

# Unite Pension Scheme Engagement Policy Implementation Statement

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations ("the 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.

## Introduction

This is the first engagement policy implementation statement the Trustee has prepared and covers the year ending 30 September 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.

## Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme's Stewardship Policy in force over the year to 30 September 2020.

- The Trustee wishes to ensure that its influence as a share owner is used to safeguard and raise standards of corporate governance and social and environmental management within its investee companies and believes that this will contribute to raising long-term financial returns.
- As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to: 1) Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and 2) exercise the Trustee's voting rights in relation to the Scheme's assets.
- The Scheme has joined together with a number of other trade union pension funds to form Trade Union Share Owners. The aim of this group is to collaborate on voting and engagement with companies in order to put trade union values at the heart of our stewardship practices.
- The Trustee may ask the managers to reflect its views when voting.
- The Trustee, with support from its investment adviser, regularly review the ongoing suitability of its investment managers and may engage with its managers where necessary.



## Changes to the SIP

A previous version of the SIP was in force over the scheme year. The latest version of the SIP was agreed by the Trustees as at 30 September 2020 and has been published on the website: <https://www.unitepensions.org/Members/Documents>

The SIP has been updated to include information on arrangements with investment managers, transparency of managers' costs and stewardship.

## Scheme stewardship activity over the year

### Training

Over the year, the Trustee had responsible investment (RI) training sessions with its investment consultant which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

The Trustee also had a training session from their developed markets equity manager Janus Henderson on its approach to stewardship and engagement.

### Viewpoints Survey

Ahead of the 23 June 2020 Investment Committee meeting, Aon provided the ISC with an extensive questionnaire to help gather the Trustee's beliefs on responsible investment as well as cost and transparency. The results were used to facilitate a discussion at the meeting to agree the Trustee's Responsible Investment Beliefs. These beliefs were used to update the Scheme's Stewardship Policy in the SIP.

The training sessions and general Trustee proactivity in this area ensured that the Scheme appropriately updated the Stewardship Policy in the SIP on 30 September 2020.

### Updating the Stewardship Policy

In line with regulatory requirements to expand the SIP for a number of policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy on 30 September 2020 to be more explicit on expectations and recourse where necessary.

### Ongoing Monitoring

Aon's manager research team engages on behalf of the Scheme (and all its clients) with buy-rated strategies regularly on a variety of ESG issues, one example is discussing with BlackRock its role and level of involvement as new signatories to CA 100+.<sup>1</sup>

Over the year, the Trustee reviewed the investment consultant, Aon's, ESG ratings on their buy-rated funds. Aon expanded its ESG ratings to include more asset classes, such as diversified growth funds. Specifically, for the Scheme, Aon now provides an ESG rating for the BlackRock Dynamic Diversified Growth Fund. There were no other major changes to the manager ratings and all applicable managers remain at least 2 rated (out of 4).<sup>2</sup> Simply put, this rating corresponds to mean 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.

Investments are monitored closely as the Trustee review additional voting and engagement activity within the quarterly reports.

### Trade Union Share Owners Activity

Over the year, the Trade Union Share Owners identified a number of contentious issues and the Unite Pension Scheme communicated to its managers several times to vote against or engage with companies. One example was with Amazon, where the Trustee asked its managers to engage with Amazon on its workplace and investor risk. The Trustee requested the managers attend a webinar held by Trade Union Share Owners to provide more detail on the concerns. This webinar was well attended.

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<sup>1</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.

<sup>2</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>

## Voting and Engagement activity – Equity and diversified growth funds

The Scheme invest in the following funds:

| Manager          | Fund Name                             |
|------------------|---------------------------------------|
| Janus Henderson  | Global Equities, regional index funds |
| Neuberger Berman | Emerging Equity                       |
| BlackRock        | Dynamic Diversified Growth            |
| Newton           | Real Return Fund                      |

All managers use the services of respective proxy voting organisations for various services that may include research, vote recommendations, administration, vote execution.

