

## **JP McDougall & Company Limited Staff Pension & Life Assurance Scheme: Annual Engagement Policy Implementation Statement**

### **Introduction**

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 December 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

### **Investment Objectives of the Scheme**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees' primary objective is to ensure that sufficient assets are available to pay out member's benefits as and when they arise.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

### **Review of the SIP**

The Trustees last reviewed the SIP in July 2021 following changes to the Scheme's investment strategy. The Trustees signed the revised SIP in October 2021 having taken the appropriate advice from the Scheme's Investment Consultant.

### **Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. As described in the SIP, the Trustees will not consider the ESG policies of Additional Voluntary Contributions ("AVCs") providers and associated investment funds as these are a small proportion of total assets.

The following work was undertaken during the year to 31 December 2021 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

### **Engagement**

- Through their Investment Consultant, the Trustees review the mandate of BlackRock Investment Management (UK) Limited ("BlackRock") and Mercer Global Investments Europe ("Mercer") (together the "Investment Managers") in relation to ESG factors, including climate change, on an ongoing basis. This is carried out primarily through the investment consultant's ESG ratings, which are detailed in quarterly investment reports.
- These statements have highlighted a continued high rating of BlackRock's passive equity strategies, reflecting their engagement activity. Blackrock's credit strategies are also rated

highly which when compared with its peer group, many of whom are not rated on account of the limited scope to incorporate ESG issues into corporate bond investments, reflects Blackrock's commitment to sustainable investing.

- Whilst the Investment Consultant does not formally rate the Mercer funds, the investment managers appointed by Mercer to manage these funds are expected to evaluate and engage on ESG factors, including climate change. Mercer review ESG ratings of the underlying investment managers of their funds during quarterly monitoring processes, with a more comprehensive review performed annually. The underlying managers carry a rating at least in line with their peer group average.
- The Trustees received further training on ESG & Climate Risk, including an introduction to the Task-Force for Climate-Related Financial Disclosures ("TCFD") requirements. Alongside this, the Trustees developed an ESG Implementation Plan to ensure that all actions required to comply with their policies in this area, as stated in the SIP, are met during 2022.
- The results of a benchmarking exercise, completed by the Investment Consultant, to determine the extent to which ESG factors are integrated into investment decision making at the portfolio level was discussed. As at the Scheme year-end, compared against schemes with comparable characteristics the Scheme was in line with the average for integrating ESG factors into investment decision making.
- The Trustees have requested, via their Investment Consultant, that the Investment Managers confirm compliance with the principles of the UK Stewardship Code. The Investment Managers confirmed that they are signatories of the UK Stewardship Code as at the Scheme year-end.
- The Trustees, via their Investment Consultant, also received details of significant engagement activity for the year as defined by each of the Scheme's investment managers.

## **Blackrock**

BlackRock advocates for sound corporate governance and sustainable business practices that result in long-term value creation for their clients. The BlackRock Investment Stewardship team engages companies to provide feedback on their practices and inform BlackRock's voting. BlackRock's Investment Stewardship team focus on a range of issues that fall within each of the environmental, social and governance (ESG) categories where they assess whether there is potential for material long-term financial impact on a company's performance. As part of this, they engage with companies held in an index and active portfolios alike to encourage them to adopt the robust business practices consistent with sustainable long-term performance.

Engagement is core to BlackRock's stewardship program as it helps them assess a company's approach to governance, including the management of relevant environmental and social factors. To that end, they conduct approximately 3,000 engagements a year on a range of ESG issues likely to impact their client's long-term economic interests.

During 2021, BlackRock focused on the following five engagement priorities:

- Board quality and effectiveness – Quality leadership is essential to performance. Board composition, effectiveness, diversity and accountability remain top priorities.

- Climate and natural capital – Climate action plans with targets to advance the transition to a low carbon economy. Managing natural capital dependencies and impacts through sustainable business practices.
- Strategy, purpose and financial resilience – A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience.
- Incentives aligned with value creation – Appropriate incentives reward executives for delivering sustainable long-term value creation.
- Company impacts on people / human capital – Sustainable business practices create enduring value for all key stakeholders
- The priorities outlined above are aligned with the firm’s commitment to make sustainability BlackRock’s standard for investing and to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

BlackRock has as an ESG Capital Markets working group, including investment professionals globally across fixed income asset and capital markets, specifically focused on driving innovation and diversifying issuance in ESG oriented fixed income securities, working directly with issuers and dealers to expand issuance across sectors and market new concepts. They have been a signatory of the UN Principles of Responsible Investment (UN PRI) since 2008 and as such make sure that ESG factors are incorporated and adhered to in their approach to investment and engagement.

BlackRock are also a founding member of the TCFD and since 2017 have been working to increase the transparency of their climate related disclosures as well as build and improve our low carbon and renewable energy product offerings.

