Engagement Policy Implementation Statement

Delta Air Lines UK Staff Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual statement which outlines the following:

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by or on behalf of the Trustees (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

The EPIS has been prepared by the Trustees and covers the Scheme year 1 May 2021 to 30 April 2022.

Executive summary

Based on the activity over the year by the Trustees, their fiduciary manager, Aon Investments Limited ("AIL"), and their underlying investment managers – the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that their fiduciary manager and most of their underlying investment managers were able to disclose evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Scheme stewardship policy

The below bullet points summarise the Scheme's stewardship policy in force over the Scheme year to 30 April 2022.

As part of fiduciary manager's management of the Scheme's assets, the Trustees expect the manager to:

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

Scheme stewardship activity over the year

Training

A presentation from the Scheme's Fiduciary Manager, Aon Investments Limited ("AIL"), was provided to the Trustees in November 2021, engaging a number of areas, including performance, strategy, risk, corporate governance.

AIL monitor the Environmental, Governance and Social ("ESG") ratings for all rated managers within the fiduciary portfolio. These ESG Ratings reflect the extent of ESG integration as well as the features and impact of their respective Stewardship programs.
The Trustees have received training from AIL and from their investment adviser, Aon Solutions UK Limited ("ASL"), on regulatory matters relating to stewardship and on Responsible Investment ("RI") in a broader context.

Engagement activity – Fiduciary manager

The Trustees have delegated the management of the Scheme's assets to their fiduciary manager, Aon Investments Limited ("AIL"). AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third-party liability matching funds. AIL selects the underlying investment managers on behalf of the Trustees.

The Trustees have reviewed AIL's latest Annual Stewardship Report and believe it shows that AIL is using its resources to effectively influence positive outcomes in the funds in which it invests.

AIL has carried out a considerable amount of engagement activity over the year. AIL held a number Environmental, Social and Governance ("ESG") focussed meetings with the underlying managers across all its strategies. At these meetings, AIL discussed ESG integration, stewardship, climate, biodiversity, modern slavery, and voting and engagement activities undertaken by the investment managers. This allowed AIL to form an opinion on each manager's strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

Aon Solutions UK Limited ("Aon") also actively engages with investment managers and this is used to support AIL in its fiduciary services. Aon's Engagement Programme is a cross-asset class initiative that brings together Aon's manager research team and Responsible Investment specialists to promote manager engagement with the needs of Aon's clients in mind.

In Q3 2021, Aon and AIL were confirmed as signatories to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken by Aon and AIL on behalf of its clients. For further details, please see the submission report https://www.frc.org.uk/getattachment/b9002ca0-3beb-40e6-8b09-375661ccd193/Aon-UK-Stewardship-Code-2020-Report.pdf.

Engagement example

In September 2021, Aon engaged with an underlying manager to understand why the manager's submission for the UK Stewardship Code ("the Code") 2020 was not accepted. The Code is a set of high stewardship standards for asset owners and asset managers. The Code is maintained and assessed by the Financial Reporting Council ("FRC"). The underlying manager was previously a signatory to the 2012 UK Stewardship Code.

At a meeting, Aon and the manager discussed the feedback from the FRC on why the manager was not accepted as a signatory to the Code. The rejection was thought to be due to the format rather than the substance of the submission. The manager resubmitted in October 2021 and was accepted.

Voting and Engagement Activity – Underlying Investment Managers

Over the period, the Scheme was invested in a number of equity, fixed income and alternative funds through its investment with AIL. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material underlying managers.

Voting information relates to the specific funds the Scheme invests in. Managers have only been able to provide data at quarter end dates, so information from 1 April 2022 to 30 April 2022 is currently unavailable. We are comfortable that, based on the information provided on voting undertaken over the 12 months to 31 March 2022, the Trustees' stewardship policy has been appropriately implemented by the Scheme's investment managers.

Voting and Engagement Activity – Equity and Multi-asset Funds

Over the year, the Scheme was invested in the AIL Managed Growth Strategy. The material equity and multi-asset investments held by the Scheme were:

Legal and General Investment Management Limited ("LGIM")	Multi Factor Equity Fund
BlackRock	Emerging Markets Equity Fund

In this section there is a summary of voting information and examples of significant voting activity for each of the Scheme's relevant managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has its own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

LGIM – Multi Factor Equity Fund

Voting

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from the Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting Example

In June 2021, LGIM voted against a resolution to elect the Chief Executive Officer ("CEO") of retailer Target Corporation to the role of Chair of the company's board as well. It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. Further, LGIM expects a CEO or non-executive director not to hold too many board positions to ensure they can undertake their duties effectively. 93.7% of shareholders voted in favour of the resolution. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. It's top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all its clients.