### **Janus Henderson**

Janus Henderson exercises the voting rights on behalf of clients at meetings of all companies in which it has a holding. The only exception to this is meetings where share blocking or other restrictions on voting are in place. Over the year, Janus Henderson regularly had at least one vote against company management recommendation at 25% of meetings. This highlights the importance of investors in being active in such voting opportunities.

The following examples illustrate some of the voting and engagement activity carried out on behalf of the Scheme.

Henderson voted against remuneration-related items and they were particularly mindful of where companies may have been paying large executive remuneration packages in light of the COVID-19 crisis. Henderson voted against items at numerous company AGM's including Bodycote Plc and Flowtech Fluidpower Plc. A vote against the restricted stock plan for XP Power (21.2% opposition) was warranted due to the lack of performance conditions to the awards. In addition, Henderson voted against the remuneration policy at Informa (35.1% opposition) and Wm Morrison (34.8% opposition), as it was felt that sufficient progress had not been made in this area. Once again Henderson voted against the remuneration and compensation policies for the chair, CEO and directors of Dassault Aviation despite each item receiving less than 20% votes against.

An example of engagement is where corporate culture was the focus of conversation with both Dunelm and Pernod Ricard. Henderson had a small group meeting with the Chair and a number of Board members at Dunelm in order to discuss corporate culture and governance at the company. The meeting focused on environmental and social sustainability challenges that the company is likely to face in the future, alongside company culture. The company's approach to modern slavery was also questioned. Similarly, Henderson had a small group meeting with the new Lead Independent Director at Pernod Ricard and much of the meeting was spent discussing the company culture and how the CEO/Chairman has had an important role in creating positive groupwide culture. This has also been improved by the representation of two employees on the Board of Directors.

### **Neuberger Berman**

Neuberger Berman voted in 100% of ballots from Q4 2019 to Q3 2020. They report that they casted no contentious votes during the reporting year and voted against management recommendations on average 10-20% of the time.

In April 2020, Neuberger Berman committed to "NB25+", i.e. to publicly disclose proxy voting intentions and rationale in advance at more than 25 key annual shareholder meetings. An example of a significant vote is in June 2020, when Neuberger Berman voted against management of Dino Polska in relation to the remuneration policy as they had concerns about the structure and disclosure of the remuneration policy.

An example of engagement was in relation to a Chinese financial securities broker, Huatai Securities. Neuberger Berman has engaged with the company on a range of ESG-related issues, such as improved board governance, including separating the Chairperson role from the CEO role, implementation of employee feedback programs, as well as establishing formal ESG policies in the company's investment management division. As a result, in 2020, the Chairperson role was separated from the CEO role and the firm has also improved its employee training and

feedback mechanism. While Huatai has set up ESG Risk Management Policies in the investment management side, Neuberger Berman has suggested establishing a formal ESG policy related to agriculture, biodiversity and climate change in its financing activities.

### **BlackRock**

BlackRock votes annually at over 16,000 shareholder meetings, taking a case-by-case approach to the items put to a shareholder vote. Its analysis is informed by its internally developed proxy voting guidelines, its pre-vote engagements, research, and the situational factors at a particular company.

| Dynamic Diversified Growth Fund over year to 30 Sep 2020 |     |
|--|-----|
| % resolutions voted                                      | 97% |
| % of resolutions voted against management                | 6%  |
| % resolutions abstained                                  | 1%  |

Over 2020, BlackRock has increased its 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. These can be accessed here <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-voting-history>.

### **Newton**

Newton, like BlackRock, produce detailed quarterly stewardship reports that include statistics as well as voting and engagement examples.

| Over the year to 30 September 2020                        | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 |
|---|---------|---------|---------|---------|
| No. of shareholder meetings where voting rights exercised | 73      | 72      | 292     | 92      |
| % of meetings where resolutions voted against management  | 33%     | 39%     | 53%     | 22%     |
| % resolutions took no action owing to share blocking      | 8%      | 1%      | 2%      | 4%      |

An example of engagement is with Amazon on labour relations and environmental impact.

