Engagement Policy Implementation Statement

The Estuary Services Limited Pension 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.

Materiality considerations

This statement does not disclose stewardship information on any investments in gilts, liability driven investments ("LDI") 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.

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. The Trustees note that most of their investment managers were able to disclose adequate evidence of voting and/or 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. The Trustees expect improvements from LGIM and PIMCO on their reporting of fund level engagement examples. The Trustees’ investment advisor, Aon, will engage with the managers to encourage improvements in their disclosures.

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: http://www.pla.co.uk/assets/estuarysipseptember2020final.pdf

The Trustees are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustees will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustees will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on a regular basis.
- The Trustees will request all of the Scheme's investment managers to provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on a regular basis. Should the Scheme look to appoint a new manager, the Trustees will request this information as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.

Scheme stewardship activity over the year

Ongoing Monitoring

The Trustees expect the Scheme'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 Trustees expect 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 Scheme's behalf.

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

At the May 2021 meeting, available Carbon metric data for the Scheme's investments was discussed; it was determined the Scheme would request and analyse the data on an annual basis going forward, with Aon liaising with managers on the Trustees behalf where necessary. Similarly, at the September 2021 meeting, the Cost and Transparency data collated for the Scheme by ClearGlass was analysed and discussed. The Trustees have agreed to an annual session at meetings to discuss the output of the ClearGlass exercise and negotiate with managers (where appropriate) on fee arrangements.

Training

At the May 2021 meeting, the Trustees received training on regulatory changes that required Trustees of UK Pension Schemes to produce an Engagement Policy Implementation Statement ("EPIS") and publish it online annually. A part of the session also focused on climate change; the investment advisor explained the impact of climate change risk, including the physical and transition risks, as well as opportunities that may arise for pension schemes to transition to a green/ low-carbon economy.

Voting and Engagement activity – Equity and multi-asset

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

Legal and General Investment Management	All World Equity Index Fund
Newton Investment Management Limited	Newton IM Real Return Fund

Both equity managers use the services of a proxy voting adviser for various services that may include research, vote recommendations, administration and vote execution.

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 investment manager has its 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 against 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 inappropriate rationale; and
- 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 and General Investment Management ("LGIM") – All World Equity Index Fund

Voting policy

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from 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 year 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%

Source: Manager

Voting example: Johnson & Johnson

In April 2021, LGIM voted against the proposal to elect the Chief Executive Officer ("CEO") to be a Director on the Board for Johnson & Johnson, a pharmaceutical company. It is LGIM's policy to advocate for the separation of CEO and board chair roles, therefore warranting a vote against management. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences.

The resolution passed with 93.4% of shareholders in favour of the resolution. LGIM considers this vote to be significant because it demonstrated how it applied its voting policy on the topic of combined board chair and CEO role. LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Engagement policy

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.

At the time of writing, LGIM had not provided fund level engagement examples. The Trustees' investment adviser, Aon, has raised this issue with LGIM and has been assured that LGIM aims to report on fund-level engagement examples later in 2022. The example provided below is at a firm level i.e. it is not necessarily specific to the fund the Scheme is invested in.

Engagement example (firm level): Antimicrobial resistance

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.

Newton Investment Management Limited ("Newton") – Real Return Fund

Voting policy

Newton uses a range of research providers that helps it with the vote decision-making process. This includes proxy advisors such as ISS for administering proxy voting, as well as its research reports on individual company meetings. Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company's individual circumstances, its investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Newton views all votes against management as material issues, including where it supports shareholder resolutions that the company's management recommend voting against. Voting against management is therefore a strong statement where Newton wishes to highlight areas for improvement. In such cases, Newton often engages with the company to provide an opportunity for concerns to be allayed. Voting intentions are communicated ahead of the meeting direct to the company and not to third parties. Newton rarely registers abstentions, given its belief that these give a confusing message to management or may be interpreted incorrectly.

The table below shows the voting statistics for Newton's Real Return Fund for the year to 31 March 2022.

