Yorkshire Fittings Pension Scheme – Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Stewardship Policy and related policies on Environmental, Social and Governance ("ESG") factors and Climate Change set out in the Statement of Investment Principles ('SIP') have been followed during the year to 31 March 2022. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, as amended and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives it has set. As set out in the SIP, the Trustees' primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk, taking in to consideration the circumstances of the Scheme.

The objectives set out above provide a framework for the Trustees when making investment decisions.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP dated 26 September 2019 first included the Trustees' policies on ESG factors, stewardship and Climate Change. These policies were updated in the SIP approved on 21 September 2020, which is the current SIP in force. We have set these policies out in Appendix 1 to this Statement.

There were no changes to the SIP over the Scheme Year.

The 21 September 2020 SIP first introduced the Scheme's policies in respect of the arrangements with the investment managers as required by legislation. These policies are set out in Appendix 2 to this Statement.

The latest SIP is available online at:
https://download.members.pensionpal.co.uk/yorkshirefittingspensionscheme/Yorkshire%20Fittings%20SIP%202020_approved%20non%20signing.pdf

The Trustees keep their policies under regular review and will at least reconsider them when reviewing the SIP, which is subject to review at least triennially.

Scheme's Investment Structure

Brewin Dolphin has been appointed to manage the Scheme's Growth Portfolio and was first appointed in 2008.

Brewin Dolphin manage their portfolio in line with the agreed investment objective and risk profile, which are reviewed on a regular basis. A key duty of Brewin Dolphin is to select a range of pooled funds to invest in, suitable to the overall mandate. Typically, the portfolio will be diversified over 30 or more pooled funds.

Under the Brewin Dolphin arrangement, the underlying pooled fund units are held in the name of a number of UK nominee companies and overseas custodians. The Trustees therefore have no direct relationship with the Scheme's underlying investments managers and no direct ownership of the underlying investments.

The Trustees have appointed BMO to manage the Scheme's Liability Matching assets, and have invested in BMO's pooled Liability Driven Investment funds. BMO was first appointed in October 2014. The Trustees note that there are no voting rights attaching to the BMO LDI funds due to the nature of these investments.

We do not include information in this Statement in relation to the Additional Voluntary Contributions as they are immaterial in the context of the Scheme's overall investments.

Trustee engagement

The Trustees' engagement policies were first formalised in the September 2019 SIP and then revised in the 2020 SIP. These were determined in conjunction with their investment managers. The SIP notes that the Trustees will engage with their managers no less frequently than annually. A sub-committee of the Trustees met with Brewin Dolphin during the year, and received updates from BMO.

Updates will be provided in next year's Statement as appropriate.

Voting Activity

Where the Trustees are specifically invited to vote on a matter relating to the corporate policy, they will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's members.

Over the Scheme year, the Trustees have not been asked to vote on any specific matters.

As noted earlier, the Scheme has no direct relationship with the pooled funds it is ultimately invested in, and therefore has no voting rights in relation to the Scheme's investments and no ability to influence the managers of the pooled funds.

However, the Trustees have taken reassurance from Brewin Dolphin, which confirmed as follows:

For clients who are investing through pooled funds, like the Yorkshire Fittings Pension Scheme, we look for fund managers who share our own commitment to the United Nations Principles of Responsible Investing (UNPRI) and act as responsible asset owners. As part of this, we screen fund managers and only approve and invest in those which explicitly integrate ESG considerations into their investment process, and have a voting policy and vote their proxies. Comprehensive reporting allows for oversight and ongoing monitoring. We also expect the managers of our pooled funds to be proactive in identifying issues and engaging with companies.

A number of the funds owned by the Scheme also qualify for inclusion on Brewin Dolphin's Socially Responsible Investing (SRI) buy list, which has more stringent requirements than the *core buy list in terms of ESG integration, active ownership and exclusions. There are currently 23 funds on the SRI buy list (which is expanding) and YFPS owns four of them already:*

- *Schroder Global Cities*
- *Stewart Investors Asia Pacific Leaders*
- *TB Evenlode Income*
- *BNY Mellon Sustainable Global Dynamic Bond*

Over the past year we have seen many enhancements to our stewardship work, and have been recognised with Signatory Status to the UK Stewardship Code 2020. We have also committed to achieving net zero by 2050, and this will require the same commitment from all of our investee funds and companies as well.

