

# The Taylor Wimpey Pension Scheme Engagement Policy Implementation Statement

## Introduction

Under new regulatory requirements now in force, the Trustee of the Taylor Wimpey Pension Scheme (the "**Scheme**") is required to produce an annual Implementation Statement setting out how the voting and engagement policies in the Scheme's Statement of Investment Principles (the "**SIP**") have been implemented. This is the first such statement produced and covers the period 1 January 2020 to 31 December 2020.

The Trustee's primary concern when setting the investment strategy is to act in the best interests of the Scheme's beneficiaries. The Trustee recognises that the Scheme is a long-term investor and therefore seeks to achieve sustainable returns at an appropriate level of risk over its lifetime.

The Trustee has set out its beliefs and commitments regarding responsible investment in its 'Responsible Investment Policy' which can be found in section 8 of the Scheme's SIP. This Statement contains a summary of Scheme activity over the year, including updates made to the SIP and an overview of how the Trustee's policy on voting and engagement has been implemented during the reporting period.

As this is the first Implementation Statement to be produced by the Trustee, it is expected to evolve over time.

## Scheme activity over the year

In July 2020, the Trustee reviewed and updated the Scheme SIP to comply with new regulations, specifically the incorporation of the Shareholder Rights II Directive into UK law. In particular, the updated SIP sets out the Trustee's policy in relation to Environmental, Social and Governance ("**ESG**") matters as well as its approach to stewardship and engagement as follows:

- **ESG risks:** the Trustee believes that these are financially material risks and should be considered as part of the investment strategy and implementation decisions. The Trustee believes that the most important methods of managing these risks are integration and engagement as defined in the SIP. However, the relevance and impact of integration and engagement will vary between different asset classes.
- **Stewardship and Engagement:** direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers. This includes monitoring and engaging with issuers of debt or equity on financially material issues concerning strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental impact, social considerations and corporate governance. Where relevant, the Trustee expects its managers to use voting rights to effect the best possible sustainable long-term outcomes.

During the reporting period the Scheme's Investment Sub-Committee ("**ISC**") met with a number of its managers to discuss, amongst other things, performance and strategy. As part of these sessions, the investment managers were asked to provide information about their ESG practices and questioned on the extent to which ESG factors are integrated into their investment decisions. They were also asked to provide information on their approach to stewardship and engagement.

In November 2020, the ISC undertook training on climate risk modelling to strengthen their understanding of how climate risk may impact on the Scheme's portfolio. The Scheme's investment adviser has now incorporated specific climate risk metrics into the Scheme's Pension Risk Management Framework and provides quarterly reporting to the Trustee on this. Further work is planned during 2021 in this area.

The Trustee reviews quarterly manager monitoring reports in relation to the Scheme's investment managers. Amongst other analysis, the report highlights an ESG rating for the investment manager and the specific fund (where available). The Trustee is pleased to note that all of the Scheme's investment managers have signed up to one or more ESG-related standard/code with all but two managers being signatories to the UN Principles for Responsible Investment<sup>1</sup>. A more detailed breakdown of the managers' ESG memberships can be found in Appendix 1.

## Engagement and voting behaviour

Direct engagement with underlying companies in which the Trustee owns shares and/or debt is carried out by the Scheme's investment managers. The Trustee's ability to influence investment managers' stewardship activities will depend on the nature of the investments held. As the majority of the Scheme's assets are invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights – the Trustee has limited scope to directly influence managers' stewardship activities.

The Trustee's policy is to delegate responsibility for engagement to its investment managers, which includes the exercising of rights (including voting rights) attaching to investments made by the investment managers. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The Trustee encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance.

When selecting a new investment manager, engagement is factored into the Trustee's decision-making process to the appropriate level for the specific asset class in question. The only new manager appointed during the year was Magnetar (TCW were also appointed but no investments were made, and the fund was liquidated).

Engagement and voting behaviour are most likely to be financially material in the sections of the portfolio where physical equities are held (Bridgewater Optimal, AQR Diversified Risk Premia, Blackstone and to a lesser extent, Beach Point SCF X and Magnetar Constellation). However, engagement is also considered to be of importance for the Scheme's other investment managers. The remainder of this Statement provides a summary of activity during the reporting period:

### Engagement - Equity

The Scheme invests in the following funds that invest in equities:

Manager	Fund
AQR	AQR Diversified Risk Premia Fund
Bridgewater	Bridgewater Optimal Portfolio Fund II
Blackstone	Blackstone Partners Offshore Fund
Beach Point	Beach Point SCF X Fund
Magnetar	Magnetar Constellation Fund

<sup>1</sup> The UN Principles of Responsible Investment are a voluntary UN supported international network of investors working together to implement its six aspirational principles. See <https://www.unpri.org/>.

