

# BIG THINKING FOR SMALL SCHEMES

## Implementation Statement

The Tolent Pension Scheme

31 March 2022



# 1. Introduction

Under regulatory requirements, trustees are required to prepare and review an implementation statement outlining their approach and stewardship dealing with certain specific matters with regards to their Environmental, Social and Governance (ESG) principles outlined in their latest Statement of Investment Principles (SIP).

This Statement sets out the principles governing decisions about the ESG aspect of investment of the assets The Tolent Pension Scheme. In preparing it, the Trustees obtained written reporting on these matters from Barker Tatham Investment Consultants Limited as its investment consultants.

## 2. ESG Principles

### Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where index tracking pooled vehicles are employed, ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect their fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees believe that the stewardship responsibilities attached to the ownership of shares are important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares including across passive equity mandates. Managers are expected to be signatories to the FRC UK Stewardship Code.

The Trustees have not deemed it necessary to survey the members of the scheme on non-financial matters in relation to the social and environmental impact of investments as their understanding and knowledge of the membership leads them to believe that members' views would be aligned with those of the Trustees. The Trustees have, however, included a self-selection "ethical" investment option for members, that has specific rules on exclusions of certain areas of investment.

The Trustees will rely on information provided by Aviva to monitor funds against their stated ESG policies.

Further information on the Trustees' policies can be found in the latest SIP dated September 2019.

In the Trustees' opinion, their policies, as recorded in the SIP, have been followed over the 12-month period to 31 March 2022.

The following pages illustrate how the Trustees, through their fund managers, have followed their stewardship and engagement policies.

### 3. Investments Attitudes to ESG

Fund Manager/Fund	ESG Description
<p data-bbox="193 331 592 369"><b>Aviva (DC Section Only)</b></p> <p data-bbox="193 369 592 407"><b>Default Funds</b></p> <p data-bbox="193 407 592 510"><b>Aviva Pension BlackRock (50:50) Global Equity Index Tracker Fund</b></p> <p data-bbox="193 548 592 616"><b>Aviva Pre-Retirement Fixed Interest FP</b></p> <p data-bbox="193 654 592 692"><b>Aviva Cash Fund FP</b></p> <p data-bbox="193 730 592 936">For completeness we note that self-select options are available – this report concentrates on the default funds as required by the regulations.</p>	<ul style="list-style-type: none"> <li data-bbox="592 369 1399 407">• <b>Fund Manager Overview</b></li> </ul> <p data-bbox="651 407 1399 824">Aviva Investors recognises and embraces their duty to act as responsible long-term stewards of their clients’ assets. They claim to hold a deep conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes. They believe that being a responsible financial actor means their investment approach must support, and not undermine, the long-term sustainability of capital markets, economies, and society. Aviva holds principles and governance publicly available in their document titled “Aviva Investors Responsible Investment Philosophy”.</p> <p data-bbox="651 862 1399 936">Aviva is a strong supporter of the UK stewardship code that embodies seven principles, which cover:</p> <ul style="list-style-type: none"> <li data-bbox="651 936 1399 1039">• Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</li> <li data-bbox="651 1039 1399 1142">• Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.</li> <li data-bbox="651 1142 1399 1216">• Institutional investors should monitor their investee companies.</li> <li data-bbox="651 1216 1399 1319">• Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.</li> <li data-bbox="651 1319 1399 1393">• Institutional investors should be willing to act collectively with other investors where appropriate.</li> <li data-bbox="651 1393 1399 1467">• Institutional investors should have a clear policy on voting and disclosure of voting activity.</li> <li data-bbox="651 1467 1399 1541">• Institutional investors should report periodically on their stewardship and voting activities.</li> </ul> <p data-bbox="651 1579 1399 1653">Aviva explains how they ensure compliance with the Stewardship Code in their “Stewardship Statement”.</p> <ul style="list-style-type: none"> <li data-bbox="592 1675 1399 1713">• <b>ESG Integration</b></li> </ul> <p data-bbox="651 1713 1399 2033">Aviva Investments have several things in place to integrate ESG principles into practice. Firstly, they maintain a Responsible Investment Officer (RIO) Network with representatives from different asset classes and regions. The RIO Network act as ESG integration champions across the business. The Global Responsible Investment (GRI) Team facilitate internal and external training for investment teams on current and emerging ESG trends, risks and opportunities.</p>

Aviva operates a proprietary ESG data model synthesising internal and external data to provide investment teams an assessment of ESG risks basis. Bespoke ESG integration processes have been developed for their core asset classes and fund strategies including equities, credit, sovereign, multi-asset and real assets. Their investment risk team integrates ESG indicators into portfolio risk reports wherever practicable. Performance against ESG objectives is embedded into investment teams' annual evaluation and compensation framework.

