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**The Shepherd Group Pension Fund**

**Engagement Policy Implementation Statement**

Introduction

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.

This is the engagement policy implementation statement the Trustee has prepared and covers the year ending 31 December 2020.

The latest SIP can be found here: [https://www.shepherd-group.com/assets/images/sbg-img/SGPF\_-\_SIP\_(July\_2020)\_-\_final.pdf](https://www.shepherd-group.com/assets/images/sbg-img/SGPF_-_SIP_%28July_2020%29_-_final.pdf)

Fund stewardship activity over the year

**Training**

Over the year, the Trustee had responsible investment training sessions with their investment advisor, which included updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

Following this training, the SIP was updated to capture the Trustee's views and principles.

**Updating the Stewardship Policy**

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Fund's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

This has been made available on the sponsoring company’s website where it can be accessed by the public.

**Ongoing Monitoring**

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and 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 fund 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 fund 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

The Fund has equity exposure through various passive equity index fund investments with BlackRock.

**Voting**

BlackRock’s proxy voting process is led by the BlackRock Investment Stewardship team ("BIS"), which consists of three regional teams – Americas (“AMRS”), Asia-Pacific (“APAC”), and Europe, Middle East and Africa (“EMEA”) - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BIS team with input from investment colleagues as required, in each case, in accordance with BlackRock’s Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines.

Their market-specific voting guidelines are available on the website at: https://www.blackrock.com/corporate/about-us/investment-stewardship#principles-andguidelines.

BlackRock uses proxy research firms Institutional Shareholder Services ("ISS") and Glass Lewis among many inputs into the vote analysis process, to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial. They use the ISS electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting.

More detail on the vote rationale can be found here: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-votinghistory.

BlackRock vote annually at thousands of company meetings. For example, over the year to 31 December 2020, with respect to the World Index fund that the Fund invests in, BlackRock voted at 15,337 resolutions. From fund level voting statistics reviewed, BlackRock voted at over 90% of eligible resolutions and usually voted against company management recommendation at least 5% of the time.

**Significant Voting Examples**

An example of a significant vote in relation to the World Index fund is at A.P. Moller-Maersk A/S (“Maersk”), a Danish shipping company engaged in worldwide integrated transportation and logistics.

As part of their routine analysis for annual general meetings ("AGM"s), BIS regularly review board composition and executive pay as these are standard items on an AGM agenda. In particular, they are concerned that Maersk’s executive remuneration approach does not use sufficiently challenging performance metrics.

BlackRock believes that companies should identify those performance measures most directly tied to shareholder value creation. They also believe that emphasis should be on those factors within management’s control to create economic value over the long-term, which should ultimately lead to sustained shareholder returns over the long-term. Furthermore, they are wary of companies using only “output” metrics such as earnings per share, total shareholder return, or share price. Maersk’s executive pay policy provides for long-term incentive schemes which do not require the achievement of predetermined performance conditions beyond share price in order to vest.

Given these concerns, BlackRock abstained on the re-election of members of the remuneration committee, consistent with their preferred approach to hold members of the relevant key committee of the board accountable for governance concerns. In Denmark, shareholders do not have the option to vote against the re-election of board members.

Additionally, BlackRock explain in their voting guidelines the concerns relating to directors’ ability to fulfil their duties effectively. Given the nature of the role, it is important a director has flexibility for unforeseen events and therefore only takes on the maximum number of non-executive mandates that provides this flexibility. In BlackRock's view, Chairman Jim Hagemann Snabe holds an excessive number of mandates. In addition to his role at Maersk, he is the board chair of Siemens AG and a non-executive director of Allianz SE. This raises substantial concerns about his ability to exercise sufficient oversight on Maersk’s board.

More detail on the vote rationale can be found here: https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-maersk-mar-2020.pdf

Another significant voting example in relation to the Emerging Markets Index fund the Pension Fund invests in is at the company Indofood CBP.

