

Canada Life UK Division Staff Pension Fund Engagement Policy Implementation Statement

Introduction

This document sets out the actions undertaken by the Trustee, its service providers and investment manager, to implement the stewardship policy set out in the Statement of Investment Principles (“SIP”). The document includes voting and engagement information that has been gathered from the investment manager and an overview of how the policies within the SIP have been implemented during the reporting period.

This Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustee and covers the reporting year 1 January 2020 to 31 December 2020.

Changes to the SIP over the year to 31 December 2020

The Statement of Investment Principles (SIP) was reviewed and revised over the course of 2020 to take into account a revision of the investment strategy in March 2020 and again in September to take further changes into account required by Regulations. A revised SIP was adopted in September 2020; the changes adopted included:

- Inclusion of the Trustee’s policy on its arrangements with its investment manager, including monitoring the investment manager’s strategies and decisions, ensuring alignment to the Trustee policies.
- Inclusion of the Trustee’s policy on costs and performance, covering the evaluation of the appointed investment manager performance and their remuneration.
- Amendment of the Trustee’s Stewardship policy

The Fund’s stewardship policy

The relevant extract of the SIP (as at 31 December 2020) covering the Fund’s voting and engagement policy is as follows:

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Fund and its beneficiaries.

The Trustee expects the Fund’s Investment Manager to use their influence as major institutional investors to carry out the Trustee’s rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustee regularly reviews the suitability of the Fund’s appointed asset managers and take advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee aims to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of its policies to those of the Fund’s asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee’s rights and duties as a responsible shareholder and asset owner. The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee expects the Fund's appointed asset managers to comply with the United Nations Global Compact, UK Stewardship Code and TCFD Recommendations.

The transparency for voting should include voting actions and rationale with relevance to the Fund, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

Where a significant concern is identified, the Trustee will consider the circumstances on a case by case basis and a range of methods by which it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Throughout this Statement, the Trustee reviews how the actions of the Fund's investment manager have aligned with the expectations and principles set out in the SIP.

Fund activity over the year in relation to the stewardship policy

Training

In September 2019 and July 2020 the Trustee had responsible investment training sessions with their investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

Viewpoints survey and new regulations

In July 2020, the Trustee completed the Viewpoints Survey and reviewed the responses on their responsible investment beliefs.

In line with regulatory requirements to expand the SIP for a number of policies such as costs transparency and incentivising the manager, the Trustee also reviewed and expanded the stewardship policy in September 2020 to be more explicit on expectations and recourse where necessary.

Ongoing monitoring

The Trustee receives, on a semi-annual basis, monitoring reports from its Investment Manager outlining the valuation of all investments held, the performance of these investments and any transactions made during the quarter. Investment returns are compared against appropriate performance objectives to monitor the relative performance of these investments. The Trustee monitors and challenges where necessary.

CLAM's quarterly voting record is available on line as is their stewardship and engagement policy. CLAM provide verbal updates when attending Trustee meetings. For example: Over the year CLAM was a signatory to the 2012 Stewardship code and the Trustee received updates from the manager as to progress on becoming a signatory to the 2020 UK stewardship code and the United Nations Principles for Responsible Investment (UNPRI). In addition, CLAM also became a signatory to the carbon disclosure project.

Manager Voting and Engagement Approach

The Fund's assets are held in a policy issued by Canada Life Limited ("CLL") and managed by Canada Life Asset Management ("CLAM"). CLAM has named portfolio managers across a range of asset classes to invest the assets of the Fund in line with the strategic asset allocation.

CLAM manage Environmental Social and Governance ("ESG") risks in three ways: integrating ESG research into investment decisions, voting and engagement.

Integration

CLAM use research services to ensure that ESG risks are properly assessed and monitored. Examples include a company's contribution to climate change, the impacts of a company's activities on natural resources and the production and disposal of hazardous waste. The social risks that may be considered include poor working and safety conditions, bribery and corruption, denial of labour rights, controversial sourcing in the supply chain and product liability issues.

Voting

CLAM view voting as an important way in which they can join other investors in holding company management to account. They regularly vote against management on governance issues such as excessive or poorly structured remuneration, lack of board independence or the absence of separation between the roles of chair and chief executive. CLAM will also often join other investors in voting for shareholder resolutions which focus on social and environmental issues such as workers' rights or the environmental impact of their activities. CLAM updated its Engagement Policy over 2020 as a result of the integration of tools and insights delivered by external third-party providers, including Sustainalytics, ISS Climate Change Solutions and ISS Pooled Engagement and to include enhancements to incorporate voting principles. The ISS Pooled Engagement service allows the manager to participate and initiate collective engagement activities with companies invested in, whilst also allowing the manager to add its voice to engagements with other companies, thus improving governance of companies globally.

The manager uses the proxy advice services of Institutional Shareholder Services ("ISS") and assesses its guidance and advice in a timely manner so that voting decisions are properly recorded (to the extent possible) before shareholder meetings. The voting principles which they follow are set out in the manager's Engagement Policy. CLAM define a 'significant vote' as one in which they vote against management recommendations.

