

# **Connells (2014) Group Pension Scheme**

Engagement Policy Implementation Statement

Financial year ending 30 April 2021

## 1. Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual Engagement Policy Implementation Statement (“EPIS”). This statement outlines how, and the extent to which, the policies relating to stewardship, voting and engagement as outlined in the Statement of Investment Principles (“SIP”) have been followed.

This statement covers the Scheme’s accounting year to 30 April 2021. It is intended to meet the requirements of the updated Disclosure Regulations and will be included in the Scheme’s Annual Report & Accounts, and will be made publicly available online, together with the Scheme’s SIP. In preparing this statement, the Trustee has taken advice from their professional advisers.

For the majority of the accounting period, the Scheme’s investments were invested in a Trustee Investment Policy (TIP) with Mobius Life Limited (Mobius). Mobius provides an investment platform and enabled the Scheme to invest in pooled funds managed by third party investment managers. JLT Investment Management (JLT IM) had fiduciary responsibility for the selection of pooled funds on the Mobius Platform.

In February 2021, the Trustee appointed BlackRock as its adviser and Fiduciary Manager (“the Manager”) to the Scheme, with the assets transitioning to the new investment strategy at the end of February 2021. As such, and in light of the timing of the transition of assets, this statement applies primarily to the legacy holdings which were sold towards the end of the accounting period. Future iterations of this statement will focus on the BlackRock assets.

## 2. Policies

The Trustee’s relevant policies regarding stewardship, voting and engagement are outlined in the SIP. The most recent version of the SIP is publicly available and is published online and will be updated from time-to-time as the SIP is updated.

During the year to 30 April 2021 the Trustee updated the SIP twice, in September 2020 and March 2021, which included extending the policies relating to stewardship, voting and engagement. The relevant excerpts from the SIPs are included below.

### SIP from September 2020 – March 2021

#### **4.4 Financially Material Considerations**

*The Trustee understands that it must consider all factors that have the ability to impact the financial performance of the Scheme’s investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.*

*The Trustee recognises 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. The Trustee accepts the fact that it has very limited ability to influence the ESG policies and practices of the companies in which its managers invest.*

*The Trustee has reviewed the ESG policies of its managers and concluded that they are appropriate. The Trustee will therefore rely on the policies and judgement of its fund managers when assessing the impact on the value of the Schemes investments.*

#### **4.5 Non-financially Material Considerations**

*The Trustee only considers factors that are expected to have a financial impact on the Scheme’s investments. Non-financial considerations, such as ethical views, are not implemented in the current investment strategy.*

#### **4.7 Stewardship**

*JLT IM and Mercer will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers on behalf of the Trustee. If the Trustee has any concerns, it will raise them with JLT IM or Mercer, verbally or in writing.*

### **SIP from March 2021– present**

#### **7. Responsible Investing**

*The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives. The Trustee has therefore considered how to evaluate and manage these risks when setting its investment strategy. This is set out in the following paragraphs.*

*The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters).*

*The Trustee will ensure that the Scheme's Fiduciary Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,*

*The Trustee will request that:*

- the Fiduciary Manager, as part of its due diligence, assesses the approach of all the Scheme's investment managers in integrating ESG risk considerations into the selection, retention and realisation of investments, before appointing them;*
- the Fiduciary Manager, as part of its ongoing monitoring, will review the adherence of the Scheme's investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for the Scheme's investment managers and aggregate these to portfolio level where appropriate;*
- the Fiduciary Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustee (for example where the Scheme invests in pooled funds, the Scheme's investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and*
- where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, the Fiduciary Manager shall consider the investment manager's rationale for this position and, where appropriate, report back its findings to the Trustee.*

*The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.*

*However, the Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long term portfolio returns, which is in the best interests of the members and beneficiaries of the Scheme.*

#### **8. Stewardship Policy**

*The Trustee understands that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value for the benefit of the members.*

*The Trustee recognises the importance of good stewardship and it expects that the Fiduciary Manager is a signatory of the UK Principles for Responsible Investment (UK PRI). The Fiduciary Manager has confirmed that it is a signatory of the UK PRI.*

*In order to be a good steward, the Trustee has set a policy which states that they expect the Scheme's respective stakeholders to undertake activities in relation to issues that have a material impact on the long-term value of the Scheme's investments.*

*The Trustee expects the Fiduciary Manager to ensure that the stewardship policy is appropriately implemented as far as is reasonably practicable. The policy includes ensuring to the extent possible that the underlying managers exercise on the Trustee's behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustee's expectations. The Trustee expects that voting and engagement activities are carried out in the best financial interests of the assets being managed.*

*The Trustee has delegated monitoring of underlying managers to the Fiduciary Manager. As part of this responsibility, the Fiduciary Manager is expected to:*

- *Request voting and/or stewardship policies of the underlying managers.*
- *Enquire about underlying manager's voting activity with respect to their stated policies, where appropriate.*
- *Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.*
- *Provide a summary to the Trustee of the overall level of voting activity on an annual basis.*

*The Trustee will engage with the Fiduciary Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with policy. The Fiduciary Manager is expected to engage with the underlying managers as and when required to facilitate this. Where an underlying manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the Fiduciary Manager to consider appropriate actions having regard to the long-term financial wellness of the Scheme.*

### **3. Scope of this statement**

The Trustee acknowledges that the extent to which the policies in relation to stewardship, voting and engagement can be applied varies across the portfolio. For example, in general, voting rights are not attached to fixed income securities, while the applicability to the LDI portfolio is limited. Nonetheless, the Trustee and the Manager expect all investment managers to take an active role in the stewardship of investments where relevant.