### **Mercer**

Mercer produce an annual Stewardship Monitoring Report. The report provides summary reporting on engagement activities undertaken by managers to capture the level of disclosure and examples given by the managers for insights into where the manager has exchanged views with companies on a range of strategic and governance issues, together with environmental and social topics. The most recent report covers the period 1 January 2020 to 31 December 2020, the 2021 version was not available when this statement was being prepared.

### **Voting Activity**

From the inception of this statement, BlackRock will be expected to provide voting summary reporting at least annually to the Scheme’s accounting year end date. The reports will be reviewed by the Trustees’ investment advisor, on behalf of the Trustees, to ensure voting activity undertaken aligns with their overarching investment policy and the policies set out within the SIP. Any material deviations from the SIP will be raised and discussed with the Trustees.

The Trustees does not use the direct services of a proxy voter.

Please note that voting activity is not applicable to the Scheme’s Multi-Asset Credit mandate with Mercer due to its limited exposure to equities. Voting activity is most relevant to the Scheme’s equity holdings and Diversified Growth Fund with BlackRock.

Over the last 12 months, some of the key voting activity on behalf of the Trustees was as follows:

## BlackRock

- **US Equity Index (unhedged):** There have been 601 votable meetings over the year ending 31 December 2021. In these meetings, there were a total of 7,341 votable items. BlackRock voted in 99% of resolutions for which they were eligible. In 96% of these votes for proposals, BlackRock has indicated their support to the companies' management, while voting against around 4% of the proposals.
- **European Equity Index (unhedged):** There have been 427 votable meetings over the year, in which there were a total of 6,821 resolutions. BlackRock voted on 99.0% of resolutions on which they were eligible, voting with management 85% of the time.
- **Japanese Equity Index (unhedged):** There have been 505 votable meetings over the year ending 31 December 2021. In these meetings, there were a total of 5,926 votable items. In around 97% of these votes for proposals, BlackRock has indicated their support to the companies' managements, while voting against around 2% of the proposals. The outstanding 1% of proposals account for situations where there was lack of management recommendation, scenarios where an agenda has been split voted or multiple ballots for the same meeting were voted differing ways.
- **Asia Pacific Equity Index (unhedged):** There have been 454 votable meetings over the year, in which there were a total of 3,228 resolutions. Black Rock voted on 100.0% of resolutions on which they were eligible, voting with management 88% of the time.
- **UK Equity Index (unhedged):** There have been 1,167 votable meetings over the year, in which there were a total of 15,146 resolutions. Black Rock voted on 99% of resolutions on which they were eligible, voting with management 93% of the time.
- **Japan Equity Index (Hedged):** There have been 505 meetings over the year, in which BlackRock was eligible to vote. In these meetings, there were 5,926 proposals, 100% of which BlackRock participated in the vote. BlackRock voted with management on 97% of proposals and against management on 2%.
- **European Equity Index (Hedged):** There have been 427 meetings over the year, in which BlackRock was eligible to vote. In these meetings, there were 6,821 proposals, 99% of which BlackRock participated in the vote. BlackRock voted with management on 85% of proposals, against management on 14% and abstain on 1%.
- **Pacific Equity Index (Hedged):** There have been 454 meetings over the year, in which BlackRock was eligible to vote. In these meetings, there were 3,228 proposals, 100% of which BlackRock participated in the vote. BlackRock voted with management on 88% of proposals and against management on 11%.
- **US Equity Index (Hedged):** There have been 601 meetings over the year, in which BlackRock was eligible to vote. In these meetings, there were 7,341 proposals, 99% of which BlackRock participated in the vote. BlackRock voted with management on 95% of proposals and against management on 4%.

- **Dynamic Diversified Growth Fund:** There have been 965 votable meetings over the year, in which there were a total of 12,082 resolutions. BlackRock voted on 100% of resolutions on which they were eligible, voting with management 93% of the time.

Additionally, BlackRock provided examples of where they have engaged with a company on an issue and the outcome achieved. We show some of these examples below:

- Danske Bank A/S - BlackRock voted against the Guidelines for Incentive-Based Compensation for Executive Management and Board given their concerns that the remuneration arrangements are poorly structured. Also, the disclosure does not provide sufficient understanding of the company's remuneration policies and the link between performance-based pay and company performance. The resolution passed despite BlackRock's intervention.
- Woodside Petroleum Ltd.. - Black Rock voted against an election of a director as the company does not meet their expectations of having adequate climate risk disclosures against all 4 pillars of TCFD and adequate Scope 3 metrics and targets. The resolution passed despite BlackRock's intervention
- Whitehaven Coal Limited - BlackRock voted against an election of a director, as they believe that the company does not meet their expectations of having adequate climate-related metrics and targets. The resolution passed despite BlackRock's intervention
- Tyson Foods, Inc. – Black Rock voted 'for' the report on human rights due diligence as they believe it is in the best interests of shareholders to have access to greater disclosure on this issue. The resolution did not pass despite BlackRock's intervention

Prepared by the Trustees of the JP McDougall & Company Limited Staff Pension & Life Assurance Scheme in March 2021.