In August 2020, at an Extraordinary General Meeting, BlackRock voted against the management proposal and recommendation that shareholders vote to approve the acquisition of the total issued share capital of Pinehill Company Limited. The purchase is from the ICBP affiliate party Pinehill Corpora Ltd ("Pinehill Corpora"), which is 57.3% controlled by the President Director of ICBP, Mr. Anthoni Salim. Pinehill Corpora owns 51% of Pinehill, with the remaining portion being owned by Steele Lake Ltd. The total consideration for the transaction is $2.998 billion in cash.

The proposed acquisition has merit from a strategic perspective. ICBP has in-depth knowledge of Pinehill’s Indomie (Instant noodles) business and Pinehill’s established footprint in its current markets could provide ICBP a strong platform for overseas growth. Nevertheless, BlackRock believes it is in their clients’ best long-term economic interests to vote against the proposed acquisition due to the following concerns: 1) The valuation and terms of the transaction; and 2) The Board's oversight in relation to the inherent conflict of interest.

BlackRock identified several concerns regarding the proposed terms of the transaction. For example, the use of trailing price-to-earnings ("PE") as a benchmark for the forward earnings of the target company is questionable from a valuation methodology perspective. Had the valuation of Pinehill been determined by forward earnings of appropriate comparable companies at the time the transaction was announced, it would have yielded a more accurate valuation. If Pinehill’s last reported earnings in 2019 were used on a like-for-like trailing PE basis, the proposed acquisition price values Pinehill at 38.6x (after adjusting for foreign exchange and interest expenses), which is double the average multiple that buyers had paid for packaged foods companies in Africa, Middle East, and European emerging markets in the past five years. As a consequence, BlackRock felt its clients, as shareholders in ICPB are significantly overpaying to acquire the assets from Pinehill.

More detail on the vote rationale can be found here: https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-icbp-aug-2020.pdf

**Engagement**

BlackRock advocate for sound corporate governance and sustainable business practices that result in long-term value creation for their clients. In 2020, they have enhanced their disclosures and their key steps towards increased transparency include:

1. Moving from annual to quarterly voting disclosure

2. Prompt disclosure around key votes including an explanation of voting decisions, and

3. Enhanced disclosure of company engagements.

In 2020, they have put an increased focus on sustainability-related issues and relevant disclosures, given the growing impact of these issues on long-term value creation.

The BIS team engages companies to provide feedback on their practices and inform their voting. Their focus is on a range of issues that fall within each of the environmental, social and governance ("ESG") categories where they assess if there is potential for material long-term financial impact on a company’s performance. BIS is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit.

The BlackRock Investment Stewardship Team's stated key engagement priorities over 2020 include:

1. Board quality

2. Environmental risks and opportunities

3. Corporate strategy and capital allocation

4. Compensation that promotes long-termism, and

5. Human capital management.

Over 2020, BIS had over 3,500 engagements (an increase of 35% against 2019) with 2,110 unique companies, covering nearly 65% by value of their clients’ equity investments. They also had 936 engagements in relation to the impact of COVID-19.

More information, including case studies, can be found in the BlackRock Investment Stewardship Annual Report 2020: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Engagement activity – Fixed Income and Real Estate

The Pension Fund also invests in fixed income strategies with BlackRock, M&G and BlueBay as well as a real estate fund managed by UBS.

While the Trustee acknowledges the ability to engage and influence companies may be less direct then 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 Fund over the year.

**Fixed Income Engagement Example (BlackRock)**

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock's BIS team is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock’s Global Fixed Income ("GFI") Responsible Investing ("GFI-RI") team may partner with the BIS team both to reflect ESG related topics from GFI investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock hold a significant exposure in GFI portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.

An example of an engagement by the GFI-RI team was that with Exxon, a multi-national oil and gas company. In their discussion with the company, they discussed several engagement topics such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the GFI-RI team including, the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

BlackRock have stated that their ongoing dialogue has been largely constructive and effective, however there have also been matters where the company wasn’t adequately responsive to shareholder feedback. As a result, they voted against the re-election of the lead independent director for the company’s lack of progress on climate-related disclosure and supported a shareholder proposal seeking a report on the extreme weather resilience of certain operations. This is consistent with their view to first engage with companies on their concerns and to subsequently hold directors accountable if those concerns are not sufficiently addressed.

