

Engagement Policy Implementation Statement

Kuehne + Nagel RH Scheme ("the Scheme")

Requirements for the EPIS for a Defined Benefit ("DB") Scheme

New regulations that apply from 1 October 2020 have set out the following requirements for Trustees of defined benefit pension schemes regarding the production of an Engagement Policy Implementation Statement ("EPIS"). Trustees must produce a statement which:

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

Trustees must publish their EPIS online (by 1 October 2021) and in the annual Trustees Report and Accounts where they are produced after 1 October 2020.

Data

The Trustees have delegated certain decision-making power to Aon Investment Limited ("AIL"). In producing this document, we have gathered information from your underlying asset managers, via AIL, to support the production of this document. Due to varying stewardship reporting cycles, not all managers shared information directly relating to the specific period covering the Scheme's financial year, and so we have used the information as has been provided.

We are working with the managers to improve the data they provide, but we believe it is reasonable to use the information in this document for the purpose of this year's EPIS.



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Why bring you this paper?

This document sets out the proposed content for the EPIS of the Scheme for the year ending 31 August 2020.

The EPIS is to be included in the Scheme's annual report and accounts.

The EPIS will also have to be published on a publicly accessible website.

Next steps

- Consider if any changes to this EPIS are required
- Consider if any actions should be taken over this year so we can reflect it in the next EPIS.

Prepared for: The Trustees
Prepared by: Aon
Date: 15 March 2021

Your Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations amongst other things require that the Trustees to outline how they have ensured that the stewardship policies and objectives set out in its Statement of Investment Principles (“SIP”) have been adhered to over the course of the year.

This is the first engagement policy implementation statement the Trustees have prepared and covers the year ending 31 August 2020.

This document sets out the actions undertaken by the Trustees, its service providers and investment managers, 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 asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

Trustees Engagement Policy

Over the year to 31 August 2020, the Trustees' engagement (referred to as 'stewardship') policy was to delegate responsibility to the applicable asset managers in the exercising of voting rights, via their fiduciary manager, Aon Investments Limited ('AIL'). The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is also delegated to AIL and their corresponding appointed underlying managers.

The latest Scheme SIP was updated in August 2020, and can be found at this website: <https://uk.kuehne-nagel.com/documents/236865/503096/RH+Pension+Scheme+SIP+September+2020.pdf/b9dfdec8-2607-294b-d93e-328a6f45f401?t=1601028124251>

The rest of this document provides evidence on how the Trustees have reviewed the activity of its asset managers and AIL have aligned with its expectations and principles set out in the SIP. The Trustees will set out where they expect more information or engagement to be undertaken by its managers.

Scheme Activity Over The Year

Over the year to 31 August 2020, the Trustees received updates with regards to responsible investment (“RI”) matters from its investment adviser, Aon. These updates supported the Trustees in their development of new SIP policies in 2020 relating to financially material ESG considerations, stewardship and non-financial matters.

Stewardship Policy Update

The Trustees significantly expanded their stewardship policy in September 2020. It covers in more explicit detail the expectations and monitoring processes of the Scheme to support improvements in engagement practices made on the Scheme's behalf where appropriate.

Engagement – Fiduciary Manager

Under the Trustees' fiduciary mandate managed by AIL, AIL appoint underlying asset managers to achieve an overall target return. The Trustees delegate the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system.¹ This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustees have reviewed the AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest.

AIL undertook a considerable amount of engagement activity during the Scheme year, some examples of which have been outlined within this statement. AIL held 22 ESG specific "deep-dive" meetings covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during 2019 calendar year, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward.

An example of an engagement carried out during the reporting year by AIL was with a US-based fixed income manager that lacked an RI policy, a metric for scoring securities on ESG criteria and any public commitments to invest responsibly. Following AIL's engagement with the manager on these issues, they quickly took action by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities. Tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to RI by becoming a signatory to the Principles for Responsible Investment - the world's leading proponent of ESG and a global standard setter for better practice.

Voting and Engagement – Equity

Over the year, the Scheme was invested in the AIL Managed Growth Strategy Fund. The main equity investments held in the fund were:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund
- Nikko – Japanese Equity²

As data is collected quarterly, this does not fully align with the 31 August Year End, so data up to 30 September 2020 has been used for the purpose of this EPIS. The Trustees consider a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

AIL Managed Growth Strategy

LGIM Multi Factor Equity Fund ("LGIM")

Voting Policy

	2019	Q1 2020	Q2 2020	Q3 2020
% resolutions voted	98.5%	99.1%	100%	94.3%
% of resolutions voted against management	14.9%	14.5%	18.5%	17.8%
% resolutions abstained	1.5%	0.8%	0.0%	0.0%

¹ More information on the Aon ESG Ratings Process can be found here:

<https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx>

² Invested in July 2020 – this will be included in next year's EPIS

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example engagements with the company have provided additional information.