There are three levels to integrating financially material ESG risks into the credit investment process

- The research team publishes their research, including an ESG rating score, focusing on how the company performs relative to industry peers, and an ESG momentum score, which focuses on the trend in company ESG metrics on a year-on-year basis.
- Each published credit research note highlights the current MSCI ESG score for the company and analyses a company through an ESG lens.
- The final part is the integration into the portfolio where the credit portfolio managers use the quantitative ESG scores houses in Aladdin to track a portfolio's ESG score through time.

Aviva publishes annual proxy voting guidelines and UK Stewardship Code compliance statements providing details of their responsible investment approach and outlining views on ESG best practice. Furthermore, they avoid or divest positions when unmanaged ESG factors fall outside of their risk tolerance and engagement is deemed unsuccessful. Aviva aims to push market reform by utilising its influence and insights as a large institutional investor to advocate for policy reforms that address market failures and help build more sustainable capital markets.

- **Active Ownership (1 year to 31 March 2022)**  
Aviva votes globally at all shareholder meetings that they have the legal right to do so and where costs are not prohibitive. They will endeavour wherever practicable, to recall lent stock prior to contentious shareholder meetings when this is considered in clients' best interest. Extensive proactive and reactive engagement is undertaken with management and boards of issuers and borrowers to monitor ESG practices and encourage best practice. Aviva commits to transparency through timely publication of voting records and quarterly and annual reporting of their engagement activities.

Over the 12 months to the end of March 2022:

**Aviva Pension BlackRock 50:50 Global Equity Index Tracker Fund**

Aviva were eligible to vote at 2,730 meetings and on 35,368 resolutions over the 12-month period. Aviva voted on 94.19% of resolutions. 74% of votes were votes for, 24% were votes against management and 2% of votes abstained from.

**Aviva Pre-Retirement Fixed Interest FP**

The fund invests in UK government and UK government backed index-linked securities, Sterling denominated overseas government backed index-linked securities and non-sterling bonds (hedged back to Sterling). There is no voting activity to report.

**Aviva Cash Fund FP**

The fund aims to provide short-term liquidity by investing in money market instruments, bonds and cash. It may invest in short-term bonds issued or backed by the UK Government or supranational agencies as well as commercial paper, cash and near cash assets such as deposits and certificates of deposit. There is no voting activity to report.

A case study by Aviva also focuses on recent years, when Barclays has been targeted by investors and civil society for its lack of response to climate change – being one of the largest lenders to fossil fuels globally. The Equity Team (led by CIO, David Cumming) and Responsible Investment Team met with the Barclays board and management representatives several times to outline their views on how to respond to aligning the strategy to the Paris agreement. Barclays responded by publishing a market leading ambition to be the first bank globally to achieve net zero emissions in all financing activities by 2050.

A further case study by Aviva focuses on a range of governance and climate-related issues with Chubu Electric Power (Japan's largest power generators). With Asian utilities accounting for 23% of global carbon emissions, recent meetings focused on discussing the company's new net-zero 2050 ambition and updating its 50% emission reduction target by 2030. Whilst encouraged by ongoing improvements in the company's sustainability disclosures and commitment to promoting good governance, Aviva requested the company conduct/evidence TCFD-aligned scenario analysis to provide reassurance that its emissions objectives can be

achieved with and without nuclear forming part of its power generation mix.

More recently, Aviva were concerned about the treatment of staff at Delta Airlines & Ryanair as the COVID-19 crisis unfolded, both from a safety perspective and the potential for significant job losses due to worldwide travel restrictions. Aviva met with the management of both companies to make its position clear that staff needed to be protected. Delta Airlines implemented safety protocols, including a robust home-testing programme for employees. The company also provided full-pay protection and set up a vaccination site at its offices. Ryanair minimised job losses relative to other airlines as pay reductions agreed were to be fully restored in future years. Aviva will continue to engage with management, potentially taking a position in the company again in the future.

Another case study by Aviva looks at Rio Tinto, an Australian mining company which has been under heightened pressure to improve their social licence to operate following the recent 2019 deadly breach at a dam owned by Vale in Brazil, and more recently the destruction of a 46,000-year-old sacred aboriginal site by Rio Tinto in May 2020 to make way for the expansion of an iron ore mine in Australia. Aviva met with Rio Tinto's chairman several times to express the need for radical improvements in its approach to cultural heritage and community relations. This has led to Rio Tinto making laudable efforts to strengthen internal practices, policies and governance to reaffirm and protect its social licence to operate, exemplified in the roll-out of a "new integrated risk plan" and launch of an indigenous advisory group.

- **References**

Further information can be found on the following links with the corresponding topics:

- o Aviva Investors ESG Baseline Exclusions Policy – February 2022
- o Responsible Investment Annual Review – 2021