Engagement Policy Implementation Statement

Bank of China Pension & Life Assurance Plan (“the Plan”)

New Requirements for Defined Benefit Pension Schemes

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.

Purpose and Data

This document sets out the proposed content for the EPIS for the Plan year ending 31 December 2020. We have gathered and reviewed information from your asset managers. Due to varying stewardship reporting cycles, not all the managers shared information directly relating to the specific period covering the Plan'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 this year's EPIS.

Why bring you this note?

This document sets out the proposed content for the EPIS for the year ending 31 December 2020.

Next steps

- The EPIS is to be included in the Plan's annual report and accounts.
- The EPIS will also have to be published on a publicly accessible website.

Prepared for: The Trustees of the Bank of China Pension & Life Assurance Plan

Prepared by: Aon, Responsible Investment Team

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Your Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations amongst other things require that the Trustees outline 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 Trustees have prepared and covers the year ending 31 December 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 SIP. The document includes voting and engagement information that has been gathered from the asset managers and provides an overview of how the policies within the SIP have been implemented during the reporting period.

The Trustees' Stewardship Policy

The Trustees delegate responsibility for exercising voting rights to the underlying investment managers. The extent to which Environmental, Social or Governance ("ESG") considerations are considered in the selection, retention and realisation of investments has been delegated to the fiduciary manager as well as the underlying investment managers.

The latest SIP was approved in August 2020, and can be found at this website:
https://www.bankofchina.com/uk/aboutus/ab5/202009/t20200923_18448205.html

Trustees' Activity Over the Year

Training

Over the year, the Trustees received topical updates from their investment consultant on Responsible Investment ("RI") matters. They also received and reviewed the Annual Stewardship Report from their fiduciary manager.

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 June 2020 to be more explicit on expectations and recourse where necessary.

Engagement – Fiduciary Manager

Within the stewardship policy set out in the SIP, the Trustees state that they expect the following from their fiduciary manager, Aon Investment Limited ("AIL");

- Ensure that (where appropriate) underlying asset managers exercise the Trustees’ voting rights in relation to the Plan's assets; and
- Report to the Trustees on stewardship activity by underlying asset managers as required.

Under the fiduciary mandate, AIL appoint underlying asset managers to achieve an overall target return. The Trustees delegate the monitoring of ESG integration and stewardship quality to AIL. AIL has confirmed that all equity and fixed income managers have been rated "2" or above on its four-tier ESG ratings criteria.[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 2019 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. The Trustees will review the 2020 report when it becomes available.

AIL have undertaken a considerable amount of engagement activity over 2020. AIL held around 35 ESG specific “deep-dive” meetings predominantly covering the equity and fixed income managers 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 calendar year 2019, highlighting areas of improvement and discussing manager strategy in RI moving forward.

An example of an engagement carried out during the reporting year was with a US-based fixed income manager that lacked an RI policy or any metric for scoring securities on ESG. Following AIL's engagement with the manager on these issues, they acted 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 the manager has made a public commitment to RI by becoming a signatory to the Principles for Responsible Investment ("PRI") - the world's leading proponent of ESG and a global standard setter for better practice.

Voting and Engagement – Equity

Over the year, the Plan was invested in equity through the AIL Managed Growth Strategy Fund. The material equity investments held were:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund
- Nikko Japanese Equity Fund (invested in July 2020)

LGIM Multi Factor Equity Fund

LGIM has been a signatory to the PRI since September 2010 and endorses the six PRI principles to incorporate and report on ESG activities. LGIM reports annually on its commitment to the six responsible investment principles, including the integration of ESG issues into investment practices.

Voting

	Year to 31/12/2020
% resolutions voted	99.7%
% of resolutions voted against management	17.9%
% resolutions abstained	0.1%

LGIM make use of the Institutional Shareholder Services’ (ISS) 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.

As an example of LGIM's voting activity, they 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

[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

season. Two resolutions 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 30.0% support from shareholders.