Voting Example

In May 2020, LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions they supported due to the merits of the proposals were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders.

Amazon had received press coverage due to the largely negative sentiment related to its governance profile and its initial management of the COVID-19 pandemic. This was an important topic for LGIM's multiple engagements with the company over the past 12 months, as well as the separation of CEO and board chair roles, a desire for directors to participate in engagement meetings, and details about the data transparency committed to in their Climate Pledge. The Stewardship team at LGIM received more inquiries related to Amazon than any other company this season.

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.

More information can be found on LGIM's engagement policy here: <https://www.lgim.com/landq-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>

LGIM's latest annual active ownership report showed that in 2019 they engaged with 493 companies as well as participating in about 30 engagements with regulators, and policy-makers, to improve market standards around the world.

LGIM have also begun producing quarterly stewardship reports, more detail on recent activity can be found here: <https://www.lgim.com/landq-assets/lgim/document-library/esg/esg-impact-report-q4-2020.pdf>

Engagement Example

LGIM have provided an interesting engagement case study at a manager level for energy company BP. The shift to a low-carbon economy has profound implications, LGIM and other major shareholders put forward a motion calling on BP to explain how its strategy was consistent with the Paris Agreement on climate change. In May 2019, LGIM worked with the board of BP to secure its support for the motion. At BP's annual general meeting, the proposal was passed with overwhelming approval from shareholders. LGIM have since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. At the time of this report, the company announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

BlackRock Emerging Markets Equity Fund ("BlackRock")Voting Policy

	1 Oct 2019 – 30 Sept 2020
% resolutions voted	96.9%
% of resolutions voted against management	8.1%
% resolutions abstained	2.9%

Blackrock use Institutional Shareholder Services' (ISS) 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.

Voting Example

An example of this over the reporting period is where in November 2019 BlackRock voted with management recommendations against a shareholder resolution for BHP Group which recommended that BHP suspends memberships to industry associations that are not or have a history of not being consistent with the Paris Agreement's goals. BlackRock felt that requiring BHP to leave an industry association on a policy-related misalignment could lead to unintended consequences for BHP. For other reasons and further detail, the voting bulletin can be found here: <https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-bhp-nov-2019.pdf>

Over 2020, BlackRock have 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.

Aon have engaged with BlackRock to ensure greater transparency with voting rationale going forward and will continue to work with the manager on this topic.

Engagement Policy

The Blackrock Investment Stewardship 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.

Blackrock has increased its engagement activity year on year significantly on a variety of key issues, including having over 400 engagements with companies where they discussed the impact of COVID-19. More information can be found in the Blackrock Investment Stewardship Annual Report 2020 here:

<https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf>

Engagement – Fixed Income

The Scheme invests in fixed income securities through ALL, specifically via a fund of funds approach.

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

A high-profile example of this is from Robeco's Multi Asset Credit strategy that the Scheme invests in. Robeco have had an ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of their energy products by around half by 2050. Whilst Robeco was supportive of this step, they were not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a two-year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.

A second manager, Aegon, use ESG analysis as a critical aspect of its risk mitigation analysis. This is integrated into all debt investments, where each level is scored between one (best) and five (worst), with a weighted average taken to form their overall ESG score for the Asset-Backed Security (ABS) bond. In 2019, Aegon invested in a Dutch Residential Mortgage Backed Security (RMBS) issued by one of the largest mortgage lenders in the Netherlands. The lender has developed a green bond framework under which it issues green RMBS and uses the proceeds to finance a pool of mortgages with energy-efficient characteristics. Aegon's analysis of the issuer resulted in the highest achievable ESG rating.

BlackRock also use ESG screening within its Systematic Multi Asset Credit Fund. This helps the fund manager mitigate ESG related risks, by actively screening out firms involved in controversial activities. This screening is performed alongside the credit quality screening, which aims to avoid companies at risk of deterioration due to credit quality.

The Trustees believe that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a more sustainable and inclusive economy.

Engagement – Alternatives

The Scheme invest in a number of alternative strategies. These include managed futures, insurance linked securities, defensive equities, risk parity, gold and listed property.

The Trustees recognise that the respective investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustees still expect that all their managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material.

Summary

Overall, the Trustees believe that the stewardship carried out on their behalf by AIL is adequate. The Trustees note examples of the willingness and ability of LGIM and BlackRock to take proactive votes against management where appropriate. The Trustees also note the efforts from AIL in monitoring the appointed underlying managers and encouraging better practices where appropriate. Having said that, the Trustees recognise that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustees continue to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Appendix – Aon Investments Limited (AIL) Responsible Investment Policy

The latest AIL Responsible Investment policy can be found at this website:

[Our-Approach-to-Responsible-Investment_Delegated-Portfolios-\(2\).aspx \(aon.com\)](#)



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