Gatwick Airport Pension Plan: 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 Trustee outlines how it has 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 Trustee of the Gatwick Airport Pension Plan ('the Plan') have prepared and covers the year ending 30 September 2020.

This document sets out the actions undertaken by the Trustee, 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.

Changes to the SIP over the year

With effect from September 2020, the Trustee updated their Statement of Investment Principles ('SIP') for their policies in relation to: 'Arrangements with asset managers'; 'Monitoring of investment manager costs'; and 'Evaluation of investment manager performance and remuneration'. The Trustee policies in these areas are covered in detail in the Statement of Investment Principles, dated September 2020, but broadly summarise as:

Arrangements with asset managers: The Trustee, with support from their Investment advisers, monitor the Plan investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee policies. This extends to existing managers and on the appointment of any new manager. The policies are aligned by amending the appropriate governing documentation or where this is not possible, expressing the expectation to the investment managers by other means. There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

Monitoring of investment manager costs: The Trustee will receive annual cost transparency reports from their investment managers which will allow them to monitor the total cost and the impact these costs can have on the overall value of the Plan's assets.

Evaluation of investment manager performance and remuneration: The Trustee will assess the (net of all costs) performance of their investment managers on a rolling three-year basis against the Plan's investment objectives as per the investment strategy review following triennial actuarial valuation.

The Trustee consulted with the company when making these changes and obtained written advice from its investment advisor.

The SIP including the changes outlined above was signed and published in September 2020.

Plan activity over the year

The Trustee outlines in its SIP a number of key objectives and policies. The actions below provide an explanation of how these objectives have been met and policies adhered to over the course of the year.

Trustee training

In July 2020, the Trustee received training from their investment advisor on the new regulations, the importance of stewardship activity and appropriate consideration of ESG factors.

Responsible investment beliefs survey

As part of the training delivered by the investment advisor, the Trustee completed an exercise to gather their collective views on responsible investment in H1 2020.

This exercise assisted the Trustee in developing a policy for the Plan's SIP covering responsible investing and stewardship and engagement.

Ongoing monitoring

The Trustee receives regular investment updates from their investment adviser, including on matters relating to responsible investment. The Trustee's ongoing monitoring takes different forms, including investment performance monitoring, ad-hoc market updates and annual investment risk disclosures.

Investment performance monitoring

The Trustee receives, on a quarterly basis, monitoring reports from their investment adviser outlining the valuation of all investments held, the performance of these investments and any transactions encountered during the quarter. Investment returns are compared with appropriate performance objectives to monitor the relative performance of these investments. The asset allocation is also monitored and compared to the strategic asset allocation for the Plan.

Within this report, the Trustee received an overview of each buy rated manager produced by Aon's manager research team giving a quarterly update on the rating of the manager. This includes an ESG rating for equity, fixed income, diversified growth fund and liquidity managers where available.

All of the Plan's manager that have an ESG rating are currently rated 2 out of 4 meaning the fund management teams are aware of potential ESG risks in their respective investment strategies and have taken some steps to identify, evaluate and potentially mitigate these risks. However, these managers do not go far enough in their integration of these factors to warrant an above average rating.

The Plan's stewardship policy

The relevant extract of the SIP, dated September 2019, setting out the Plan’s voting and engagement policies over the reporting period, is as follows:

"The Trustee has examined how rights, including voting rights, attached to investments should be exercised. In doing so, the Trustee has considered the UK Stewardship Code ('the Code') issued by the Financial Reporting Council ('FRC').

The Trustee is supportive of the Code, and the Trustee has informed the investment managers of its support for the Code.

As part of their delegated responsibilities, the Trustee expects the Plan's investment managers to:

- *Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and*
- *exercise the Trustee's voting rights in relation to the Plan's assets.*

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers."

Through this report, the Trustee reviews how the actions of their investment managers have aligned with the expectations and principles set out in the SIP. The Trustees will set out where they expect more information or engagement to be undertaken by their investment managers.

Trustee policy on significant votes

The Trustee considers a significant vote broadly as a vote that was against a management recommendation or different from the proxy voting service provider recommendation.