Engagement

In 2020, LGIM held 739 engagements with companies to raise their ESG standards. LGIM's engagement strategy is focused on both ESG scores and long-term themes. Priorities for engagement are chosen mainly to reflect overall exposures, in terms of country, sector and companies. The companies where LGIM has the biggest holdings pose the greatest risks and opportunities to market performance. At the same time, where it holds large stakes it has a stronger influence.

Its focus on larger companies has a cascading impact on other companies within the countries and sectors by helping to establish best practices. LGIM sets clear timeframes for the engagement activity and considers in advance any escalation which may be required if key requests are not met. It prefers to set a measurable outcome, either at market or company level.

In addition to this, LGIM carries out regular engagement with investee companies on other important investment issues such as M&A, capital allocation and market-wide issues that it believes threatens the long-term health of the companies it invests in.

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

An example of engagement over 2020 was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on efforts to eliminate deforestation (that was voted on in October 2020), LGIM engaged with P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced several objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continues to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

BlackRock Emerging Markets Equity Fund

Voting

	Year to 31/12/2020
% resolutions voted	97.1%
% of resolutions voted against management	8.7%
% resolutions abstained	3.0%

BlackRock also use 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.

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 several criteria such as level of public attention, and impact of financial outcome.

Engagement

The BlackRock Investment Stewardship Team's stated key engagement priorities include:

- Board quality
- Environmental risks and opportunities
- Corporate strategy and capital allocation
- Compensation that promotes long-termism
- Human capital management.

BlackRock has significantly increased its engagement activity year on year 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:
https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf

As an example of voting and engagement activity, in December 2020 BlackRock voted against a management proposal that shareholders vote 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 equity interests held by Yangkuang Group in seven business entities for a total cash consideration of CNY 18.4 billion. The key assets to be acquired included a coal liquefaction project, a supporting coal mine and a coal-fired power plant, as well as other ancillary facilities.

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 believed it was in their clients' best long-term economic interests to vote against the proposed acquisition for two primary reasons: i) the underlying valuation for the terms of the transaction and ii) management's oversight of potential "stranded" asset risk.

With respect to the latter, the transaction was announced shortly after China pledged to achieve carbon neutrality by 2060 with carbon emissions peaking by 2030. Yet Yanzhou Coal as a state-owned enterprise did not articulate how the acquisition of these coal-related assets aligned with China's stated goals, including the new Nationally Determined Contributions to be updated at the UN Climate Change Conference (COP 26). Concerns remained about Yanzhou Coal's decision to acquire a coal-fired power plant as part of this transaction. The coal-fired power sector in China is already facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. The sector is expected to become even more challenged as more provinces anticipate grid parity for renewable energy. Therefore, such an acquisition could well exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

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

Nikko Japanese Equity Fund

Voting and engagement

Nikko use their own research and voting team without the use of service providers. More detail on their guidelines for exercising voting rights can be found here: https://en.nikkoam.com/voting-rights

At the shareholder meetings of 2,306 Japanese companies in which Nikko held voting rights between July 2019 and June 2020, the firm cast 2,758 negative votes against 23,012 company generated proposals. This translates to 12.0% of the total. Nikko reports its voting statistics on an annual basis for the period July – June, as most AGMs in Japan are concentrated around June.

Engagement – Fixed Income

The Trustees also invests in fixed income securities through its arrangement with AIL.

While equity managers may have more direct influence on the companies they invest in, fixed income managers are also increasingly influential in their ability to encourage positive change. A high-profile example of this is from Robeco (a multi-asset credit manager that AIL invest in) that have ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its 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.

Engagement – Alternatives

The Trustees invest in several alternative strategies through their arrangement with AIL. These include managed futures, insurance linked securities, defensive equities, risk parity, gold and listed property.

The Trustees recognise that the investment processes and often illiquid nature of alternative investments may mean that stewardship is 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

This statement explains how the Trustee has followed its engagement policy over the year. 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.

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 through considered voting and engagement.

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