

**BlackRock**

# **Innovia British Pension Scheme**

## **Engagement Policy Implementation Statement**

31 December 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 31 December 2021. It is intended to meet the updated regulations and will be included in the Scheme’s Report & Accounts. In preparing this statement, the Trustee has taken advice from their professional advisers.

This statement details some of the activities taken by the Trustee, the Manager and the investment managers during the period, including voting statistics, and provides the Trustee’s opinion on the stewardship activities over the period.

## 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 being published online and will be updated from time-to-time.

The Trustee has appointed BlackRock as the adviser and Fiduciary Manager (“the Manager”) to the Scheme. The Trustee delegates the day-to-day investment decisions and asset allocation to the Manager. The Trustee retains responsibility for the strategic investment objective and oversight of the Manager. A number of underlying investment managers (including the Manager) have been appointed to invest the Scheme’s assets. 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.

During the year to 31 December 2021 the Trustee did not update the SIP, as such the policies contained in the September 2020 SIP are those which are relevant to this Statement. The relevant excerpts from the SIP are included below.

### **SIP from September 2020 – present**

## 5. Responsible Investing

*5.1 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).*

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

*5.3 The Trustee will request that:*

- the Manager, as part of its due diligence, assesses the approach of all the Scheme’s investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments, before appointing them;*
- the 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 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 Manager shall consider the investment manager’s rationale for this position and, where appropriate, report back its findings to the Trustee.*

5.4 *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.*

## **6. STEWARDSHIP**

6.1 *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 of the Scheme for the benefit of the Scheme's members.*

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

6.3 *The Trustee expects the 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 or external 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.*

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

- *Request voting and/or stewardship policies of the underlying or external 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.*

6.5 *The Trustee will engage with the Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with policy. The Manager is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the 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**

The SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors and stewardship. This policy sets out the Trustee's beliefs on ESG and the processes followed by the Trustee in relation to voting rights and stewardship.

The Trustee receives ESG reporting in the quarterly investment report, which includes aggregate and asset class level reporting of ESG scores relative to an appropriate benchmark. The Trustee uses this to measure how the overall Scheme assets are invested and assess the metrics over time.

The Manager now rates each underlying strategy based on the strength of their ESG policies and actions and provides a summary of the ESG scores to the Trustee on a quarterly basis, as part of the investment report. This allows the Trustee to establish how each underlying manager scores from an ESG perspective as well as measure relative improvements quarter on quarter.

As of year-end, 5 of the 11 active strategies had an ESG score of “Advanced”, the highest rating. The remaining strategies scored “Aligned”. The Trustee is comfortable that these scores are a strong reflection of their beliefs with all managers having the two highest scores (Advanced and Aligned). Furthermore, the Trustee recognises that the Manager is engaging with the underlying managers to ensure they work to further improve their ESG policies and actions over time. As part of the Trustee’s ESG policy, the Manager is required to request the underlying managers’ policies and their adherence to them. The Manager reviews the policies of each underlying manager to ensure that these are appropriate.

The Trustee expects the Manager to continue to work with underlying managers in order to ensure those on the weaker side of voting and engagement take action to make improvements. The Manager has acknowledged that all managers have been taking steps to improve both their voting and engagement and “best in class” continues to evolve. The Trustee will be closely monitoring developments over the coming years.

In December 2021 an allocation to J P Morgan China Equities was made. The Trustee acknowledges the challenges with investing in emerging markets and is pleased that J P Morgan has received an ESG rating of “Advanced”. As this allocation was added in December 2021, the voting statistics will be included in the next iteration of this Statement.

## 5. Voting and Engagement

The Trustee has delegated to the Manager the responsibility of collecting the stewardship and engagement reports of the underlying managers and assessing the suitability. The Trustee also expects the Manager to monitor the underlying manager’s activity to ensure compliance and confirm that it remains a suitable investment for the Scheme. The Trustee is comfortable that under the governance structure the responsibility sits with the Manager to communicate with the underlying managers and on a regular basis collect information as required.

The Manager has noted that there is variability between managers in the extent of their engagement and voting policies, with equity managers generally having made more progress than fixed income. This Implementation Statement focuses on the Scheme’s equities managers. It is intended that in future years there will be greater focus on other asset classes, in particular the fixed income managers.

The section below details the investment managers’ approach to voting and engagement as well as some examples of significant engagements these managers have made over the 12 months in respect to the funds in which the Scheme is invested.

In addition, summary voting statistics in respect of the Scheme’s equities funds over the year to 30 September 2021 have been included. Voting statistics have been reported over the one-year period to 30 September as this likely to result in greater coverage across investment managers and therefore also provide greater comparability and consistency going forwards.