Voting and engagement: Equities

Over the year the Plan was invested in the following equity funds:

1. LGIM UK Equity Index; and
2. LGIM World (ex UK) Equity Index (GBP Hedged).

Legal & General Investment Management ('LGIM')

LGIM has been a PRI signatory since 2010. The United Nation Principles for Responsible Investment ('PRI' or 'UNPRI') is the world's leading proponent of ESG and a global standard setter for better practice. LGIM also supports the UK Stewardship Code and has been a signatory since 2012.

Voting Approach

All voting decisions are made by LGIM's Investment Stewardship team and in accordance with its relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. LGIM uses Institutional Shareholder Services' ('ISS') 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and LGIM do not outsource any part of the strategic decision making. LGIM's use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services ('IVIS') to supplement the research reports that it receives from ISS for UK companies when making specific voting decisions.

To ensure proxy provider votes are in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards which it believes all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. LGIM has strict monitoring controls to ensure votes are fully and effectively executed in accordance with its voting policies by its service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform LGIM of rejected votes which require further action.

Summary Voting Statistics

The following tables outline the voting statistics provided by LGIM for the year to 30 September 2020:

UK Equity Index Fund	
% of resolutions voted on (of those eligible)	99.9%
% of votes against (of those voted on)	7.0%
% of votes abstained (of those voted on)	0.0%
% of meetings, at which voted, voted at least once against management	45.0%
% of resolutions, of which voted, voted contrary to proxy adviser recommendation	6.1%

World (ex UK) Equity Index Fund (GBP Hedged)	
% of resolutions voted on (of those eligible)	99.5%
% of votes against (of those voted on)	20.3%
% of votes abstained (of those voted on)	0.1%
% of meetings, at which voted, voted at least once against management	78.1%
% of resolutions, of which voted, voted contrary to proxy adviser recommendation	13.7%

Significant Vote Example: Climate Change

In May 2020, LGIM voted in favour of a resolution proposed by Barclays and ShareAction[1] on commitments to tackling climate change. The resolution proposed by Barclays set out its long-term plans and had the backing of ShareAction and co-filers. LGIM stated that its focus will now be on helping Barclays with the detail of their plans and targets and will

[1] ShareAction is a Charity and Campaign Group for Responsible Investment matters. https://shareaction.org/about-us/

continue to work closely with the board and management team in future developments. LGIM will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure consistency of messaging and to continue to drive positive changes.

Significant Vote Example: Director Remuneration

In July 2020, LGIM voted against a high profile and controversial resolution to award a one-off payment to the SIG plc CEO of £375k for work carried out over a two-month period.

LGIM does not generally support one-off payments, believing that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility. The size of the additional payment was also a concern because the time period and the amount was to be paid in cash at a time when the company's liquidity position was so poor. It increases the risk of breaching covenants of a revolving credit facility and therefore needed to raise additional funding through a highly dilutive share issue.

The resolution passed, however 44% of shareholders did not support it. LGIM's view was that with this level of dissent the company should not go ahead with the payment, and LGIM intends to engage with the company over the coming year to find out why this payment was deemed appropriate and whether they made the payment despite the significant opposition.

Engagement Summary

LGIM have a six-step approach to their investment stewardship engagement activities, broadly these are: 1) Identify the most material ESG issues 2) Formulate the engagement strategy 3) Enhance the power of engagement 4) Public policy and collaborative engagement 5) Voting 6) Report to stakeholders on activity. More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

As part of their Climate Impact Pledge, LGIM publishes a list each year comprising of companies that are deemed candidates for exclusion because of them not reaching LGIM's sustainability expectations. If engagements with these companies are unsuccessful, LGIM may divest from the company.

Over 2019, LGIM engaged with 493 companies and took sanctions against 11 companies named under their climate pledge as well as participating in about 30 engagements with regulators and policy-makers to improve standards globally.

Engagement example: Diversity

LGIM provided an engagement case study for a Japanese manufacturing company Olympus Corporation.

Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM have for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. LGIM deem this a de-minimis standard.

LGIM aspire to all boards comprising 30% women. In February 2019, LGIM sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at an executive level, indicating that they expect to see at least one woman on the board. One of the companies identified was Olympus Corporation. In the beginning of 2020, LGIM announced that they would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100.