### **4. Scheme activity over the year**

For the majority of the accounting period, the Scheme's investments were invested in 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. JLT Investment Management (JLT IM) had fiduciary responsibility for the selection of pooled funds on the Mobius Platform. The Trustee delegates the day-to-day investment decisions and asset allocation to the fiduciary manager. The Trustee retains responsibility for the strategic investment objective and oversight of the fiduciary manager. As such, the Trustee had no direct relationship with the Scheme's underlying investments managers and the underlying investment managers are ultimately responsible for carrying out the stewardship, voting and engagement activities in respect of the Scheme's assets in line with the SIP.

In February 2021, the Trustee appointed BlackRock as the adviser and Fiduciary Manager ("the Manager") to the Scheme, with the assets transitioning to the new investment strategy at the end of February 2021.

### **5. Voting and Engagement**

The Trustee has delegated its voting rights to the investment managers of the Scheme. The Trustee has not been asked to vote on any specific matters over the Scheme year.

The below sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e. all funds, which include physical equity holdings).

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 voting statistics relate to the assets which were held until the end of February 2021.

The table on the following page sets out a summary of the key voting activity over the financial year:

Manager / Fund	Proxy voter used?	Votes cast		
		Votes in total	Votes against management endorsement	Abstentions
<b>Nordea Diversified Return</b>	<b>Institutional Shareholder Services (ISS)</b> for proxy voting, execution, and recommendations  <b>Nordic Investor Services (NIS)</b> - recommendations only.  Nordea makes its own voting decisions.	2547 eligible for (966 cast)	128	0
<b>Most significant votes (description)</b>	Those that are severely against Nordea's principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason.  From there, Nordea benchmark the proposals against their policy.			
<b>Significant vote examples</b>	Those that are severely against Nordea's principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason.  From there, Nordea benchmark the proposals against their policy.			
Manager / Fund	Proxy voter used?	Votes cast	Votes in total Manager / Fund	Proxy voter used?
<b>Threadneedle Multi Asset</b>	<b>ISS</b> for proxy voting, recordkeeping and disclosure, and research  <b>Glass Lewis</b> – for recommendations  <b>Institutional Voting Information Service</b> – for recommendations.	4979 resolutions (98.6% votes cast)	9.97%	3.35%
<b>Most significant votes (description)</b>	Threadneedle consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management.			
<b>Significant vote examples</b>	Facebook, Inc.: Vote 'FOR' the organisation to report on Median Gender/Racial Pay Gap Rationale: Material social risk for business and therefore in shareholders' interests.  Outcome of vote: Fail  Implications: Active stewardship (engagement and voting) continues to form an integral part of Threadneedles research and investment process.			

Significance: See definition

Manager / Fund	Proxy voter used?	Votes in total		
		Votes cast	Manager / Fund	Proxy voter used?
<b>Baillie Gifford Multi Asset</b>	<b>ISS and Glass Lewis</b> – for research and recommendations only.  Baillie Gifford makes its own voting decisions.	557 resolutions eligible for (98.20% votes cast)	5.67%	2.01%
<b>Most significant votes (description)</b>	<p>The list below is not exhaustive, but exemplifies potentially significant voting situations:</p> <ul style="list-style-type: none"> <li>– Baillie Gifford’s holding had a material impact on the outcome of the meeting</li> <li>– The resolution received 20% or more opposition and Baillie Gifford opposed</li> <li>– Egregious remuneration</li> <li>– Controversial equity issuance</li> <li>– Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders</li> <li>– Where there has been a significant audit failing</li> <li>– Where we have opposed mergers and acquisitions</li> <li>– Where we have opposed the financial statements/annual report</li> <li>– Where we have opposed the election of directors and executives.</li> </ul>			
<b>Significant vote examples</b>	<p>ADO PROPERTIES S.A.– Vote ‘AGAINST’ Amendment of Share Capital.</p> <p>Rationale: Baillie Gifford opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.</p> <p>Outcome of vote: Pass</p> <p>Implications: Baillie Gifford opposed the request to increase authorised capital which would permit share issuance without pre-emptive rights, given shares are currently trading at a high discount to NAV and there is no NAV commitment. Baillie Gifford has since sold out of the stock.</p> <p>Significance: This resolution is significant because it received greater than 20% opposition.</p>			

## 6. Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 30 April 2021. As this is the first year the Implementation Statement has been required, the Trustee expects that the format and content will evolve over time, in line with guidance and to reflect any future changes in the SIP.

The Trustee will continue to receive further training in relation to ESG issues and will evolve policies over time, including more widely across the Scheme’s assets.

The Trustee recognises the responsibility that institutional investors have to promote high standards of investment stewardship and will continue to use the influence associated with the Scheme’s assets in order to positively influence the Scheme’s investment managers.