BlackRock anticipate further dialogue with the board and management and remain optimistic that their recommendations to enhance governance and transparency will lead to additional positive future outcomes.

**Fixed Income Engagement Example (M&G)**

In September 2020, M&G engaged with Quadient (an issuer within the Alpha Opportunities Fund that the Fund invests in) regarding modern slavery. The objective was to encourage further disclosure and policies relating to human rights and modern slavery from automation and communications specialist Quadient, in order to recognise the importance of these issues given the nature of the supply chain.

M&G's engagement with Quadient allowed the company to explain its full ESG strategy, and allowed M&G to look in greater depth at its approach to supply chain management, especially relating to conflict minerals and human rights. M&G asked the company to publish full public policy documents on human rights, supplier practices, business ethics and data privacy.

Quadient was extremely receptive to both M&G's questioning and their suggestions for releasing public-facing policy documents. The company has assured M&G that it intends to publish these, and supplementary information, on its website in the near future.

M&G will continue to monitor, and follow up as appropriate.

**Fixed Income Engagement Example (BlueBay)**

In March 2020, BlueBay joined the Climate Action 100+ ("CA100+"), agreeing to co-lead on engagement with Petroleos Mexicanos ("Pemex") through this initiative. This followed BlueBay's own bi-lateral engagement with Pemex in 2020, where they had a call with management to discuss how the company was addressing some of key ESG risks, specifically in relation to its approach to corporate responsibility more broadly, sustaining improved health and safety performance, improving transparency and disclosure of ESG metrics and climate change.

In July 2020, the co-leads of the initiative on the Pemex engagement wrote to the Board of the company to provide it with formal notice of their inclusion in the CA100+. The letter also advised that, alongside the co-lead investors, there is a number of supporting investors keen to ensure a more progressive approach to climate change from Pemex. The company responded to this letter, stating it is currently reviewing the best way to respond and engage with investors.

BlueBay will continue to check in with the company to get an update on next steps. From an investment perspective, they feel that ESG issues create a much higher hurdle to owning Pemex. That said, they believe valuations are currently compelling relative to the sovereign, so they are currently holding Pemex as a core position in several funds. However, this gives them an increased ability to engage with management (as they are a financial stakeholder), a position they are using wherever possible to help influence Pemex with regard to ESG improvements.

**Real Estate Example (UBS)**

As part of their property asset management process UBS can:

* Define and implement best practice measures to improve energy efficiency, water conservation and waste management to promote sustainable practices, reduce operating expenses and increase asset values,
* Evaluate green building certifications applicable for each investment type and location to enhance the investment’s competitive position, maximize occupancy, rental rate, tenant quality, occupier wellbeing and value,
* Monitor changes in regulations and laws in order to adopt and implement responsible investment strategies,
* Collaborate with tenants, property managers and suppliers of services and materials to achieve objectives, and
* Measure energy consumption and monitor energy performance.

An example of an initiative in relation to the Triton property fund is where UBS commissioned an external specialist, the Social Value Portal, to collect data and calculate, in monetary terms, a social value for each property, which is then mapped to the UN’s Sustainable Development Goals.

They worked with tenants and their onsite property and facilities management teams to understand and measure such categories as local employment levels, traineeships, jobs for young offenders, community events held at the property, and volunteering. They also undertook assessments from a sample of Triton’s portfolio: Springfields Outlet Shopping Centre in Spalding (Retail Warehouse), Knollys and Stephenson House in Croydon (Office), Imperium in Reading (Office), and Stakehill Industrial Estate in Manchester (Industrial/Logistics). The total social value created by these assets against three of the seventeen UN Sustainable Development Goals is £7.9 million.

In summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that the applicable asset managers were able to disclose evidence of voting and engagement activity.

The Trustee expected improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Fund through considered voting and engagement.