# Engagement Policy Implementation Statement

## Cala Retirement & Death Benefits Scheme ("the Scheme")

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Trustees and covers the Scheme year 6 April 2021 to 5 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 Trustees produce an annual statement which outlines the following:

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles ("SIP").

- Describe the voting behaviour by or on behalf of the Trustees (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

### Executive summary

Based on the activity over the year by the Trustees and their investment managers, the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that most of their investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees expect 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. For example, most of the managers were unable to provide engagement examples at a strategy level. The Trustees expect to see improvements in this area going forward.

### Scheme stewardship policy

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

The full SIP can be found here:
https://www.cala.co.uk/media/qald3yts/cala-sip-september-2021.pdf

- Trustees recognise the importance of their 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.
- Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.
- Trustees review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. Where the Trustees identify significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of

conflicts of interest, of a fund manager or other stakeholder; they will consider the methods by which they would monitor and engage with such a fund manager or other stakeholders.

**Scheme stewardship activity over the year**

**Training**

In June 2021, the Trustees had a responsible investment training session with their investment advisor, which provided the Trustees with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of Environmental, Social and Governance (“ESG”) factors in investment decision making.

In addition, the Trustees received an update from LGIM who provided a detailed update on the Scheme’s investments, how they approach investment stewardship and the actions they are taking.

**Ongoing Monitoring**

Investment monitoring takes place on a bi-annual basis with monitoring reports being provided to the Trustees 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.

**Manager Appointments**

Over the year, the Trustees appointed two new fund managers as part of their investment strategy review.  The desire to align the Trustees' beliefs and priorities with regard to ESG was an element of the manager selection process. Accordingly:

- The infrastructure manager selected has dedicated team of experts focussed on ESG implementation, risk management, oversight and reporting. They also have well written and implemented policies and procedures regarding ESG and responsible contracting. ESG committee approval is required before investment committee approval on each investment.
- The fixed income manager selected demonstrated an above average awareness of potential ESG risks in the investment strategy and take essential steps to identify, evaluate and potentially mitigate these risks.

The implementation of the strategy was completed over the Scheme year with the investment in IFM completed on 1 April 2022. The SIP was updated to reflect the revised strategy.

## Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity and multi-asset investments held by the Scheme were:

| | |
|---|---|
| Legal & General Investment Management | LGIM All World Equity Index Funds |
| Schroder Investment Management | Schroders Diversified Growth Fund |

In this section, there is a summary of voting information and examples of significant voting activity for each of the Scheme's relevant managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on an inappropriate rationale
- a vote that has significant relevance to members of the Scheme

The Trustees consider a significant vote as one which the voting manager deems to be significant or a vote where more than 15% of votes were cast against management.

**Legal & General Investment Management ("LGIM")**

Voting

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 augments 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 standards companies should observe. 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 31 March 2022.

| | |
|---|---|
| Number of resolutions eligible to vote on over the period | 64,607 |
| % of resolutions voted on for which the fund was eligible | 99.8% |
| Of the resolutions on which the fund voted, % that were voted against management | 18.1% |
| Of the resolutions on which the fund voted, % that were abstained from | 1.3% |

Voting example

In June 2021, LGIM voted against a resolution to elect the Chief Executive Officer ("CEO") of retailer Target Corporation to the role of Chair of the company's board as well. It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. Further, LGIM expects a CEO or non-executive director not to hold too many board positions to ensure they can undertake their duties effectively. 93.7% of shareholders voted in favour of the resolution. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

Engagement

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. Enhancing 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. It'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 seeks 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 had not provided engagement examples for the fund. Aon, has engaged with LGIM to encourage it to report on its engagement activities in line with its peers. Aon and the Trustees expect to see improvements in LGIM's reporting next year. The example provided below is at a firm level, i.e. it is not specific to the fund 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.

**Schroder Investment Management ("Schroders")**

Voting

Schroders uses research from both ISS and IVIS, however it states that this is only one component of the analysis which feeds into its voting decisions. Schroders stresses that its own research is also integral to its final voting decision. This research is conducted by its financial and ESG analysts. For contentious issues, Schroders' Corporate Governance specialists will engage with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Schroders considers most significant votes as those against company management. It opposes management if it believes that doing so is in the best interests of shareholders and its clients.

Schroders discloses its voting activity publicly. On a monthly basis, Schroders produces voting reports which detail how votes were cast, including votes against management and abstentions.

The table below shows the voting statistics for Schroders's Diversified Growth Fund for the period to 31 March 2022.

| | |
|---|---|
| Number of resolutions eligible to vote on over the period | 1,680 |
| % of resolutions voted on for which the fund was eligible | 95.8% |
| Of the resolutions on which the fund voted, % that were voted against management | 6.1% |
| Of the resolutions on which the fund voted, % that were abstained from | 0.1% |

Voting Example

On 28 May 2021, Schroders voted against a resolution to approve Total SE's (a broad energy company) sustainable development and energy transition strategy. Schroders voted against the resolution because it believed there was room for improvement in the strategy, including the inclusion of scope 3 emissions targets in the medium and long term. The strategy did not include a target to reduce emissions between 2030 and 2050, and some of the strategy also appeared to allow for expansion in the company's oil and gas emissions.  Despite Schroders voting against, the resolution was passed.