LGIM opposed the election of this director in its capacity as a member of the nomination committee and the most senior member of the board in order to signal that the company needs to take action on this issue.

LGIM will continue to engage with the company and require increased diversity on all Japanese company boards.

Overall, based on the information reviewed, the Trustee is satisfied that LGIM are implementing their responsibility to vote and engage in a manner that is consistent with the stewardship policies set out in the Plan's SIP.

Voting and Engagement: Multi-Asset Funds

Over the year the Plan was invested in the following Multi-Asset Funds:

- BlackRock Dynamic Diversified Growth Fund;
- Ruffer Total Return Fund; and
- Capital Group Emerging Markets Total Opportunities Fund.

BlackRock Dynamic Diversified Growth Fund (‘BlackRock’)

BlackRock has been a PRI signatory since 2008. BlackRock also supports the UK Stewardship Code and has been a signatory since 2010.

Voting Approach

Blackrock subscribes to research from Institutional Shareholder Services (‘ISS’) and Glass Lewis, which is considered along with the company’s policy and past engagements in voting and engagement analysis. Blackrock uses the electronic voting platform provided by the ISS to execute voting instructions, manage client accounts and report on voting. In certain markets, Blackrock works with proxy voting providers to filter through proposals and flag any that may require additional research and engagement.

Blackrock periodically publishes detailed voting records with explanations of voting decisions in documents called 'vote bulletins'. These bulletins provide explanations of the most significant votes at shareholder meetings and is made public shortly after the meetings.

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Summary Voting Statistics

Dynamic Diversified Growth Fund	
Meetings eligible to vote at	989
Resolutions eligible to vote on	12696
% of eligible resolutions voted on	97%
Of resolutions voted, what % were votes with management	91%
Of resolutions voted, what % were votes against management	6%
Of resolutions voted, what % were abstained	1%

Engagement summary

BlackRock states that they aim to enhance the long-term value of client assets through their proxy voting and engagement activities. BlackRock's Investment Stewardship team engage with companies in both active and indexed investment strategies, noting the importance of engagement within index-based strategies where divestment is not an option. BlackRock uses engagement as a tool to raise concerns regarding governance and sustainability issues that may affect the long-term performance of the company.

BlackRock are improving their engagement disclosures this year, with the aim to:

- Move from annual to quarterly voting data;
- Give prompt explanations of key voting decisions; and
- Enhance disclosure of company engagement.

As at 30 September 2020, the Dynamic Diversified Growth Fund held 826 companies in the portfolio. BlackRock engaged with 390 of those companies and had multiple engagements with 180. The engagements covered the Americas, EMEA and APAC regions and the majority of which were on Governance themes, followed by Environmental and Social themes.

Overall, based on the information reviewed, the Trustee is satisfied that BlackRock are implementing their responsibility to vote and engage in a manner that is consistent with the stewardship policies set out in the Plan's SIP.

Ruffer Total Return International Fund

Ruffer has been a PRI signatory since 2016. Ruffer also supports the UK Stewardship Code and has been a signatory since 2012.

Voting Approach

It is Ruffer's policy to vote on the Annual General Meeting ('AGM') and Extraordinary General Meeting ('EGM') resolutions, including shareholder resolutions, as well as corporate actions.

Ruffer has internal voting guidelines as well as access to proxy voting research, currently from ISS, to assist in the assessment of resolutions and the identification of contentious issues. Ruffer believes it is cognisant of proxy advisers' voting recommendations and, in general, does not delegate or outsource stewardship activities when deciding how to vote on clients' shares. Research analysts are responsible, supported by Ruffer's responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based on their in-depth knowledge. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. Ruffer looks to discuss with companies any relevant or material issue that could impact their investments and will ask for additional information or an explanation, if necessary, to inform voting discussions. Where Ruffer decides to vote against the recommendations of management, they endeavour to communicate this decision to the company before the vote, along with an explanation of their reason for doing so.

Summary voting statistics

Ruffer has provided voting statistics for the year to 30 September 2020.