In 2021 we introduced our innovative controversy tracking process. Run by our fund research team, the process has three key aims:

- *Real time analysis of ESG leadership*
- *Monitor funds' stewardship processes*
- *Exert influence over our holdings in collectives*

The team continuously tracks news flow for controversies in the companies to which we are indirectly exposed and if significant enough, will reach out to the buy-list funds that hold the company in question. The objective of the exercise is to understand their investment case and if the news has changed it, as well as examining the ESG processes and stewardship leadership of the fund manager.

The controversies we engaged on in 2021, ranging from voting on climate resolutions to delays in Covid-19 vaccines to the discriminatory use of DNA sequencers by police in Xinjiang, China, represent real world issues that have the impact to affect not only investment returns but wider society.

It is not just a case of highlighting controversies to fund managers and leaving it there. Our fund research team request detailed responses from managers, explaining their position on the controversy, any engagement work they are undertaking and any impact it might have on the rationale for continuing to own the stock. Some responses have been exceptional, whereas some have been lacking in detail which has led to high level meetings with management to express our concerns and suggest improvements to processes.

Back in 2020, we launched an extensive programme of engagement with our fund managers based upon the Transition Pathway Initiative (TPI). The objectives of the engagement were as follows:

- *Identify holdings that might be controversial because of their lack of alignment with the TPI and Paris Agreement goals*
- *Better understand the ESG integration processes and engagement activities of the funds we cover*
- *Let the fund managers know that this is something we take seriously*

For 2021, we decided to run the engagement again. We noted the increased focus on climate change, particularly in the UK given COP26's Glasgow host, and drive within the industry towards setting net zero targets, as reasons for wanting to understand the views of our buy list fund managers. The objectives this year were as in 2020, with an additional aim of understanding how manager views have changed over the year. This is particularly important when it comes to companies flagged as not aligned last year, that are still being held a year later.

Brewin Dolphin has collated voting and engagement statements from the relevant managers in relation to 24 funds in which YFPS is invested. We include as Appendix 3 to this statement some of the key information in relation to the 5 funds in which YFPS had the largest holdings at the Scheme Year End. Information in relation to the other funds in which YFPS is invested is available on request.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will consider further information provided by Brewin Dolphin and general developments in market practice in this area before the production of next year's' statement.

Appendix 1 – Policy on ESG, Stewardship and Climate Change

The policies below are included within the 21 September 2020 SIP.

- Financially Material Considerations

The Trustees understand that they must consider all factors that have the ability to impact the financial performance of the Scheme's investments over the life of the Scheme. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Trustees recognise that ESG factors, such as climate change, can influence the investment performance of the Scheme's portfolio and it is therefore in members' and the Scheme's best interests that these factors are taken into account within the investment process.

The Scheme's assets are invested in pooled funds with BMO and via a mandate with Brewin Dolphin. The Trustees review the ESG policies of Brewin Dolphin and BMO. For Brewin Dolphin they are satisfied that an ESG assessment is embedded into the investment manager's research process and that such factors are an integral part of determining which pooled investments are suitable for the Scheme. The Trustees understand that BMO's reo® (responsible engagement overlay) approach ensures that the investment manager engages with the companies held in the portfolio to promote better ESG practices, using engagement and active share voting to drive change. The Trustees will therefore rely on the policies and judgement of its investment managers when assessing the impact on the value of the Scheme's investments.

The Trustees will continue to engage with their current investment managers to understand how the financially material considerations are taken into account. This will include how ESG, Climate Change and Stewardship continue to be integrated within investment processes. Such processes will be factored into decisions on the retention of the current managers and would be included in any selection exercise going forward.

- Non-Financial Matters

The Trustees have determined that the financial interests of the Scheme members are their first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members' preferences into account when setting the investment strategy for the Scheme.

- Corporate Governance and Voting Policy

The Scheme is invested solely in pooled investment funds. The Trustees have concluded that the decision on how to exercise voting rights should be left with the pooled fund investment managers, who will exercise these rights in accordance with their respective published corporate governance policy. These policies, which are available to the Trustees on request and on their respective websites, take into account the financial interests of shareholders and should be for the Scheme's benefit.

Where the Trustees are specifically invited to vote on a matter relating to the corporate policy, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's members.

Appendix 2 – Policies in respect of arrangements with asset managers

The policies below are included within the 21 September 2020 SIP.

- How the arrangement with the investment managers incentivises the investment managers to align their investment strategies with the Trustees' investment policies, including in relation to ESG

The Trustees have a segregated mandate with Brewin Dolphin, in which Brewin Dolphin has responsibility to invest in a range of pooled funds which they consider appropriate to achieve the overall risk and return objective of the mandate.

Brewin Dolphin is remunerated by a fixed monetary fee, with no commission charged on transactions.