### AQR

AQR's engagement is undertaken at a firm level and is not yet explicitly incorporated into their investment strategies. However, the Trustee has noted that AQR is a signatory of the UN PRI and the fund itself has an MSCI ESG rating of 6.5 out of 10.

AQR's ESG Stewardship Committee is responsible for monitoring and tracking AQR's engagement activities, ultimately reporting on these to AQR's ESG Steering Committee. AQR's engagement is focused on transparency: they believe that greater transparency is a positive outcome for all market participants and will lead to better alignment between companies and their investor base and more accurate pricing of ESG risks and opportunities.

### Bridgewater

Bridgewater as a firm do not directly engage with individual companies. Although it is a signatory of the UN PRI, the fund itself does not yet have an ESG rating. The Trustee has not been provided with any engagement examples during the reporting period which the Trustee will seek to discuss with the manager further.

### Blackstone

The Blackstone fund is a fund of hedge funds whereby all investment decisions are outsourced to third-party hedge fund managers. Blackstone seek to engage underlying managers to make sure they are aware of the value of ESG integration in their portfolios. As at 31 December 2020, Blackstone had conducted over 125 conversations with managers to educate them on ESG integration and to encourage them to adopt an authentic ESG policy. Blackstone tracks the effectiveness of these engagement efforts through managers' adoptions of ESG policies and enhancements of ESG programs, with monthly reports provided to Blackstone's senior management.

### Beach Point

Beach Point believe that engagement, where practicable, allows them to better evaluate how a company is likely to address current and future risks. Beach Point believe that when done successfully, engagement can potentially help mitigate credit risk and unlock future value.

Beach Point has provided the Trustee with some examples of how they have engaged directly with companies in which they invest. Two examples are as follows:

- ***BWAY Mauser Packaging:*** Beach Point engaged with BWAY on their usage of single-use plastic. BWAY have now shifted to using reusable Intermediate Bulk Containers which not only mitigated the regulatory risks associated with single-use plastic (including the plastic bans in Europe) but also opened up an important growth area for the firm while increasing their operational efficiency as reusing containers is both cost and time-efficient; and
- ***Frontier Communications:*** Beach Point engaged Frontier on the potential of physical climate risks impacting their operations, while

leveraging their ability to influence, to some extent, the governance of the Company as a co-lead of the ad hoc creditor committee. In terms of physical climate risks, Frontier has exposure to California and Florida, where wildfire and hurricane risks, respective, are elevated. Beach Point identified that increased fiberisation of cables would help mitigate this risk. As a co-lead of the creditor committee, Beach Point has also taken an active role in Frontier's restructuring process. As a result, Frontier has begun its operational turnaround plan consisting of (1) replacing the board of directors / management (2) optimising its work force and (3) preparing for capital deployment to further fiberise its legacy copper network.

**Magnetar**

Where Magnetar own publicly traded securities, they will occasionally engage with management by providing strategic advice on financially material matters to drive better outcomes. In relation to new investments, Magnetar's New Business and Ethics Committee screens investments that meet the Committee's criteria for review, including ESG-related risks. The Committee's screening is conducted internally, and any issues raised are relayed to the investment team for additional diligence and, if need be, interaction with the target company. Two examples of such engagement are:

- **Company A:** This company is an Italian consumer goods company in which Magnetar's funds have invested in both the debt and the equity, and in which persons appointed by Magnetar on behalf of those funds sit on the Board of Directors. The company is focused on sustainability – it is working towards eliminating single use plastic from its consumer products and replacing it with fully recycled paper as well as using organic-certified cotton. It is also introducing solar panels in both of its industrial sites. In their role as board members, the Magnetar appointees reviewed and approved recommendations to hire a new general manager and CFO as well as approving the introduction of a Code of Ethics, which includes, amongst other things, fostering a culture of trust and a responsibility for creating greater sustainability; and
- **Company B:** this company is a property owner. Following an asset diligence audit, Magnetar recommended that the company enhance their group level accounting by adopting GAAP accounting standards and audited financials.

