

BOLTON ENGINEERING CO LIMITED PENSION SCHEME

Engagement Policy Implementation Statement

Financial Year Ending 31st March 2021

Introduction

This statement sets out how, and the extent to which, the stewardship policy and related policies on environmental, social and governance (“ESG”) factors and climate change set out in the Trustees’ Statement of Investment Principles (“SIP”) have been followed during the year to 31 March 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, as amended, 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 it has set. The objectives of the Scheme included in the SIP are as follows:

To achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk, taking into consideration the circumstances of the Scheme and the Sponsoring Employer.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustees’ policies on ESG factors, stewardship and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. Over the last 12 months, the SIP was updated to include new policies in relation to the Trustees’ arrangements with investment managers.

The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme’s portfolio and it is therefore in members’ and the Scheme’s best interests that these factors are taken into account within the investment process.

The Scheme’s assets are invested in pooled funds and therefore the Trustees accept that they have very limited ability to influence the ESG policies and practices of the companies in which their managers invest. The Trustees will therefore rely on the policies and judgement of their investment managers.

Mercer, on behalf of the Trustees, will take ESG considerations into account in the selection, retention and realisation of investments.

Scheme's Investment Structure

The Scheme's only investment is a Trustee Investment Policy ('TIP') with Mobius Life Limited ('Mobius'). Mobius provides an investment platform and enables the Scheme to invest in pooled funds managed by third party investment managers. As such, the Trustees have no direct relationship with the Scheme's underlying investment managers.

Trustee Engagement

Monitoring

The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment managers. Over the year, no changes were made to the Scheme's strategic asset allocation and no new investment managers were appointed by the Trustees. Managers will be expected to report on their own ESG policies as and when requested by the Trustees.

Mercer's investment performance report is reviewed by the Trustees on a quarterly basis. This includes Mercer's ratings (both general and specific ESG) and enables the Trustees to determine whether further action should be taken in respect of specific funds. The Trustees are satisfied that Mercer's ESG scores for the Scheme's managers are satisfactory.

The Trustees also received details of relevant engagement activity for the year to 31 March 2021 from the Scheme's investment manager, covering a wide range of different issues, including ESG factors. Example of this is given below:

- **LGIM** engaged with companies on ESG issues centred around LGIM's climate impact pledge, ethnic and gender diversity, remuneration and board composition. LGIM's Investment Stewardship team held 295 meetings or calls and 596 written engagements in 2020, with the team engaging most frequently on climate change.

Stewardship:

Over the year, the Trustees requested that the investment manager confirm compliance with the principles of the UK Stewardship Code. LGIM has confirmed that they are signatories of the current UK Stewardship Code and submitted the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

Over the period, the Trustees did not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

Assessment of how the Engagement Policies in the SIP have been followed for the year to 31 March 2021

The Trustees are satisfied that the Engagement Policies set out in the SIPs which have been in place over the year have been followed.

Voting Activity

The Scheme has no direct relationship with the pooled funds it is invested in, and therefore no voting rights in relation to the Scheme's investments. The Trustees have therefore effectively delegated their voting rights to the managers of the funds the Scheme's investments are ultimately invested in.

The Trustees have not been asked to vote on any specific matters over the last year.

Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e. all funds which include equity holdings) in which the Scheme's assets are ultimately invested.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will take on board industry activity in this area before the production of next year's statement.

The table below sets out a summary of the key voting activity over the financial year:

Manager / Fund	Proxy voter used?	Votes cast			Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions	
LGIM All World Equity Index Fund – GBP Hedged	ISS	70,672 Resolutions eligible to vote on c.99.9% votes cast	c.16.0% of votes cast	c.0.8% of eligible votes	<p>Qantas Airways Limited – LGIM voted to approve the remuneration report, as there were executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer vesting of the long-term incentive plan.</p> <p>Whitehaven Coal – LGIM voted to approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. The role of coal in the future energy mix is increasingly uncertain and LGIM is an advocate for managed decline in order to reach global climate targets. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets</p>

Notes: ISS = Institutional Shareholder Services Inc.
Voting information is to 31 March 2021