### **BlackRock:**

The Scheme has a portion of its Growth assets invested in funds managed by the Manager. Given the Manager’s appointment as both the fiduciary manager as well one of the investment managers, the Trustee recognises the importance of ensuring that the Manager’s own policies and actions are appropriate for the Scheme. The Manager publicises its own policies as well as quarterly updates online (which can be accessed [here](#)) which the Trustee has visibility of. This includes details of any changes to policies and also reports at an aggregate level the impact of its voting and engagement. The Trustee is comfortable that the transparency of the Manager in publicising reports and developments online ensures alignment with the interests of the Scheme.

Whilst it is important to monitor the activities of the Manager at a high level through this publicly available information, it is also important to monitor the voting and engagement activities undertaken on behalf of the Trustee by the Manager on a more granular level.

With the exception of the BlackRock European Equities fund, the Scheme’s BlackRock equities funds are passive (i.e. index) strategies. In respect of passive strategies, there is a wide universe of underlying companies which may number in the hundreds if not thousands. Where strategies are actively managed, investments are typically more concentrated. As such, ownership is more concentrated for actively managed strategies and therefore there will be fewer resolutions in which to vote. In addition, actively managed strategies have the option to sell holdings in companies at its discretion. For these reasons, in the context of

passive strategies, it is important that voting and engagement rights are exercised and that this is monitored. An example of a significant vote in respect of the BlackRock European Equities fund is included below. The summary voting statistics below illustrate that the voting rights attached to the underlying investments in these instances have been exercised to a large extent.

The Manager's approach to voting is described in the table below, along with summary voting statistics for the Manager's equities funds.

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### Approach to voting

BlackRock believes it has a responsibility to monitor and provide feedback to companies, in its role as stewards of its clients' investments. The BlackRock Investment Stewardship team does this through engagement with management teams and/or board members on material business issues including environmental, social, and governance matters and, for those clients who have given BlackRock authority, through voting proxies in the best long-term economic interests of its clients.

As long-term investors on behalf of its clients, BlackRock seeks to have regular and continuing dialogue with the companies in which its clients invest. The majority of BlackRock's equity investments are made through indexed strategies, so clients will be invested as long as the companies are in the index. As such, BlackRock places a strong emphasis on engagement with investee companies as disinvestment is often not an option.

BlackRock votes in accordance with BlackRock's Investment Stewardship Global Principles, as well as guidelines for each relevant region. Voting guidelines are reviewed annually and are updated to reflect evolutions in market standards, governance practices and insights gained from engagement over the prior year.

Voting decisions are informed by internally developed proxy voting guidelines, prior engagements with companies, research, and the situational factors for each underlying company. BlackRock ordinarily refrains from abstaining from both shareholder and management proposals, unless abstaining is the valid vote option (in accordance with company by-laws) to signal concern to management, there is a lack of disclosure regarding the proposal voted, or an abstention is the only way to implement their voting.

BlackRock appoints an independent fiduciary, Sustainalytics, to vote proxies where BlackRock is required by regulation not to vote itself or where there are actual or perceived conflicts of interest. The independent fiduciary makes voting decisions based solely on BlackRock's publicly available proxy voting guidelines, which aim to advance clients' long-term economic interests, and information disclosed publicly by the relevant companies.

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### Volkswagen AG (German car manufacturer)

BlackRock regularly reviews VW's governance structure and risk profile. BlackRock has engaged regularly with VW's Supervisory Board chair since 2016 on a range of environmental, social and governance topics, and has frequent dialogue with VW's Investor Relations and Sustainability teams. It has on numerous occasions encouraged the company to improve the number of independent directors on the Supervisory Board to enhance the level of independent oversight of management. It has regularly discussed board composition, minority shareholder interests and Supervisory Board transparency.

With two independent members (at the time of the AGM), the current level of independence on VW's Supervisory Board does not meet BlackRock's expectations for controlled companies. In controlled companies, BlackRock expects the number of independent Supervisory Board members to be no less than one-third of the shareholder representatives.

BlackRock voted against the discharge of members of the Board of Management who were already serving at the time of the emissions incident. In doing so, it is holding those individuals accountable for the deficiencies in VW's governance practices and management of its material risks. This is consistent with BlackRock's approach since VW's 2016 AGM.

A key pillar of VW's current strategy is the decarbonization of its portfolio. Targets include:

- One in four new Volkswagen Group vehicles worldwide having a purely electric drive by 2025

- Customers worldwide being offered up to 75 completely battery electric vehicles and approximately 60 hybrid models by 2029
- Electrification of entire model portfolio by 2030
- Completely carbon neutral vehicle fleet by 2050

VW's disclosures are consistent with BlackRock's expectations of large carbon emitters with a previous history of engagement with BlackRock on the topic. It will continue to engage with the company and closely monitor the delivery against the targets it has set out to date. It will hold Management and Supervisory Board members to account for progress on their delivery, through future voting on director elections, where appropriate.