**Engagement – other asset classes**

The Trustee also invests in a number of other asset classes including fixed income strategies, real estate debt and other illiquid opportunities as follows:

Manager	Fund
Insight	Insight Bonds Plus 400 Fund
Insight	Insight High Grade ABS Fund
Schroders	Schroders Equity Sentinel Fund
Schroders	Schroders Sterling Long Duration Corporate Bond Portfolio

CQS	CQS Credit Multi Asset Fund
Ares	Ares Capital Europe II Fund
HPS	HPS Private Loan Opportunities Fund
KKR	KKR Private Credit Opportunities Fund
M&G	M&G Real Estate Debt Funds

All managers have shared information with the Trustee and the investment adviser on their engagement policies and work undertaken to generate improved long-term outcomes in the companies in which they invest. The Trustee acknowledges that the ability of fixed income and alternative asset class managers to engage and influence is likely to be limited in comparison to direct equity holdings. However, the Trustee is of the view that all managers should have a regard to ESG matters and that this should form some part of their investment process.

Set out below are a few examples provided by the Scheme's fixed income managers where they have been able to engage to produce a positive impact:

**Insight**

The Scheme invests in the Insight Bonds Plus 400 Fund and the Insight High Grade ABS Fund. Insight consider that engaging with issuers is a key part of their credit analysis and monitoring and that this complements their approach to responsible investment. As a matter of policy, all of Insights' credit analysts regularly meet with issuers to discuss ESG related and non-ESG related issues. Out of over 1,000 engagements in 2019, more than 81% included references to ESG issues.

In terms of active engagement, Insight provided the following examples:

- One example provided was in relation to Pacific Gas & Electric where management had an insufficient focus on the ongoing business risks arising from climate change and natural disaster risk. Following several wildfires in California, engagement from management was poor. Having emerged from Chapter 11 bankruptcy, Insight have engaged with the new management on environmental controls, climate change risk and governance issues; and
- Insight also provided an example of engaging in relation to an asset backed security investment. In this case, the originator had strong governance and social scores, but they were disappointing with regards to providing information on environmental risks. Insight engaged with them to provide information on environmental metrics and stress tests and to incorporate climate change factors into their origination process.

**Schroders**

Schroders integrate their sustainability research across all asset classes and geographies and use those insights to inform their decision making in other areas, including fixed income and real estate. Schroders have an A+ rating for

their approach to the UN PRI and the Schroders Sterling Long Duration Corporate Bond Fund has an MSCI ESG rating of 7.

Schroders provided two examples of recent engagement in relation to two banks where they have challenged the boards in relation to their net zero targets, their funding of social programs and their commitment to board diversity. In both examples, specific actions were identified for future monitoring and discussion.

### CQS

Engagement forms part of CQS' 5-stage ESG process. CQS have an engagement strategy and framework, and co-ordinate across investment teams to focus on targeted engagement objectives. CQS have an A rating for their approach to the UN PRI and the CQS Credit Multi Asset Fund has an MSCI ESG rating of 5.7.

Two examples of recent engagement were provided by CQS as follows:

- **First Quantum:** CQS identified that the company's main source of power at one of its operations was a coal fired power plant. CQS also identified that no targets were set in relation to environmental measures to help the company reduce its emission levels. As a result, CQS requested that First Quantum set TCFD-aligned emissions targets for future monitoring. The outcome was positive, with the company publishing a climate change position statement in conjunction with its Q4 2020 earnings with a commitment to setting appropriate targets on absolute emissions on an annual basis; and
- **EG Group:** CQS engaged with the EG group in trying to reduce the number of internal combustion engine (ICE) vehicles on the road. The engagement objective was to understand the company's plan to implement electric charging across its estate of 6,000 fuel forecourts to contribute to a reduction in CO2 emissions. As a result, there has been a structural change within the company to focus on Electric Vehicle (EV) transformation among other goals. The company currently operates the largest network of EV charging sites across Europe.

Based on the information received from the investment managers, the Trustee is satisfied that all of its managers are taking steps to engage, within the parameters of their specific asset class/investment process.

### Voting on behalf of the Scheme

### AQR

Where AQR retains proxy voting authority on behalf of its client, it will seek to vote proxies in the best interest of its clients and in accordance with its Proxy Voting Policy and Procedures. In particular, AQR's Proxy Voting Committee, as a sub-committee of the AQR Stewardship Committee, is responsible for the implementation of the Policy, including the oversight and use of third-party proxy advisers, the manner in which AQR votes its proxies, and fulfilling AQR's obligation voting proxies in the best interest of its clients. AQR has retained an independent third-party proxy advisory firm (ISS) for a variety of services

including receiving proxy ballots, working with custodian banks, providing proxy voting research and recommendations, and executing votes. AQR may also engage other Proxy Advisory firms as appropriate for proxy voting research and other services.

