

Engagement Policy Implementation Statement

The Ford & Slater Pension Scheme (“the Scheme”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustee and covers the Scheme year 6th April 2021 to 5th April 2022.

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 statement which outlines the following:

- How and the extent to which the Trustee has followed its engagement policy which is set out in the Statement of Investment Principles (“SIP”).
- The voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and use of third-party provider of proxy voting services.

Executive summary

Based on the activity over the year by the Trustee, its investment adviser and its investment manager, Legal & General Investment Management (“LGIM”), the Trustee believes that the stewardship policy has been implemented effectively. The Trustee notes that LGIM was able to disclose adequate evidence of voting and engagement activity.

At the time of writing, LGIM has not provided engagement examples specifically for the investments held by the Scheme. The Trustee’s investment adviser, Aon, has engaged with LGIM to encourage it to report on its engagement activities in line with peers. LGIM has advised Aon that it will begin reporting on fund specific engagement examples in 2022. The Trustee 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 Scheme through considered voting and engagement.

Preparing the EPIS – Data

The Trustee has prepared the EPIS using information provided by its investment adviser and investment manager. All parties have given permission for the contents to be made publicly available.

The Trustee has concentrated on summarising the stewardship activities of material holdings where there is meaningful scope for engagement. This excludes the Scheme’s holdings in UK government bonds, as the Trustee deems the scope for engagement with the UK government/Debt Management Office to be very limited, and cash.

Scheme stewardship policy

The below bullet points summarise the Scheme’s stewardship policy in force over the Scheme year to 5th April 2022.

The full SIP can be found here: <https://www.fordandslater.co.uk/about-us/the-ford-and-slater-pension-scheme-statement-of-investment-principles/>

- The Trustee recognises the importance of its 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 Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.
- 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.

Scheme stewardship activity over the year

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon. Aon monitors the Scheme's investment managers and highlights any areas of concern, or where action is required. Aon uses an Environmental, Social and Governance ("ESG") rating system for buy rated investment strategies, which 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 investment 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 investment 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.

Voting and Engagement activity – Equity funds

Over the year, the equity investments held by the Scheme were:

Legal & General Investment Management ("LGIM")	All World Equity Index Fund
	All World Equity Index Fund (GBP Currency Hedged)

The Scheme has a strategic holding of c26% in the All World Equity Index Fund and c9% in the All World Equity Index Fund (GBP Currency Hedged).

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

The Trustee considers a significant vote as one which LGIM deems to be significant.

LGIM

Voting policy

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from the Institutional Voting Information Service ("IVIS"). This supplements LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

The table below shows the voting statistics for LGIM's All World Equity Index Fund for the period to 1st April 2021 to 31st March 2022:

Number of resolutions eligible to vote on over the period	64607
% of resolutions voted on for which the fund was eligible	99.83%
Of the resolutions on which the fund voted, % that were voted against management	18.06%
Of the resolutions on which the fund voted, % that were abstained from	1.28%

Source: LGIM

Please note that managers generally collate voting information on a quarterly basis. The voting information provided above is for the year to 31 March 2022. This broadly matches the Scheme year.

Voting example – Amazon

In May 2021, LGIM voted against the election of Jeffrey Bezos as chair of the board of directors of Amazon. LGIM voted in this way as it has a longstanding policy advocating for the separation of the roles of CEO and board chair. LGIM believes that these two roles are substantially different and require distinct skills and experiences.

Since 2015 LGIM has supported shareholder proposals seeking the appointment of independent board chairs, and LGIM has been voting against all combined board chair/CEO roles since 2020.

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management.

LGIM considers this vote to be significant as it is in application of an escalation of its vote policy on the topic of the combination of the board chair and CEO.

Following the vote, Jeffrey Bezos was elected as chair of the board of directors of Amazon. LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Engagement policy

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. Enhance the power of engagement,
4. Public policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. LGIM's top five engagement topics are *climate change*, *remuneration*, *diversity*, *board composition* and *strategy*. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seek to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy <https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>.

At the time of writing, LGIM has not provided engagement examples specifically for the funds invested in by the Scheme. Aon has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this in 2022. The example provided below is at a firm level, i.e., it is not necessarily specific to the funds the Scheme is invested in.

Engagement Example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

Engagement activity – Real Estate

The Trustee acknowledges that the ability of property managers to engage with and influence investee companies may be less compared to equity managers. However, the Trustee still expects LGIM to have a positive influence on the property and tenants it manages. The Scheme has a strategic holding of 10% in the LGIM UK Property Fund.

While LGIM provided example of firm level engagement, LGIM was unable to provide engagement examples relating to the property mandate. As discussed earlier in the report, LGIM is aiming to begin reporting fund-specific examples in 2022.