired include a coal liquefaction project, a supporting coal mine and a coal-fired power plant.

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 believed it was in their clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of the increasing uncertainty of the role of coal in the future and potential stranded asset risk.

With respect to the latter, BlackRock are cautious about the potential stranded asset risks at Yanzhou Coal following the asset purchase. The coal-fired power sector in China is facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. Therefore, such an acquisition could well exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonisation targets.

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"). BlackRock continue to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here:

<https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf>

#### Engagement

The Blackrock Investment Stewardship ("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 the 2020 annual stewardship report that over 2020, 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.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020:

<https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf>

## Fixed Income

While equity managers may have more direct influence on the companies they invest in, fixed income managers are becoming increasingly influential in encouraging positive change through engagement with investee companies. The Trustee believes that engagements of this nature are key to reducing ESG risks within the Plan's portfolio while contributing to the transition towards a low carbon economy.

Below are some examples of engagement activity provided by the most material fixed income funds the Plan invests in.

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

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

#### *Engagement Example: Multinational Oil Company*

Over the last few years, Robeco has engaged 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.

In 2020, the company announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Robeco was supportive of this target but continued to push the company to set short term targets and link them to remuneration packages. In addition to announcing their long-term goal, Robeco agreed a joint statement with the company who agreed to start setting shorter term targets. Robeco believes the company now leads the sector in terms of their planning and positioning for the energy transition.

### **BlackRock**

BlackRock believe 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. BlackRock Investment Stewardship ("BIS") 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 Responsible Investing ("GFI-RI") team may partner with the BIS team both to reflect ESG related topics from fixed income investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in fixed income 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.

## Alternative Investments

Over the year, the Plan was invested in a number of alternatives such as insurance linked securities and gold. To illustrate the way in which stewardship is considered within the alternatives portfolio, the Trustee has chosen to include examples of policies and practices at Leadenhall Capital Partners, the appointed underlying insurance linked securities manager.

The Trustee recognises that the respective investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustee still expects that the underlying investment managers should engage with investee companies if they identify concerns that are financially material.

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

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

## In 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 its fiduciary manager and the underlying investment manager were able to disclose strong evidence of voting and engagement activity where appropriate.

The Trustee acknowledges that stewardship may be less applicable to certain asset classes such as fixed income and alternative investments, but generally would still expect to see responsible investment policies and processes formalised and developed over time.

The Trustee expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement.

Approved by PTL Governance Ltd as Trustee of the Brambles United Kingdom Pension Plan on 15 September 2021.

Appendix: Equity Manager Voting Statistics for the Plan Year

	<b>LGIM Multi Factor Equity Fund</b>	<b>BlackRock Emerging Markets Equity Fund</b>
Number of resolutions eligible to vote on	15,435	23,180
% resolutions voted on for which the fund was eligible	99.9%	96.8%
% that were voted against management	18.0%	9.2%
% that were abstained from	0.2%	2.8%

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