AQR's voting statistics for the reporting period are included in Appendix 2. However, the Trustee has noted that historically AQR has not differentiated between significant and non-significant votes. The Trustee is encouraged to see that AQR are going through a process to decide what metrics to use to report on these items going forward. Furthermore, AQR have noted that in all but 0.1% of cases they have voted per the advice of their proxy advisor, ISS.

#### **Bridgewater**

Bridgewater engages Glass, Lewis & Co. to vote proxies on behalf of its clients. Bridgewater generally subscribes to the proxy voting policy adopted by Glass Lewis but reserves the right to direct Glass Lewis to vote in a manner that is contrary to such policy where appropriate. From time to time, Bridgewater may determine that it is in the Client's best interest to refrain from voting a proxy. For example, Bridgewater may decline to vote if the expected costs associated with voting exceed the expected benefit or where voting would prevent Bridgewater from selling the security for a specified period of time. Bridgewater noted that they generally subscribe to the proxy voting policy adopted by Glass Lewis, which makes recommendations in favour of governance structures that manage risk, drive performance and create shareholder value.

Bridgewater's voting statistics for the reporting period are included in Appendix 2. However, the Trustee notes that Bridgewater has not been able to provide details around significant votes and that it has adopted a policy of not identifying "significant votes" on the basis that the outcome of any particular voting matter is inconsequential in the context of the overall portfolios. The Trustee's investment adviser has confirmed that this is in line with expectations as this is a macro-oriented fund which trades indices and baskets of stocks, rather than individual names, meaning that individual votes will be less significant in the context of the overall portfolio. The Trustee's investment adviser, upon request of the Trustee, has also confirmed that they will be seeking to discuss a number of different ESG integration / sustainability issues with the manager and specifically addressing this challenge on significant votes.

#### **Beach Point**

Beach Point utilise ProxyEdge by Broadridge Financial Services as their proxy management platform to assist in recordkeeping, reporting, voting and processing, but do not subscribe to their advisory services. Instead, voting decisions are made by Beach Point's Investment Team on a case by case basis in the best interest of their clients. In the event that Beach Point fails to process instructions by the voting deadline, Beach Point has set up a default auto-voting instruction whereby the Glass Lewis recommendation is voted (when available).

Beach Point's voting statistics for the reporting period are included in Appendix 2. The Trustee has noted that Beach Point's trading in public equities for the Scheme investment is minimal. As a result, the Fund tends to own a small amount of voting shares (typically from conversion events on bonds or restructuring events), and thus have fewer opportunities to cast "significant" votes. No "significant votes" were cast during 2020. Beach Point noted that the majority of the votes cast against management were in stressed/distressed situations in which Beach Point was advocating for their rights as creditors. In relation to abstentions, Beach Point abstained from 7% of eligible votes as they did not have a preference in each of the situations.

#### **Magnetar**

Magnetar's voting is carried out via their proxy voting advisor, ISS. Magnetar's views is that proxy voting ensures each vote is considered and recorded using a policy with which Magnetar are comfortable.

Magnetar's voting statistics for the reporting period are included in Appendix 2. The Trustee has noted that Magnetar voted against the recommendation of the proxy adviser in 37.9% of votes during the reporting period. Magnetar explained that in the instances where they voted against the recommendation of ISS, it was their opinion that ISS were making a non-economic recommendation and in accordance with Magnetar's Proxy Voting Policy, they determined that voting contrary to the recommendation would drive better financial outcomes for the Fund investors and therefore duly took such action. No "significant votes" were cast during 2020.

### **Summary**

The Trustee is comfortable that its investment managers are exercising their voting and engagement policies to a satisfactory level at this stage and that the Trustee's stewardship policy, as set out in the SIP, is being appropriately implemented on its behalf.

In the process of preparing this Statement, the Trustee has noted that the information requested was not always available or required further clarification. The Trustee expects that as the regulations in this area continue to develop, disclosures are likely to improve over time.

The Trustee recognises that as a large institutional investor it has a part to play in the good governance and stewardship of the assets in which it invests. Going forward it will continue to monitor and assess its investment managers on a regular basis to ensure that its stewardship policy continues to be implemented.

