The Biddle Pension and Life Assurance Plan Engagement Policy Implementation Statement

This EPIS sets out the actions undertaken by the Trustees, their 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 investment managers and an overview of how the policies within the SIP have been implemented during the reporting period.

The EPIS covers the Plan year ending 5 April 2021.

Plan Stewardship Policy Summary

The below bullet points summarise the Plan's Stewardship Policy in force over the majority of the reporting year to 5 April 2021. The full SIP can be found https://www.biddle-air.co.uk/uploads/en/publications/biddle-sip-september-2020.pdf

- *The Trustees recognise the importance of their role as a steward of capital and the need to promote the highest standards of governance and 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.*
- *Management of the Plan's assets has been delegated to their fiduciary asset manager, Aon Investments Limited ("AIL"). The Trustees annually review the stewardship activity of AIL to ensure the Plan's stewardship policy is being appropriately implemented in practice. As part of AIL's management of the Plan's assets, the Trustees expect AIL to:*
  - *Ensure that (where appropriate) underlying investment managers exercise the Trustees' voting rights in relation to the Plan's assets; and*
  - *Report to the Trustees on stewardship activity by underlying investment managers as required.*
- *The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Plan members on request.*
- *The Trustees may engage with AIL, who in turn is able to engage with underlying investment managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustees will consider, on a case by case basis, a range of methods by which they would monitor and engage so as to bring about the best long-term outcomes for the Plan.*

Plan stewardship activity over the year

Updating the Stewardship Policy

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustees reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustees recognise the importance of its role as a steward of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

Engagement activity – Fiduciary manager

The Trustees invest the Plan's assets in Aon's Delegated Consulting Service. Management of the Plan's assets has been delegated to fiduciary manager, Aon Investments Limited ("AIL"). Under DCS, AIL manage the Plan's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers to manage investments on behalf of the Trustees.

The Trustees have reviewed the AIL Annual Stewardship Report and are 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 held around 35 Environmental, Social and Governance ("ESG") specific "deep-dive" meetings in 2020 with most of their equity and fixed income managers across all delegated funds in which AIL's clients invest. At these meetings, AIL discussed the voting and engagement activities undertaken by the investment managers during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward. Similar meetings have been ongoing 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

Aon's Engagement Programme maintained a dialogue with a leading 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 about 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 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. The manager reassured Aon that in future voting decisions would better align with their stated positions on ESG matters. Aon expect to see this reflected in voting actions by mid-2021.

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.

Voting and engagement – Underlying Investment Managers

The Plan is invested in a number of equity, fixed income and liquid alternative funds through their investment in Aon's Delegated Consulting Services. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period.

Voting and engagement – Equity

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

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

LGIM Multi Factor Equity Fund ("LGIM")

Voting

LGIM make use of the Institutional Shareholder Services ("ISS")'s 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 seeks to uphold what they consider to be the minimum best practice standards all companies should observe. 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.

<u>Voting Example</u>

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voting against the resolution to amend the directors' remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new CEO would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant on the basis that Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and LGIM's outstanding concerns, this vote was deemed to be significant.

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, and
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

Engagement

An example of LGIM’s engagement was with 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 their suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-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

BlackRock Emerging Markets Equity Fund ("BlackRock")

Voting

Blackrock use ISS's 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 2020, BlackRock 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.

<u>Voting Example</u>

In December 2020, BlackRock voted against the management proposal 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 included 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 believe 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 the potential stranded asset risk.

On the latter, BlackRock are cautious about the potential stranded asset risks at Yanzhou Coal. 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 exacerbate the company’s stranded asset risks and delay progress to achieve the company’s decarbonization targets.

BlackRock communicated the above 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 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.

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

Engagement Activity – Fixed Income

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

The following section details examples of engagement activity carried out by appointed underlying fixed income managers.

Over the last few years, Robeco has engaged a number of times with senior employees of a multinational oil company. The focus of the engagement was to encouraging the company to take action to contribute towards preventing global warming rising above 2 degrees Celsius, as then the world, and therefore industries, will be increasingly exposed to significant transitional and physical risks, both acute and chronic.

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 these goals but continued to encourage the company to set short term targets and link these 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 energy transition as they look to move to lower carbon products and solutions.

At BlackRock, their 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 team may partner with the BIS team to reflect on 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/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by BlackRock was with Exxon. BlackRock discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on 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.

Engagement Activity – Liquid Alternatives

Over the year, the Scheme invested in alternatives such as insurance linked securities and gold. This section details examples of policies and practices at Leadenhall Capital Partners, the appointed underlying insurance linked securities manager.

Leadenhall assesses adherence to ESG principles by considering specific factors including:

- Environmental impact including pollution prevention and remediation, 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 looking at ways to tackle climate change. They are a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall perform a detailed review of their investment counterparties policies and controls including those concerning their explicit ESG and CSR frameworks. Where appropriate they will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

Conclusion

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that their stewardship policy has been implemented effectively in practice. The Trustees note that their fiduciary manager and some of the most material underlying investment managers were able to disclose strong evidence of voting and engagement activity.

The Trustees 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 Plan through considered voting and engagement.

Appendix – Voting Statistics for the Plan year ending 5 April 2021

	LGIM Multi Factor Equity Fund*	**BlackRock Emerging Markets Equity Fund***
Number of resolutions which the fund was eligible to vote on	15,664	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%

*Voting statistics are for the year ending 31 March 2021.