This mandate reflects the Trustees' objectives for the Scheme, their attitude to risk, focus on cost, and views on ESG and related matters as set out within this SIP. The segregated nature of the arrangement with Brewin Dolphin means the Trustees can ensure that the portfolio characteristics remain aligned with their requirements. This drives a desire, within Brewin Dolphin, to reflect the specific demands of the Trustees in the management of the investments.

The underlying fund managers charge a percentage fee based on the value of the units held by the scheme, with the end result that fund managers will be incentivised, and rewarded, for consistent, risk adjusted outperformance. This also aligns the interests of the underlying fund managers with the Scheme's objectives.

BMO is also remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme.

The Trustees invest in BMO's pooled investment vehicles and therefore accept that they cannot specify the risk profile and return targets, but the pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The Trustees accept that they cannot influence the charging structure of the BMO pooled funds in which the Scheme is invested, but are satisfied that the ad-valorem charges for the funds are clear and are consistent with each fund's stated characteristics.

- How the arrangement incentivises the investment managers to make decisions based on their assessment of investee companies' medium to long term financial and non-financial performance and engage accordingly

The underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme.

Neither Brewin Dolphin nor BMO have a performance related fee, which could incentivise them to make decisions to maximise short term performance in order to hit profit targets. The Trustees therefore consider that the method of remunerating their key investment managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, they will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

- How the method and time horizon for evaluating the investment manager's performance, and the basis of their remuneration, are aligned with the Trustees' other investment policies;

The Trustees receive regular monitoring reports on performance from Brewin Dolphin in relation to the growth portfolio and from BMO in relation to their pooled LDI funds. The reports show the absolute performance, and performance of the manager's stated target performance (over the relevant time period) on a net of fees basis over a 3 month, 12 month and 3 year basis.

Mercer provides regular updates of the funding position so that the effectiveness of the Scheme's LDI strategy and overall strategic approach can be assessed. Mercer also provides returns of market indices so that these can be used to help inform the assessment of the investment managers' performance.

With regards to the Growth portfolio, Brewin Dolphin has the role of replacing the underlying investment managers where appropriate and takes a long-term view when assessing whether to replace the underlying investment managers. Such decisions would not be made based solely on short-term performance concerns, but instead would be driven by a significant downgrade of their view of the investment manager due to a significant reduction in their confidence that the investment manager will be able to perform in line with their fund's mandate over the long term. Brewin Dolphin will also make changes to the underlying managers if a particular fund is no longer appropriate to the growth mandate either from a strategic or tactical point of view.

Similarly, the Trustees take a long term view when considering both Brewin Dolphin and BMO. Other than for strategic reasons, a decision to replace BMO would be based on a significant downgrade of Mercer's assessment of their capabilities, whilst a decision to replace Brewin Dolphin would be made in conjunction with Mercer, if there had been a sustained period of underperformance.

- How they define and monitor portfolio turnover (frequency of buying or selling) costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range;

The Trustees do not currently monitor portfolio turnover costs for the funds in which the Scheme is invested although note that the performance monitoring reports show performance net of all charges, including such costs. Portfolio turnover costs means the costs incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustees are aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

The Trustees note that Brewin believe portfolio turnover should be considered at the portfolio level, i.e. by monitoring the percentage of funds replaced on an annual basis, rather than the turnover within each underlying fund. Where Brewin invest in managed funds, rather than setting thresholds for permitted turnover, they allow third party fund managers to express their own views and convictions, respecting the fact that their timescales and investment case may differ from that of Brewin Dolphin, knowing that the cost of trading is reflected in the annual disclosure.

BMO have noted that for the BMO Dynamic LDI Funds in which the Scheme is invested, the frequency of trading will be driven by opportunities to switch between gilts and swaps as well as the need to rebalance the overall liability hedging to minimise tracking error. Any switch trades are subject to a cost/benefit hurdle so trades are expected to crystallise a benefit that is at least four times the round trip dealing costs. For any LDI portfolio it is appropriate to measure portfolio performance rather than transaction frequency. Performance is reported net of trading costs and so this provides a high level of visibility as to whether tracking error is arising from trading activity.

Given the above, the Trustees do not have an overall portfolio turnover target for the Scheme.

- The duration of the arrangements with the investment managers

The Trustees are long term investors and do not look to change the investment arrangements on a frequent basis.

Brewin Dolphin has been appointed to manage the Scheme's Growth Portfolio and was first appointed in 2008.