	Q4 2019	**Q1 2020**	**Q2 2020**	**Q3 2020**
% of resolutions voted on (of those eligible)	100%	100%	100%	100%
% of resolutions voted against management	25%	2%	10%	6%
% of resolutions abstained	0%	0%	2%	0%
% of resolutions where voted contrary to proxy adviser recommendation	0%	5%	8%	6%

Significant vote example: Remuneration

In May 2020, Ruffer voted against a proposed remuneration policy at Lloyds Bank. Although the bank reduced the maximum pay-out at the time of the grant, they significantly relaxed the vesting criteria and Ruffer did not think the bank sufficiently incentivises management to deliver shareholder value. Despite this, the remuneration policy passed with 63.8% approval and the long-term share plan passed with 63.7% approval. This continues to be an ongoing topic of engagement for Ruffer with the company.

Engagement summary

Ruffer is open to working alongside other investors on both policy and company specific matters. The decision to engage on company specific matters is judged on a case-by-case basis by their responsible investment team with input from research analysts and portfolio managers as well as their legal and compliance teams.

Some engagements are driven by priority themes. A consistent theme is climate change and tailings dams were also considered over this period. Company specific engagements, particularly on governance matters, are often driven by consultation around voting intentions and relevant policy. Ruffer respond to the concerns of their investors, who they understand are ultimately the owners of their investee companies.

Ruffer engages regularly with the Investment Association and the Institutional Investor Group on Climate Change. Through their commitment to Climate Action 100+, Ruffer has collaborated extensively with other investors or asset owners engaging with a number of European and American companies, including making statements at AGMs and co-filing shareholder resolutions.

Engagement example: Lobbying

Ruffer voted in favour of a shareholder resolution for Walt Disney in 2018 and 2019 requesting additional disclosure on lobbying and the memberships of trade associations. While the company has responded to these resolutions by increasing its disclosure, this only includes trade associations based in the US. As the framework has been established, and the analysis already conducted for these associations, Ruffer did not believe it was onerous for the company to expand this to cover all trade associations of which it is a member. Ruffer stated this clearly to the company and supported the shareholder resolution in 2020. Ruffer's internal voting policy states that companies should be transparent about the use of political and lobbying organisations to further their own objectives. Ruffer was voting against management, but the shareholder proposal failed with 65.7% votes against.

Ruffer will continue to engage with Walt Disney on this matter.

Overall, based on the information reviewed, the Trustee is satisfied that Ruffer are implementing their responsibility to vote and engage in a manner that is consistent with the stewardship policies set out in the Plan's SIP.

Capital Group Emerging Markets Total Opportunities Fund.

Capital Group has been a PRI signatory and UK Stewardship Code signatory since 2010.

Voting policy summary

Capital Group employs the proxy voting services of ISS, which is used for electronic vote execution services only. Capital Group votes according to its internal proxy voting guidelines and proprietary research and does not follow any outside entity's guidelines. To provide supplementary analysis of resolutions at shareholder meetings, Capital Group may review proxy research from third party vendors.

Capital Group communicates votes against management via meetings, emails or conference calls. It aims is to inform companies in advance of intentions to vote against management recommendations, when the company have contacted Capital Group via pre-AGM consultations expressing the importance of the resolution. Capital Group's communication outlines the resolution which it is opposing and the rationale for its voting decision, highlighting its voting policy and any areas of focus which may have driven the recommendation. If Capital Group is unable to communicate with companies ahead of the AGM, it may incorporate this feedback into future engagements with the company.

Summary voting statistics

Capital Group has provided voting statistics for the year to 30 September 2020.

	Q4 2019	**Q1 2020**	**Q2 2020**	**Q3 2020**
% of resolutions voted (of those eligible)	100%	100%	100%	100%
% of resolutions voted against management	4%	9%	13%	4%
% of resolutions abstained	0%	0%	4%	7%

Significant vote example: Dividends

In June 2020, Capital Group voted against a Keyence Corp management recommendation to approve allocation of income, with a final dividend of JPY 100. Capital Group voted against management on this occasion because they believed the proposed dividend was too low. The outcome of the vote was not disclosed but Capital Group committed to continue engagement with the company regarding their vote rationale, to provide better outcomes for shareholders.