	<b>Year to 31 December 2021</b>	
<b>BlackRock Europe Equities (Active)</b>	Votable proposals	1,060
	% of resolutions voted	76%
	% of resolutions voted against management	9%
	% of resolutions abstained	9%
<b>BlackRock US Equities (Index)</b>	Votable proposals	7,341
	% of resolutions voted	100%
	% of resolutions voted against management	6%
	% of resolutions abstained	0%
<b>BlackRock UK Equities (Index)</b>	Votable proposals	15,457
	% of resolutions voted	98%
	% of resolutions voted against management	6%
	% of resolutions abstained	2%
<b>BlackRock Asia Pacific Equities (Index)</b>	Votable proposals	3,233
	% of resolutions voted	100%
	% of resolutions voted against management	13%
	% of resolutions abstained	0%
<b>BlackRock Japan Equities (Index)</b>	Votable proposals	5,926
	% of resolutions voted	100%
	% of resolutions voted against management	4%
	% of resolutions abstained	0%
<b>iShares FSTE MIB ETF (Index)</b>	Votable proposals	470
	% of resolutions voted	100%
	% of resolutions voted against management	24%
	% of resolutions abstained	0%
<b>iShares S&amp;P 500 ETF (Index)</b>	Votable proposals	6,682
	% of resolutions voted	100%
	% of resolutions voted against management	6%
	% of resolutions abstained	0%

## Other investment managers

The approach to voting and engagement of the Scheme's other two equities managers, Schroders and Wellington, are detailed below. These managers are appointed in relation to the Scheme's Emerging Markets and Global Small Cap holdings respectively.

### Schroders:

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The overriding principle governing Schroders' approach to voting is to act in the best interests of its clients. Schroders' voting policy and guidelines are outlined in its publicly available Environmental, Social and Governance Policy. Schroders evaluates voting issues arising and, where it has the authority to do so, votes on them in line with its fiduciary responsibilities in what it deems to be the interests of its clients. In applying the policy, Schroders considers a range of factors, including the circumstances of each company, performance, governance, strategy and personnel.

### Approach

It is Schroders' policy to vote all shares at all meetings globally, except where there are onerous restrictions – for example, shareblocking. Schroders utilises the services of ISS and the Investment Association's Institutional Voting Information Services ('IVIS') in conjunction with its own research and policies when formulating voting decisions. With regards to abstaining from votes, Schroders' preference is to support or oppose management and only use an abstention sparingly. Schroders may abstain where mitigating circumstances apply, for example where a company has taken some steps to address shareholder issues.

For certain holdings of less than 0.5% of share capital in the USA, Australia, New Zealand, Japan, and Hong Kong, Schroders has implemented a custom policy that reflects the views of its ESG policy and is administered by Schroders' proxy voting provider, ISS. Schroders votes on both shareholder and management resolutions.

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The Schroders Sustainable Investments team contacted a number of European companies that are key to driving the transition towards net zero greenhouse gas emissions to:

### Cez

(Energy distribution company)

- set an ambition to achieve net zero emissions by 2050 or sooner, covering scope 1, 2 and most relevant scope 3 emissions
- set short-, medium-, and long-term targets aligned with the goal of limiting global warming to 1.5 C, again covering scope 1, 2 and most relevant scope 3 emissions
- produce and publish a detailed transition plan setting out how the company intends to meet its emission targets and overarching net zero ambition.

As Cez has already set a net zero ambition, Schroders encouraged the company to continue to develop its interim targets and transition plan. All the companies Schroders contacted are included in the CA100+ net-zero company benchmark and were held by Schroders on 30 June 2021.

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The Schroders investment team arranged a call with Huuuge to outline a number of ESG concerns. These included:

### Huuuge

(Polish game developer and platform)

- A weak board structure with just five members, of whom two are independents and no female representation. Schroders recommended they increase the size of the board and improve its structure.
- Not being compliant with Warsaw Stock Exchange (WSE) Best Practices. A number of the issues here can be easily addressed.
- Targets for management compensation being unclear and not sufficiently long term focused. We asked for more transparency with regards to management compensation.

- Huuuge has said it will take Schrodgers' feedback onboard, and Schrodgers looks forward to seeing its ESG strategy, which is currently being formulated.