Brewin Dolphin manage their portfolio in line with the agreed investment objective and risk profile, which are reviewed on a regular basis. A key duty of Brewin Dolphin is to select appropriate pooled funds to invest in, suitable to the overall mandate, based on Brewin Dolphin's view of the capabilities of the pooled fund managers and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustees have appointed BMO to manage the Scheme's Liability Matching assets, and have invested in BMO's pooled Liability Driven Investment funds. BMO was first appointed in October 2014.

Appendix 3 – Voting Activity

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
Artemis US Select Fund	Artemis voting is informed and carried out by an independent specialist, ISS. Artemis fund managers use the information provided by ISS and make the final decision on how to vote.	714 resolutions eligible for (100% cast)	11.76% of votes cast	0.14% of votes cast	Significant votes are defined as votes against management and where Artemis was voting in excess of 1% of the issued share capital.	*Alliance Data Systems Corporation* – Voted against the resolution "Advisory vote to ratify named executive officers' compensation" Rationale: A vote against is warranted because the performance period is less than 3 years; 1 year (2020) for strategic objectives, 2 years (2020-2021) for relative Total Shareholder Return Outcome: Pass Significance: This resolution is significant because the vote was against management and was greater than 1% of votable shares.
Dodge & Cox Worldwide Funds plc - U.S. Stock Fund	Dodge & Cox does not delegate voting decisions, but the operational aspects of voting are delegated to a third-party service provider. Dodge & Cox retains an outside vendor (ISS) to provide notification and research related to proxies. The vendor also administers proxy voting (i.e., implements the proxy voting decisions made by Dodge & Cox). Dodge & Cox also utilises proxy research provided by Glass Lewis to assist in the decision making process	960 resolutions eligible for (100% cast)	3.23% of votes cast	0.21% of votes cast	Dodge & Cox currently does not characterise most significant votes.	Dodge & Cox currently does not characterise most significant votes.
Vanguard S&P 500 UCITS ETF	The Investment Stewardship team votes on a fund-by-fund basis in the best interest of each individual Vanguard fund consistent with their published voting polices. They consult a variety of third-party research as one of many inputs alongside their own research and analysis that inform voting decisions. They do not vote in lockstep with proxy advisor recommendations.	6,677 resolutions eligible for (100% cast)	c.2% of votes cast	c.0% of votes cast	Significant votes involve a vote at a company in which Vanguard holds a meaningful ownership position, convey their perspective on an important governance topic elevated during the proxy season, or communicate their view of positive progress—or lack of it—by a company and its board.	*Bank of America Corporation* – Voted against a shareholder proposal to request a racial equity audit. Rationale: Addresses material risk, but proposal is overly prescriptive and company is on track. Company has already taken sufficient actions, made sufficient progress, and/or has related actions pending to address proponent request. Outcome: Proposal failed
BlackRock iShares Core S&P 500 UCITS ETF USD (Dist)	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA"). The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting	6,662 resolutions eligible for (95.62% cast)	4.07% of votes cast	0.00% of votes cast	BlackRock publishes "vote bulletins" on key votes at shareholder meetings to provide insight into certain vote decisions expected to be of particular interest to clients. These bulletins are intended to explain BlackRock's vote decisions relating	Vote bulletins containing explanations of the most significant votes can be found at https://www.blackrock.com/corporate/about-us/investment-stewardship#vote-bulletins.

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
	decisions are made by members of the BIS team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines. While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into the vote analysis process, and they do not blindly follow their recommendations on how to vote. ISS 'ProxyExchange' electronic voting platform is used to vote.				to a range of business issues including ESG matters considered, based on BlackRock's global principles and engagement priorities, material to a company's sustainable long-term financial performance.	
Evenlode income Fund	All decisions are made in house and the fund managers assume responsibility for voting decisions. The policy is widely available and voting decisions are published. Evenlode uses Proxyedge to cast their votes.	694 resolutions eligible for (100% cast)	1.30% of votes cast	0.00% of votes cast	Evenlode does not currently have a process of rating votes by importance or significance. As this is a concentrated fund, Evenlode does not classify any holdings to be more significant than others, but as it is a large shareholder in several companies, all due care and consideration is used in voting decisions.	*Company name is not disclosed* – Evenlode chose to vote against management and with the shareholders to allow unlimited number of shareholders to combine to reach 3% to get proxy access. Rationale: Developed governance standards in the US are still weaker than the standards shareholders experience in the more ESG developed markets. Although boards should be able to protect themselves from the use of such provisions, different groups of shareholders should have the right to nominate director candidates without restrictions and burdensome thresholds. Evenlode have not seen the use of this provision within their investee companies, however they felt that its existence will create further accountability, dialogue and ultimately be beneficial for minority shareholders.