## Appendix 1

### Investment Managers: ESG focused standards, codes and/or industry memberships



#### Glossary:

1. **CA100+** – Climate Action 100+ is a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies to drive the clean energy transition and achieve the goals of the Paris Agreement.
2. **Ceres** – A sustainability non-profit organisation working with the most influential investors and companies to build leadership and drive solutions throughout the economy.
3. **GRESB** – Established by a group of large pension funds who wanted to have access to comparable and reliable data on the ESG performance of their investments, GRESB has become the leading ESG benchmark for real estate and infrastructure investments across the world.
4. **IIGCC** – The Institutional Investors Group on Climate Change is a leading global investor membership body and the largest one focusing specifically on climate change.
5. **(UN) PRI** – The Principles of Responsible Investment is a United Nations supported international network of investors working together to implement its six aspirational principles.
6. **SASB** – The Sustainability Accounting Standards Board is a non-profit organisation founded to develop sustainability accounting standards.

7. **UKSIF** – The UK Sustainable Investment and Finance Association is a membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.
8. **UK Stewardship Code** – The stewardship code is part of UK company law concerning principles that institutional investors are expected to follow. Its principal aim is to make institutional investors be active and engage in corporate governance in the interests of their beneficiaries.
9. **UNEP FI** – The United Nations Environment Programme Finance Initiative is a global partnership established between the United Nations Environment Program (UNEP) and the financial sector.
10. **UN Global Compact** – A non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.
11. **SBAI** – The Standards Board for Alternative Investments, formerly known as the Hedge Fund Standards Board, is an international, not for profit, standard-setting body for the alternative investment industry and sets the voluntary standard of best practices and practices endorsed by its members.

## Appendix 2

### Voting Statistics

Below is the voting activity over the period for the Scheme's asset managers which held listed equities over the period.

#### AQR

Key Voting Statistics (Jan 2020 – Dec 2020)	Number
Number of holdings at period end	2,151
Total Fund AUM at period end	£1,111m
Value of Trustee's Assets	£158m
Number of meetings eligible to vote during the period	538
Number of resolutions eligible to vote during the period	6,349
% of resolutions voted	94.2%
% of resolutions voted with management	93.4%
% of resolutions voted against management	6.6%
% of resolutions abstained	0.0%
% of meetings with at least one vote against management	28.1%
% of resolutions where manager voted contrary to recommendation of proxy adviser*	0.1%*
Any use of proxy voting services during the period	AQR utilises ISS' Sustainable proxy voting policy for all of their commingled funds and for their default vote-handling program. They also leverage internal research on proxy issues related to significant corporate actions and in making individual voting decisions.

\* In early 2020, AQR transitioned their commingled funds away from utilising ISS' Standard proxy voting policy to a Sustainable proxy voting policy. The % figure noted here represents deviations away from that Sustainable policy, as opposed to the standard policy.

#### Bridgewater

Key Voting Statistics (Jan 2020 – Dec 2020)	Number
Number of holdings at period end	2,033
Total Fund AUM at period end	£3,835m
Value of Trustee's Assets	£199m
Number of meetings eligible to vote during the period	2,308
Number of resolutions eligible to vote during the period	21,131
% of resolutions voted	99.6%
% of resolutions voted with management	85.0%
% of resolutions voted against management	13.9%
% of resolutions abstained	1.8%
% of meetings with at least one vote against management	46.0%
% of resolutions where manager voted contrary to recommendation of proxy adviser?	0.0%
Any use of proxy voting services during the period?	Bridgewater has engaged Glass, Lewis & Co. ("Glass Lewis") to vote proxies on behalf of their clients.

**Beach Point**

Key Voting Statistics (Jan 2020 – Dec 2020)	Number
Number of holdings at period end	349
Total Fund AUM at period end	£336.8m
Value of Trustee's Assets	£131.5m
Number of meetings eligible to vote during the period	22
Number of resolutions eligible to vote during the period	53
% of resolutions voted	100%
% of resolutions voted with management	79.3%
% of resolutions voted against management	20.8%
% of resolutions abstained	7.6%
% of meetings with at least one vote against management	40.9%
% of resolutions where manager voted contrary to recommendation of proxy adviser?	0.0%
Any use of proxy voting services during the period?	Broadridge ProxyEdge; Glass Lewis Investment Manager Proxy Adviser

**Magnetar**

Key Voting Statistics (Jan 2020 – Dec 2020)	Number
Number of holdings at period end	277
Total Fund AUM at period end	£2,232m
Value of Trustee's Assets	£35m
Number of meetings eligible to vote during the period	71
Number of resolutions eligible to vote during the period	1,040
% of resolutions voted	97.7%
% of resolutions voted with management	91.3%
% of resolutions voted against management	8.7%
% of resolutions abstained	0.0%
% of meetings with at least one vote against management	28.6%
% of resolutions where manager voted contrary to recommendation of proxy adviser?	37.9%
Any use of proxy voting services during the period?	Magnetar has engaged ISS to vote proxies on behalf of their clients.