Port of London Authority (Upper Division Staff) Widows', Widowers' and Orphans' Pension Fund Engagement Policy Implementation Statement

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 Committee produces an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the Committee (including the most significant votes cast by the Committee or on their behalf) during the Fund year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement has been prepared by the Committee and covers the period 1 April 2020 to 31 March 2021.

Materiality considerations

This statement does not disclose stewardship information on any investments in index linked gilts or cash due to the limited materiality of stewardship to those asset classes.

This statement also does not disclose information on the additional voluntary contribution (AVC) platform providers or funds on the grounds of materiality.

Annuity policies have not been included as the Committee recognises that they cannot directly influence the investment processes nor stewardship policies and practices of the policy provider.

Stewardship Policy Summary

The below bullet points summarise the Fund's Stewardship Policy in force over the majority of the reporting year.

- The Committee wishes to ensure that its influence as a share owner is used to safeguard and raise standards of corporate governance and social and environmental management within its investee companies and believes that this will ultimately protect the financial interests of the Fund and its beneficiaries.
- As part of their delegated responsibilities, the Committee expects the Fund's investment managers to: 1) Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and 2) exercise the Committee's voting rights in relation to the Fund's assets.
- The Committee expects the investment managers to provide details of their stewardship policies and activities and will engage where necessary for more information.

The full SIP can be found here: http://www.pla.co.uk/assets/wwopfsipseptember2020final.pdf

Fund Stewardship Activity Over the Year

Updating the Stewardship Policy

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

Ongoing Monitoring

The Committee expects the Fund's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including, but not limited to, climate change risks) in the selection, retention and realisation of investments. The Committee expects the managers to exercise their voting rights wherever possible and to promote positive change in the funds and companies in which they invest on the Fund's behalf.

The Committee receives regular investment updates from their investment consultant, including on matters relating to responsible investment. The Committees' ongoing monitoring takes different forms, including investment performance monitoring, ad-hoc market updates and annual investment risk disclosures.

Investment performance monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Committee by Aon. Aon's researchers 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 – Multi-Asset Fund

BlackRock

Voting

The Dynamic Diversified Growth Fund has an allocation to equities, and where voting is applicable, BlackRock use Institutional Shareholder Services' electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

Dynamic Diversified Growth Fund over year to 31 March 2021	
Number of resolutions eligible to vote on	11,707
% 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	5.9%
Of the resolutions on which the fund voted, % that were abstained from	0.9%

Voting Example

An example of a significant vote is where the manager voted against Chevron board's recommendations in May 2020. BlackRock voted in support of a shareholder proposal requesting that Chevron report on how the company's lobbying aligns with the goals of the Paris Agreement. The report was intended to address the risks presented by any misalignment of interests as a result of lobbying and to understand the company's plans, if any, to mitigate these risks.

The manager acknowledged that Chevron has been responsive to investors and transparent in their reporting which is aligned with the requirements of both the Task Force on Climate Related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board ("SASB"). They also consider Chevron to be a leader among its US peers with regard to board oversight of climate risk, strong corporate governance practices, and reporting in line with SASB and the TCFD. However, the manager felt that increased transparency around political spending and lobbying relating to climate risk and the low carbon transition would strengthen the company's disclosure. BlackRock also held the view that the company could provide investors with a more detailed explanation of the alignment between Chevron's political activities and the goal of the Paris Agreement (to limit global warming to no more than two degrees Celsius), which the company supports.

Engagements with the company leading up to the annual general meeting gave the manager the impression that Chevron was aligned with the spirit of the proposal, as it has articulated a desire to provide more clarity for investors on its internal climate considerations and associated political lobbying. The manager believes enhanced disclosure will help investors better understand the company's political activities in the context of policy that supports the transition to a lower carbon economy.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-chevron-may-2020.pdf

Engagement

The Blackrock Investment Stewardship ("BIS") Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
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. The manager also completed 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, which can be found here: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Engagement Activity – Fixed Income Funds

The Fund also invests in a corporate bond fund managed by PIMCO.

Whilst no voting rights are applicable to fixed income mandates, the Committee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore there is a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be limited, particularly in comparison to equity investments, downside risk mitigation and credit quality is a critical part of investment decision-making.

The following examples demonstrate some of the engagement activity being carried out on behalf of the Fund over the year.

Fixed Income Engagement Example (PIMCO):

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In Environmental, Social and Governance ('ESG') dedicated portfolios, PIMCO implement an additional ESG scoring system which considers how an issuer fairs against its peers regarding ESG momentum and chooses to invest in the issuers who score well in this ("ESG issuers").

PIMCO state that for non-ESG dedicated portfolios, like the PIMCO UK Long Term Corporate Bond Fund, which the Fund invests in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, the fund might benefit from the intensive engagement work pursued in the ESG dedicated portfolios, given that issuers may be held in both strategies.

An example of a firm level engagement was by PIMCO's engagement specialist and credit team, who met with the Chief Financial Officer and Treasurer of Aercap to learn more about the company's ESG performance, given the company did not publish a sustainability report. The company have now agreed to move towards sustainability reporting which the manager will monitor.

In Summary

Based on the activity over the year by the Committee and their service providers, the Committee are of the opinion that the stewardship policy has been implemented effectively in practice. The Committee note that the applicable investment managers were able to disclose evidence of voting and engagement activity.

The Committee 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 Fund and its members through considered voting and engagement.

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