		<b>Year to 31 December 2021</b>
<b>Schrodgers EM Equities</b>	Votable proposals	1,826
	% of resolutions voted	94%
	% of resolutions voted against management	8%
	% of resolutions abstained	6%

**Wellington:**

**Wellington (Active):**

<b>Approach</b>	Wellington votes according to its Global Proxy Voting Guidelines and employs a third-party vendor, Glass Lewis, to perform administrative tasks related to proxy voting. Wellington does not automatically vote proxies either with management or in accordance with the recommendations of third-party proxy providers, ISS and Glass Lewis. Wellington has its own ESG Research Team, which provides voting recommendations. Based on these resources and in conjunction with Wellington's Global Proxy Voting Guidelines, individual portfolio managers have authority to make final decisions on voting. There is no "house vote". Wellington's proxy voting system allows different votes to be submitted for the same security. Various portfolio managers holding the same securities may arrive at different voting conclusions for their clients' proxies.
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<b>First Solar</b> (Solar panel manufacturer)	<p>First Solar (FSLR) is a solar panel manufacturer that Wellington have held in the portfolio and maintained an ongoing dialogue with other the years. Over 2019 and 2020, portfolio manager Kenny Abrams met or spoke with them on several occasions.</p> <p>Abrams has believed that First Solar's management team is best in class, as they have been able to sustain an industry-leading balance sheet and technological position over the years. Meanwhile, many of the company's peers have gone bankrupt as the technology moved rapidly and Chinese manufacturers invested in lower cost solutions. Despite headwinds in the industry, the Fund has maintained a position in First Solar due to that high conviction in the management team and in the company's competitive edge.</p> <p>The high level of competition in the industry led to concerns at First Solar that peers would copy or reverse engineer their technology, and as a result the company disclosed very little about their manufacturing for years. This unfortunately led to low ESG score for the company, which Abrams and his team felt confident was not representative of the company. Through previous site visits and meetings with management, Wellington believed that First Solar were on the leading edge of sustainable manufacturing. Throughout 2019 and 2020, Abrams and the team have encouraged management at First Solar to improve their disclosures, particularly from an environmental standpoint. As a result, they began disclosing their recycling successes and their goal of carbon-neutral lifetime solar cell technology.</p>
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<b>Tokyo Ohka Kogyo</b> (Japanese materials company)	<p>Tokyo Ohka Kogyo (TOK) is a Japanese materials company that specialises in the production of chemicals and equipment used in for manufacturing semiconductors and other electronic equipment. Wellington initiated the position in 2018, as it saw strong demand coming from the semiconductor industry, particularly for the photoresists that TOK specializes in.</p> <p>While Wellington maintained a favourable fundamental outlook on the company, from an ESG perspective TOK's performance was mixed. It looks quite good environmentally; carbon</p>
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intensity is 90% below the industry average, and water withdrawal intensity is much lower as well. In social scores, ratings providers have been critical of TOK's chemical safety; Wellington's ESG Team disagrees with this however, as most of the chemicals the company works with dissolve and are safe for both humans and the environment. Relative to other bulk chemical companies, TOK looked fairly strong in both of these regards.

Wellington saw the most room to engage and improve the company's practices in governance, where it did not see enough board independence, diversity, or alignment with shareholder interests. Since the original investment in 2018, Wellington has voted against management ten times, pushing back on board and auditor nominations that were too closely aligned with company management. Through regular engagements, Wellington has also pushed for more transparency on key performance indicators and for a greater portion of compensation to be variable based on meeting these KPIs.

Over the period, Wellington saw a great deal of progress on these initiatives. The board and auditors now have 46% independence from the company and Wellington continues to push them on adding foreign directors, but this domestic bias is common for Japanese boards. Compensation is now 45% variable based on meeting target metrics, up from 30%. In 2020, the company announced new ESG targets, including reducing CO2 emissions by 11%, reducing energy consumption by 15%, and reducing waste by 5%.

Wellington has been encouraged by this progress and the greater transparency offered by TOK. Through regular company meetings and shareholder voting, Wellington will maintain pressure on the board to retain independence, diversify, and ensure that their decision-making is aligned with shareholder interests.

		<b>Year to 31 December 2021</b>
<b>Wellington Small Cap Equities</b>	Votable proposals	1,627
	% of resolutions voted	97%
	% of resolutions voted against management	2%
	% of resolutions abstained	0%

## 6. Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 31 December 2021. The Trustee expects the format and content of the implementation statement to evolve over time, in line with guidance and to reflect any future changes in the SIP.

The September 2020 SIP expanded the Trustee's policy in order to incorporate an updated Stewardship Policy as well as a more comprehensive policy on "Engagements with Asset Managers". 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 or 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.

**Signed:** *Bhavna Kumar*

**Signed:** *Darren Howarth*

**Date:** 22/07/2022

**On behalf of the Trustee of the Innovia British Pension Scheme  
For and on behalf of Align Pensions Limited**