

The Institution of Engineering and Technology Superannuation and Assurance Scheme

Engagement Policy Implementation Statement

This document sets out the actions undertaken by the Trustees, their 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.

This is the first engagement policy implementation statement the Trustees have prepared and covers the year ending 31 March 2021.

Stewardship policy

The Trustees' stewardship policy can be found in the SIP ([click here](#)). In summary:

- The Trustees wish to ensure that its influence as a share owner is used to safeguard and raise standards of corporate governance and social and environmental management within its investee companies and believes that this will contribute to raising long-term financial returns.
- The Trustees expect the Scheme's investment managers to: 1) Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and 2) exercise the Trustees' voting rights in relation to the Scheme's assets.

Activity over the year

Training

Over the year, the Trustees received topical updates from their investment consultant on responsible investment matters.

Updating the stewardship policy

In line with regulatory requirements to expand the SIP for several policies such as costs transparency and incentivising managers, the Trustees also reviewed and expanded the stewardship policy in August 2020 to be more explicit on expectations and recourse where necessary.

Manager voting and engagement

A large portion of the Scheme's assets are invested in bulk annuities and Liability Driven Investment, which do not readily lend themselves to stewardship activities. The Trustees believe that they should be responsible stewards of capital, but also recognise that only approximately 17% of the Scheme's overall assets have voting rights which means their ability to positively influence companies through voting is limited. The Trustees are further limited in this respect since they only invest in pooled fund arrangements.

Voting and engagement activity – Equity

The Scheme is invested in passive equity funds managed by BlackRock.

Voting policy

BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, but do not follow any single proxy research firm's voting recommendations. BlackRock use several other inputs in its voting and engagement analysis, including a company's own disclosures, and its record of past engagements.

BlackRock use ISS's electronic platform to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock works with proxy research firms who apply its proxy voting guidelines to filter out routine or non-contentious proposals and refer to BlackRock any meetings

where additional research and possibly engagement might be required to inform the voting decision.

BlackRock ordinarily refrain from abstaining from both management and shareholder proposals unless:

- Abstaining is the valid vote option (in accordance with company by-laws) to signal concern to management;
- There is a lack of disclosure regarding the proposal voted; or
- An abstention is the only way to implement their voting.

Voting statistics

BlackRock global equity fund (currency hedged)	Year to 31 March 2021
Number of resolutions eligible to vote over the year to 31 March 2021	27,464
% of resolutions voted on for which the fund was eligible	93.7%
Of the resolutions on which the fund voted, % that were voted against management	6.3%
Of the resolutions on which the fund voted, % that were abstained from	0.5%

BlackRock global equity fund	Year to 31 March 2021
Number of resolutions eligible to vote over the year to 31 March 2021	15,759
% of resolutions voted on for which the fund was eligible	90.7%
Of the resolutions on which the fund voted, % that were voted against management	7.3%
Of the resolutions on which the fund voted, % that were abstained from	0.7%

BlackRock UK equity fund	Year to 31 March 2021
Number of resolutions eligible to vote over the year to 31 March 2021	15,742
% of resolutions voted on for which the fund was eligible	97.2%
Of the resolutions on which the fund voted, % that were voted against management	5.8%
Of the resolutions on which the fund voted, % that were abstained from	1.9%

Voting example: Evraz Plc

In June 2020, BlackRock voted against the re-election of Karl Gruber as Company Director for lack of progress on climate-related reporting. Evraz plc is a steel, mining and vanadium company listed in the UK with operations in Russia, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics.

BlackRock began their engagement in November 2017. They wrote a letter to Evraz CEO and chairman of the board, asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Evraz have since taken positive steps, for example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO₂e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO₂e, which, while meeting the company's target, remains above the average in the steel industry (1.83 tCO₂e). The current sustainability reporting provides some insights on operational carbon emissions but is still not aligned with the TCFD framework.

BlackRock therefore voted against the re-election due to the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting.

More detail on the vote rationale can be found at the vote bulletin here:

<https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-evraz-jun-2020.pdf>

Voting example: Yanzhou Group Company

In December 2020, BlackRock voted against the management proposal to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group. The key assets to be acquired included a coal liquefaction project, a supporting coal mine and a coal-fired power plant.

BlackRock noted Yanzhou Coal's rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believe it was in their clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of the increasing uncertainty of the role of coal in the future and the potential stranded asset risk.