Engagement

Schroders defines engagement to be purposeful communication with an entity (e.g., government, corporate, institution, financial counterparties, regulator, industry body or managers of Special Purpose Vehicles or funds) on particular matters of concern with the goal of encouraging change at the entity and/or wider system improvement. Active ownership is considered a key part of the ESG process at Schroders.

The investment team monitors the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team, to ensure they are driving ESG improvements at the underlying holding level. Schroder's engagements can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying fund manager based on engagement activity.

Engagement Example – firm level

An example of engagement at a firm-wide level was when Schroders engaged with five companies in Singapore that employ large numbers of migrant workers on the topic of debt bondage. Following Schroder's initial communication with the five companies, it contacted two of the leading companies on the topic of debt bondage – a term for when someone is forced to work to pay off a debt. While there are policies and commitments to "zero forced labour", Schroder's understanding of the local market is that risk contractors may not consider debt bondage to be forced labour.

Contractors may consider themselves to be compliant with local regulation while exploitative practices may be more likely to take place in the migrant workers' place of origin. The conversations were useful to understand the challenge for developers with a rotating schedule of migrant workers compared to firms with a more consistent workforce. Recognising that this is a new topic for many contractors, Schroders initial focus was on raising awareness of how debt bondage is forced labour.

Schroders asked the companies to educate its main contractors on the topic. The two companies seemed responsive and indicated that they will consider it. As leading corporates, Schroders believes that the companies' potential actions will have a positive trickle-down effect and will continue to encourage efforts in this area.

## Engagement activity – fixed-income funds

Whilst voting rights do not apply to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation, and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity carried out by the Scheme's fixed-income managers over the year.

## M&G Investments

Engagement

M&G developed its engagement process, adopting the Sustainable Accounting Standards Board ("SASB") framework to structure its research and engagement activity, allowing it to incorporate ESG factors into the investment process for its holdings at all stages.

Since 2019, M&G has created a question databank of over 600 sector-specific ESG questions, which identifies key material risks and themes as identified by both SASB and its own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative ("TPI") and World Economic Forum ("WEF") Climate Governance guidelines to further build its capability to identify financially material risks on a sector-by-sector basis.

This helps steer M&G's analysts towards asking the right questions of investee companies dependent on their sector and ensures that when there is a potentially material risk, M&G is able to identify and act on it in an efficient way. Engagement cases can then be easily prioritised and through M&G's hashtag system, which allows its analysts across asset classes to monitor material ESG risks across the capital structure.

Previously, M&G only reported on engagement from an equities perspective, but the Corporate Finance and Stewardship team has more recently begun working closely with M&G’s Fixed Income teams to understand their engagement activities, participate in ESG-related engagements and help to coordinate engagements across asset classes where appropriate.

Engagement example - M&G Investments Alpha Opportunities Fund

M&G engaged with the UK energy company, BP, to seek enhanced carbon data and emissions disclosure from the company. M&G met with the company’s investor relations manager to outline its position: M&G, as an investor, has committed to Net Zero by 2050 across its investment portfolios. M&G monitors and tracks the collective climate performance of its investments with assistance from the CDP portal, which M&G views as a leading tool for climate data management. CDP disclosure is an important aspect of managing the carbon exposure in M&G’s portfolio companies. As such, M&G would welcome and encourage the inclusion of BP into the CDP carbon database. BP said that it aimed to be recognised as an industry leader in the transparency of its reporting. It believed it had made good progress in that space, and was listening to M&G’s feedback, and that of other investors, on the CDP platform. Subsequent to the meeting, BP contacted M&G to say it had informed CDP that it plans to respond to the 2021 climate change questionnaire.

Engagement example - M&G Debt Opportunities Fund IV

M&G continues to provide ESG Case Studies to document the over-arching engagement with portfolio companies. In 2021, M&G engaged with 16 of 22 investments. For example, M&G engaged with a provider of marine and defence safety equipment to create an ESG policy for the business and develop its ESG narrative and credentials. The company completed an

ESG review from a third-party specialist, and now has an ESG policy in place which it is implementing across the business.

**Robeco Group**

Engagement

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments. Robeco engages with companies worldwide, in both their equity and credit portfolios.

Robeco carries out three types of engagement with the companies in which it invests:

- Value engagement;
- Enhanced engagement; and
- Sustainable development goals engagement.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

Engagement Example – Firm level

Robeco engaged with the British bank, Barclays, about its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The culture at Barclays was a key area for improvement and Barclays did a lot of work to improve this. For example, the bank regularly reports the importance of behaviours to its staff and tries to foster an open culture. The bank's approach to financial crime is also now largely in line with other European banks. Robeco closed this engagement successfully in Q4 2021.