Number of resolutions eligible to vote on over the period	1,476
% of resolutions voted on for which the fund was eligible	99.2%
Of the resolutions on which the fund voted, % that were voted against management	16.1%
Of the resolutions on which the fund voted, % that were abstained from	0.0%

Source: Manager

Voting example: Linde

In July 2021, Newton voted against multiple resolutions to elect directors, ratify auditors and approve the remuneration policy and report for Linde plc. Newton voted against the proposed pay arrangements and members of the compensation committee. A majority of the long-term awards are not subject to the achievement of performance hurdles and vest only based on time served. In addition, Newton held concerns surrounding the benefits granted to the CEO, which included personal aircraft use and financial planning, while pension calculations include additional years of service beyond the CEO's actual tenure. Votes were also instructed against the remuneration policy, which provided the compensation committee with the discretion to make payments outside the policy framework.

Finally, Newton did not ratify the external audit firm, which had served for 29 consecutive years as they felt that the auditor's long tenure compromised its objectivity and independence.

Despite Newton voting against these resolutions, the result was that the votes were passed. Newton believes better alignment of executive pay with performance is a fundamental imperative that investors should encourage and it will continue to do this via its stewardship activities. Newton also notes that the level of dissent has reduced versus prior years; and suspect this is reflective of improvements to the company's compensation structure.

Engagement policy

Newton's engagement with company management covers performance and, where relevant, a discussion of ESG issues that present material risks and opportunities. Newton believes that fundamental research and regular meetings with company representatives are crucial to long-term success and value creation. In-house expertise is provided by Newton's global research team which consists of global sector analysts, the responsible investment team, and regional specialists.

When engaging with a conflicted company, Newton will declare the conflict to the company at the outset but continue normal engagement activity.

Engagement example: Elanco Animal Health

Over the reporting period Newton engaged with Elanco Animal Health Inc. relating to its Climate change theme. In order to assist Newton's proprietary ESG research on the company ahead of investing, it arranged a call with the company to better understand its approach towards two structural challenges that exist in the animal health industry – i) greenhouse-gas (GHG) emissions from livestock and ii) the increasing prevalence of anti-microbial resistance. This was its first ESG-led engagement meeting with the company, which was represented by its investor relations team.

The engagement undertaken, along with additional research conducted as part of Newton's ESG Quality Review of the company meant that the RI team deemed the company to be suitable for investment by its sustainable funds. Newton appreciates and expect engagement to continue as the company enacts its strategic objectives.

Engagement activity – Fixed income

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so debt issuers have a vested interest to make sure that investors are happy with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process.

Over the year, the material fixed income investments held by the Scheme were:

LGIM	Active Corporate Bond Over 10 Yr
Pacific Investment Management Company	PIMCO Diversified Income Fund

LGIM's engagement policy and example has been noted earlier in this document.

Pacific Investment Management Company ("PIMCO") – PIMCO Diversified Income Fund

Engagement policy

PIMCO sees engagement as an essential tool for delivering impact for investors, markets and society. It believes that engagement includes both partnering with issuers that already demonstrate strong sustainability commitments and those with less advanced sustainability practices. PIMCO believes that this can be a way for it to influence positive change that may benefit investors, employees, society and the environment.

PIMCO's credit research analysts engage regularly with issuers, discussing topics with company management teams related to corporate strategy, leverage and balance sheet management, as well as sustainability-related topics such as climate change targets and environmental plans, human capital management and board qualifications and composition.

PIMCO states that for non-ESG dedicated portfolios, like the PIMCO fund the Scheme is invested in, there is no explicit objective to actively engage with ESG issuers on sustainability practices. However, it may benefit from the intensive engagement work pursued in the ESG dedicated portfolios, to the extent that issuers are held in both strategies

At the time of writing, PIMCO had not provided fund level engagement examples. The Trustees' investment adviser, Aon, continues to raise this issue with PIMCO at their meetings. The example provided below is at a firm level i.e. it is not necessarily specific to the fund the Scheme is invested in.

Engagement example (firm level): West African Development Bank

In 2021, PIMCO engaged with the West African Development Bank regarding an emerging market impact-oriented sustainability bond. The bank gives itself a target of investing 25% of its total financing budget into projects that have environmental benefits. The engagement resulted in a sustainability bond being issued by the West African Development Bank primarily aimed towards refinancing social projects that increase access to basic services in West Africa.

Since the issue of the sustainability bond, PIMCO has continued to engage with the issuer on the projects that the bond is financing. From this engagement, PIMCO noted that the new issuance will be used to fund new green and social projects. In particular, the West African Development Bank committed to increase its green investments in line with the targets set in its environmental and climate strategic plan. These include the construction of a solar power plant and a smart hydro-agricultural development.