On the latter, BlackRock are cautious about the potential stranded asset risks at Yanzhou Coal. The coal-fired power sector in China is facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. Therefore, such an acquisition could exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

BlackRock communicated the above concerns with management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures ("TCFD"). BlackRock continue to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here:

<https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf>

Engagement policy

BlackRock state that they aim to enhance the long-term value of client assets through their proxy voting and engagement activities. BlackRock use engagement as a tool to raise concerns regarding governance and sustainability issues that may affect the long-term performance of the company.

In the period to 31 March 2021:

- With regard to the global equity fund (currency hedged), BlackRock made 1,573 company engagements, of which 884 of those were with individual companies and 389 companies were engaged multiple times. 1,397 of the engagements were in relation to governance, 687 on social themes and 1,048 on environmental risk.
- With regard to the global equity fund, BlackRock made 1,636 company engagements, of which 861 of those were with individual companies and 406 companies were engaged multiple times. 1,429 of the engagements were in relation to governance, 705 on social themes and 1,073 on environmental risk.
- With regard to the UK equity fund, BlackRock made 2,845 company engagements, of which 1,722 were with individual companies and 631 companies were engaged multiple times. 2,563 of the engagements were in relation to governance, 1,158 on social themes and 1,764 on environmental risk.

BlackRock are improving their engagement disclosures this year. Their aim is to move from annual to quarterly voting data, provide prompt explanations of key voting decisions and enhance disclosure of company engagement.

Engagement example: Exxon

An example of an engagement by the BlackRock Investment Stewardship ("BIS") team was that with Exxon, a multi-national oil and gas company. In their discussion with the company, they discussed several engagement topics such as governance structure, corporate strategy, environmental risks and opportunities. These included questions from the BIS team including, the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

BlackRock have stated that their ongoing dialogue has been largely constructive and effective, however there have also been matters where the company wasn't adequately responsive to shareholder feedback. As a result, they voted against the re-election of the lead independent director for the company's lack of progress on climate-related disclosure and supported a shareholder proposal seeking a report on the extreme weather resilience of certain operations. This is consistent with their view to first engage with companies on their concerns and to subsequently hold directors accountable if those concerns are not sufficiently addressed.

BlackRock anticipate further dialogue with the board and management and remain optimistic that their recommendations to enhance governance and transparency will lead to additional positive future outcomes.

Further details of this engagement can be found here:

<https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-exxon-may-2021.pdf>.

Engagement activity – Fixed Income

The Scheme also invests in a fixed income strategy managed by M&G. Fixed income investors do not typically have voting rights but nevertheless M&G does actively engage with the companies it invests in. M&G believes that the long-term success of companies is supported by effective investor stewardship, high standards of corporate governance and transparent engagement policies. They believe that if a company is run well, it is more likely to be successful in the long run. M&G undertakes all investment stewardship engagements and proxy voting with the goal of protecting and enhancing the long-term value of client's assets. M&G is committed to being transparent about how they conduct investment stewardship activities in support of long-term sustainable performance for their clients. M&G follows and is supportive of the UK Stewardship Code, the benchmark in the UK for institutional investors to meet ownership responsibilities in respect of their holdings.

Engagement example: Upfield

Having previously engaged with Upfield (formerly Flora) while it was part of the Unilever business, M&G wanted to speak to them again to ensure their ESG practices remained in line with expectations after the purchase of the business by investment firm KKR. The conversation was focussed primarily around responsible sourcing, given Upfield is one of the largest procurers of palm oil globally. They also discussed the company's approach for identifying and remediating modern slavery and forced labour, as well as its carbon strategy. M&G felt the company lacked transparency and public disclosure, however Upfield have since announced that they will be publishing their first ESG report this year. M&G looks forward to the publication of the report and on further engagement with Upfield on the back of it.

Engagement example: GlaxoSmithKline

An example of an engagement at a firm level was in April 2020 when M&G engaged with GlaxoSmithKline to discuss its climate change strategy and enquire into the transparency in its supply chain. M&G held a dedicated engagement with senior individuals across the environment, anti-microbial and supply chain teams. As part of this they shared agendas and questions on issues such as board responsibility for meeting climate targets, managing extreme weather events across supply chains, and technical expertise on climate change. The engagement has concluded, and the outcome was that the board now aims to focus more on environmental issues including what positioning it wants to develop. In addition, the company does not yet have any climate-related targets linked to incentivisation but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made.