Across 2020, CLAM (at a firm-level) voted against management resolutions 166 times at 72 companies.

The voting activity against management comprised of remuneration (22%), board structure and oversight (29%), ESG (27%) and governance and shareholder rights (22%).

On a quarterly basis, Canada Life publicly detail summaries of the number of meetings voted, resolutions and votes for/against/unvoted and provide the reason for votes against management on a given date.

Engagement

CLAM will seek to engage with companies both individually and alongside other investors when they feel that a company's management has not properly addressed ESG risks to their businesses.

Monitoring, dialogue and voting processes occasionally highlight areas of concern to CLAM. If the manager believes a decision or proposal by company management will negatively affect the company's long-term investment potential, the portfolio manager may remove the holding from their portfolios. When the manager deems fit to escalate their activities, they would do so via meetings or conversations between investment managers and company management. Following a meeting, they would monitor the company's response to ensure that steps are taken to address the issues raised.

Since paying for the services of ISS Pooled Engagement, CLAM participated in 56 engagements with numerous companies both within and outside their portfolios. From these, 37 written responses were received, and four meetings hosted by ISS Pooled Engagement were held.

The manager engaged (at a firm level) on a wide range of subjects, including climate change mitigation, union rights, fair payment of taxes, gender discrimination, water pollution, deforestation, air pollution, bribery, environmental impacts, soil and water pollution, and the right to life.

The themes of these engagements, comprised of environment (30%), labour rights (39%), corruption (7%) and human rights (24%).

Canada Life publicly detail the dates and companies engaged with on a quarterly basis.

Further Information

Further information on the CLAM annual engagement report, engagement policy, integration of UK Stewardship Code principles in the investment process (including a full record of voting decisions) can be found [here](#).

Voting and Engagement examples

Over the period, the Fund was invested in two equity and one property fund as well as individual bonds and gilts, cash and a liquidity fund. This section provides an overview of the voting and engagement examples to illustrate the stewardship activity carried out in relation the Fund's invested assets.

Equity voting example: UK Equity Fund

In August 2020, the manager voted against management of International Consolidated Airlines ("IAG") in relation to excessive remuneration for management, as CLAM felt this was not appropriate given a period of great turmoil for the industry (due to COVID-19) and corresponding fall in level of profits of the company.

Equity voting example: Global Equity Fund

In August 2020, the manager voted against management of 3M in relation to a resolution requesting a report on pay discrepancy (the disparity between lowest and highest paid employee was 133x). CLAM felt such a report would be appropriate given the extreme level of pay disparity.

Equity engagement example: firm level

CLAM note continued engagement with management of investee companies in relation to Carbon data reporting, which they see as a priority to encourage holding companies to disclose their carbon footprint. CLAM view this disclosure as the simple first step which all companies must take to be able to think about how greenhouse gas emissions can be reduced, in line with the UN Sustainable development goals of "Climate Action" and "Responsible Consumption and Production"). These engagements are led by the Senior Research and Strategy Manager, who is an integral part of the Equity team, not part of separate engagement team, as part of ongoing regular meetings with investee companies. In 2020 CLAM engaged 68 different entities, including 35 specifically on this topic, which is growing in discussion and rising as a priority. The manager will continue this agenda to press companies to review net zero/carbon neutral targets.

Fixed Income & Real Estate

While equity managers may have more direct influence on the companies they invest in, fixed income managers are also increasingly influential in their ability to encourage positive change.

CLAM is currently in the process of applying for signatory status to the Money Market Code.

The Trustee recognise that the investment processes of alternative investments such as real estate mean that stewardship may be less applicable or have a less tangible financial benefit. Nonetheless, the Trustee still expect that, in line with the SIP for the relevant period, portfolio managers within the arrangement should engage with external parties should they identify concerns that may be material.

CLAM believe that attention to ESG in the management of real estate reduces project risk, builds social support and generates value. Such risks are assessed through their environmental management system (EMS) which has been established and aligned to the internationally recognised standard. It assists in the development and continual improvement of environmental performance to the benefit of the business, stakeholders and the wider society.

For the real estate portfolio, CLAM employ a specialist environmental consultant who supported preparing and publishing a detailed Real Estate ESG Policy.

Specific detailed engagement case studies were not provided by the manager in relation to fixed income and property, though Canada Life publicly disclose quarterly engagement summaries at a firm level, as noted above, and the investment manager confirmed that the themes raised with investee companies are addressed in manager meetings across fixed income and real estate (where applicable).

In Summary

Based on the activity over the year by the Trustee and their service providers, the Trustee are of the opinion that the stewardship policy was implemented effectively in practice. The Trustee note that the investment manager was able to disclose strong evidence of voting and engagement activity at a firm level.

The Trustee acknowledge that stewardship may be less applicable to certain asset classes and were encouraged that across asset classes, portfolio managers were incorporating responsible investment and ESG considerations in their investment processes.



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