Engagement Summary

Capital Group's focus is on issues that have the potential to impact shareholder value. These include, but are not limited to, corporate strategy, operational performance, capital structure, governance, environmental and social impacts, board composition, diversity, executive remuneration, disclosure and transparency, and many more topics that affect long-term results.

Capital Group will not outsource engagement activities and confirmed no conflicts of interest related to voting and engagement were identified over the year.

Capital Group flagged that they are currently unable to provide breakdowns of their engagement activities at a fund specific level, however, they have efforts underway to improve how they track engagement activities across their business.

Overall, based on the information reviewed, the Trustee is satisfied that Capital are implementing their responsibility to vote and engage in a manner that is consistent with the stewardship policies set out in the Plan's SIP.

Engagement: Alternatives

Over the year the Plan was invested in the following funds:

- Alcentra European Direct Lending Fund II
- GreenOak UK Secured Lending Fund II

While the Trustee acknowledges the ability to engage and influence companies through property and illiquid debt holding investments may be limited in comparison to pure equity holdings, the Trustee is encouraged from the information received that the managers are generally aware of ESG risks and opportunities and their role as a steward of capital.

Alcentra European Direct Lending Fund II

Engagement

Alcentra engages with portfolio companies with the aim of improving ESG practices. Given their position as debt provider, Alcentra does not hold the same power as equity owners in terms of ability to drive initiatives and strategies, however, Alcentra can utilise relationships with management teams and shareholders to ask questions, make recommendations and share experiences of ESG in the private debt market.

Alcentra became a signatory of the UNPRI in June 2018 and an official supporter of the Task Force on Climate-Related Financial Disclosures ("TCFD") in early 2020. As supporters, Alcentra publicly advocate for the recommendations set by the TCFD and aim to implement them within their own investment practices.

ESG considerations have been integrated into Alcentra's investment and monitoring processes since 2016. Through its investment process Alcentra assign a risk rating on a low/medium/high scale to each of the ESG factors and an overall ESG rating. For investments made, this rating is then reviewed as part of a formal quarterly monitoring process. Alcentra evaluate owner and management approach to ESG matters and ongoing governance in this regard.

Alcentra also has a designated ESG Working Group, comprising of senior professionals from across the firm, which meets to discuss credit specific issues and approach to ESG at a corporate level.

In early 2020, the European Direct Lending team introduced an ESG Questionnaire, which is sent to borrowers during the investment process and has been circulated to existing portfolio companies for completion. The aim of the questionnaire is to understand borrowers' approaches to managing ESG risk including the policies that the company adheres to: e.g. Code of Conduct, Anti-bribery and Corruption, Diversity and Equal Opportunity. The questionnaire also assesses any company specific ESG initiatives and measures in place to track ESG performance: e.g. energy consumption, water consumption, waste management.

GreenOak UK Secured Lending Fund II

GreenOak has been a PRI signatory since 2008 and has a responsible investment policy which focuses on risk reduction, value creation, transparency, thought leadership and engagement.

GreenOak noted that its approach to sustainable investing is directly tied to its investment strategies and designed to match a range of client and investor risk and return expectations. GreenOak endeavours to manage ESG risks as part of its investment decision making and prioritises ESG consideration at every stage of building's lifecycle: development, acquisition and operations.

This approach is aimed to enhance the value of the portfolio by encouraging continuous innovation, increasing property occupancy and income, reducing risk of obsolesce and strengthening tenant loyalty. GreenOak believe that by actively managing climate risk the buildings they invest in today can thrive tomorrow.

GreenOak follow a five-pillar policy aimed to incorporate sustainability into their decision making these are:

1. Risk reduction
2. Value creation
3. Transparency
4. Thought leadership
5. Engagement

With respect to engagement, GreenOak aim to provide the tools and resources their investment and management teams need to effectively operationalize sustainable investing. They aim to foster meaningful asset occupancy and community engagement and involvement that helps occupants achieve their sustainable investing goals through proactive engagement.

Conclusion

The Trustee recognise and welcome the willingness and ability of all their appointed managers to carry out stewardship activity, such activity that should protect and enhance the long-term financial value of the investments.

Given the clear importance of stewardship, the Trustee and the investment adviser will continue to proactively monitor the stewardship activity of the Plan's managers and engage where necessary to encourage better practices.
