

# British Regional Airlines Group Pension Scheme

## Annual Engagement Policy Implementation Statement

### Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') has been followed during the year to 31 March 2021. This statement has been produced in accordance with The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

### Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. As set out in the SIP, the Trustee's primary objectives are as follows:

- To secure member benefits through consideration of insurer solutions;
- To follow a low-risk strategy and to maintain the type of assets that would move approximately in line with annuity prices in order to enhance members' future benefits.

### Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in September 2020.

The Trustee's policy in relation to ESG factors, stewardship and climate change, as set out in the SIP, are as follows:

*The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Scheme's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.*

*The Trustee has given the appointed investment manager full discretion when evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Scheme's investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. The Trustee expects their manager to take these factors into account as appropriate to the mandate in the selection, retention and realisation of investments. This applies to debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental and social impact and corporate governance.*

*The Trustee periodically reviews the responsible investment policies of the appointed investment manager. The Trustee will, where it is deemed necessary, engage the manager in discussion on their policies. It will however be made clear to the manager that any decisions taken by the manager should be in the best long term financial interest of the Scheme and its members.*

*The Trustee has not set any ESG related investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.*

*The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring the existing investment manager.*

*Member views are not taken into account in the selection, retention and realisation of investments. However, members are able to express their views via a response to the annual Trustee newsletter and the Trustee may consider these views in future.*

The following work was undertaken during the 12 months to 31 March 2021 relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

## **Engagement**

- The Trustee requested that the Scheme's investment manager confirms compliance with the principles of the UK Stewardship Code. LGIM have confirmed that they are signatories to the current UK Stewardship Code.
- The Scheme's investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and ESG-specific) from the investment consultant. The investment performance report also includes how the investment manager is delivering against their specific mandates.
- The Trustee also requested details of relevant engagement activity for the year from LGIM. LGIM engaged with companies over the year on a wide range of different issues, including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). These engagement initiatives were driven mainly through regular engagement meetings with the companies, or by voting on key resolutions at companies' Annual General Meetings. Examples are set out below.

Due to the debt characteristics of the underlying securities, there are no voting rights associated with the Scheme's investments.

LGIM carried out a significant number of engagements during the year, with LGIM's Investment Stewardship team holding 295 meetings or calls and 596 written engagements during 2020.

## **Examples of key engagement activity**

One example of LGIM's engagement relates to Experian, who were one of the issuers within the Scheme's Buy & Maintain Credit portfolio as at the Scheme year-end. LGIM believe pressing companies to focus on social inclusion can create long-term value. At consumer credit agency Experian, LGIM's investments team met the company's sustainability team to discuss this issue, as well as innovation, investment and its wider contribution towards eco-social good. Subsequent to LGIM's feedback, the company integrated specific priorities and a focus on social impact within its inaugural ESG strategy document. This included positive data in Brazil, highlighting how financial inclusion aligns with the UN's Social Development Goals. During a subsequent engagement, LGIM discussed how their expectations are likely to evolve in 2021.

Another example relates to oil and gas company BP. Oil companies have begun to adopt net zero emissions targets, relating not just to their operations, but also the use of their products (by far the largest source of emissions for the industry). BP plans to curb oil and gas production significantly, broadly in line with global climate targets. "We listened and we learned," said Bernard Looney, BP CEO, reflecting on shareholder engagement co-led by LGIM as part of the Climate Action 100+ investor coalition. But progress has not been uniform: having previously divested ExxonMobil from some of their funds due to concerns over governance and climate targets, in 2020 LGIM announced they would be voting against the company's chair-CEO, as well as several other directors. By contrast, Occidental Petroleum, another company formerly on the sanction list, in 2020 became the first US oil major to announce broad net zero targets.

LGIM engaged Korean companies KEPCO and Samsung C&T on their financing of coal power abroad. Both companies have since decided to cancel some, though unfortunately not all, of their existing coal pipeline. LGIM has sanctioned these companies through voting against at the 2020 and 2021 AGMs.

LGIM have also supported shareholder proposals at mining company Whitehaven Coal, calling for a report on the gradual wind-down of its coal production in line with global climate goals.

LGIM engaged consumer goods giant Procter & Gamble, supporting a shareholder proposal to eliminate deforestation from its supply chain, encouraging the company to increase the percentage of sustainably certified pulp.