Newton discussed the two significant ESG announcements made by the company in the last two years, most notably the pledge to achieve 'net zero' carbon emissions by 2040 and the raising of the minimum wage for distribution-centre employees. By the company's own admission, this is evidence of a shifting mindset from the leadership team and an awareness that such issues are increasingly linked to customer trust.

Newton urged the company to improve its communication of efforts in relation to workforce management where its public image is notoriously poor. Newton discussed innovations the company had made in terms of means by which employees could provide feedback to the company and programmes to retrain and re-skill workers, and encouraged the company to make these more well known. They found the company was ready to listen to its views and concerns, and once again encouraged the use of the Workforce Disclosure Initiative framework as a way to improve transparency in the area of labour management.

Newton continue to engage with the company and published key issues and their engagement approach in more detail here: <https://www.newtonim.com/uk-charities/insights/articles/amazon-are-worker-related-issues-at-a-tipping-point/>

### **Engagement activity – Fixed Income and Real Estate**

The Scheme also invests in a number of fixed income strategies, a real estate debt fund and a liability driven investment (LDI) portfolio.

While the Trustees acknowledge the ability to engage and influence companies may be less direct than in comparison to equity holdings; from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Scheme over the year.

#### **Fixed Income Engagement Example (PIMCO):**

One example of an engagement with a company was with General Electric. This large industrial has faced regulatory headwinds recently relating to accounting practices as well as cash flow headwinds related to a leveraged balance sheet. PIMCO engaged actively with senior executives to emphasise the need for asset sales, debt repayment and substantially improved disclosures. PIMCO also encouraged the issuer to support science-based targets and to set ambitious energy efficiency and carbon reduction targets. General Electric completed more than \$20 billion of deleveraging actions in 2019, sold a majority stake in its energy and oilfield services subsidiary, and substantially improved its disclosures, albeit with additional progress to be done.

#### **Fixed Income Engagement Example (JP Morgan)**

JPM analysts proactively engaged with Berkshire Hathaway Energy on a number of ESG factors. Two of the company's largest utilities generate more than 30% of their electricity from coal. The California insurance regulator has asked insurance companies to list out companies that generate more than 30% of electricity from coal. JPM has met with the company 3-4 times per year to discuss changes in Californian regulation, the possibility of issuing green-bonds to fund investment in environmentally-friendly power generation, and to assess compliance with the Paris Climate Agreements. The company did end up coming to market with a \$500m green-bond issue.

#### **Real Estate example (Nuveen)**

Through the Tomorrow's World Sustainable Property Management programme, Nuveen Real Estate tracks relevant key performance indicators (KPIs) in order to measure the impact of ESG issues on both financial and ESG performance. In both cases, through the established environmental monitoring programme in place it is possible to see the positive impact of operational efficiency initiatives (e.g. energy and water initiatives) on overall asset efficiency performance and therefore on Net Operating Income (via reduced utility costs) for the Fund, ultimately increasing return. The outcomes from the impact analysis of ESG issues on ESG and financial performance feed directly into property management and asset management reporting in order to inform future decision making.

A further example of the financial impact of ESG issues relates specifically to the UK portfolio where the Minimum Energy Efficiency Standards came into effect in April 2018. The legislation sets a minimum property level energy performance threshold for the letting of property in England and Wales - the performance is indicated via Energy Performance Certificates (EPC). On that basis, if properties do not meet the minimum required threshold as per the EPC, then Nuveen have already identified instances where this has impacted on price, and therefore Fund performance.

### **In summary**

Over the year, various regular monitoring processes as well as ad hoc engagement have demonstrated the Trustee has effectively implemented the stewardship policy in practice.

As part of this annual review process and other quarterly / ongoing monitoring processes, the Trustee is of the opinion that the asset managers have demonstrated a willingness and ability to engage appropriately and are implementing voting and engagement activity in a manner consistent with the Trustee's policy and expectations.