More information can be found on LGIM's engagement policy https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf.

At the time of writing, LGIM had not provided engagement examples for the fund. The Trustees' fiduciary manager, AIL, has engaged with LGIM to encourage it to report on its engagement activities in line with its peers. AIL and the Trustees expect to see improvements in LGIM's reporting next year. The example provided below is at firm level, i.e. it is not specific to the fund the Scheme is invested in.

Engagement Example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

BlackRock – Emerging Markets Equity Fund

Voting

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. BlackRock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

BlackRock subscribes to research from the proxy voting advisers ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

Voting Example

In June 2021, BlackRock voted against a proposal from the management of Huadian Power International ("Huadian International"), a Chinese energy company. The proposal sought to reorganize its wind and solar power portfolio by transferring all related assets into a dedicated renewable energy entity, which the majority is controlled by its parent company, Huadian Group. In exchange Huadian International would receive a minority stake in the renewable energy entity.

BlackRock voted against the proposal because it was concerned about the conflict of interest between Huadian International and its parent company. The proposal would prevent Huadian International from investing in wind or solar power projects, to avoid it being in competition with the majority shareholder, Huadian Group. In BlackRock's view, the transaction would disadvantage the minority shareholders of Huadian International by preventing them from participating in China's renewable energy market.

The proposal passed with a majority vote.

Engagement

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, company impacts on people.

More information can be found here: https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf

Engagement Example – Vale

At a strategy level, BlackRock has engaged with Vale S.A. ("Vale"), a Brazilian mining company, since 2019. In January 2019, a tailings dam at one of Vale's iron ore mines collapsed and killed approximately 270 people. Tailings dams are used to store water and waste that are by products from the mining process. The collapse also caused significant environmental damage.

Over the course of 2020 and 2021, BlackRock held frequent engagements with Vale. Vale provided updates on the dam collapse, including the status of the investigation and the final settlement. Vale provided additional context on the frequent public announcements about: 1) the steps taken to strengthen risk management and governance policies to ensure the safety of people and operations; and 2) the remediation measures regarding the environmental damage and socio-economic impact on the local community.

BlackRock's engagements with Vale also focused on board effectiveness and sustainability. It shared its expectations of board quality including composition, diversity, and independence. BlackRock also discussed the company's sustainability disclosures and carbon emissions reduction targets.

The table below shows the voting statistics for the year to 31 March 2022.

	LGIM Multi Factor Equity Fund	**BlackRock Emerging Markets Equity Fund**
Number of resolutions eligible to vote on over the period	11,660	28,828
% of resolutions voted on for which the fund was eligible	99.8%	100.0%
Of the resolutions on which the fund voted, % that were voted against management	19.1%	9.0%
Of the resolutions on which the fund voted, % that were abstained from	0.2%	4.0%

Source: BlackRock and LGIM

Please note that managers generally collate voting information on a quarterly basis. The voting information provided above is for the year to 31 March 2022. This broadly matches the Scheme year.

Engagement Activity – Fixed Income Funds

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so debt issuers have a vested interest to make sure that investors are happy with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process.

The following examples demonstrate some of the engagement activity carried out by the Scheme's fixed income managers over the year.

Robeco – Global Credit Short Maturity Fund

<u>Engagement</u>

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments. Robeco engages with companies worldwide, in both their equity and credit portfolios.

Robeco carries out three types of engagement with the companies in which it invests:

- Value engagement;
- Enhanced engagement; and
- Sustainable development goals engagement.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

Engagement Example

Robeco engaged with the British bank, Barclays, about its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The culture at Barclays was a key area for improvement and Barclays did a lot of work to improve this. For example, the bank regularly reports the importance of behaviours to its staff and tries to foster an open culture. The bank's approach to financial crime is also now largely in line with other European banks. Robeco closed this engagement successfully in Q4 2021.

BlueBay Asset Management LLP ("BlueBay") – Total Return Credit Fund

Engagement

BlueBay believes that providers of debt have a role in engaging with issuers on matters that have the potential to impact investment returns. But as a debt investor, BlueBay believes that it has more limited influence on issuers than equity investors. BlueBay will not automatically exclude issuers from investment based on their ESG performance. Actions to mitigate such ESG risks are raised with investment teams where appropriate. As part of BlueBay's routine investment research process, its investment teams meet issuers and borrowers and are able to raise questions regarding ESG and climate change-related matters.

Engagement Example

Over the period, BlueBay engaged with the government of Colombia with the objective to improve budget transparency. BlueBay chairs a working group of the Emerging Markets Investors Alliance dedicated to improving the budget transparency of issuers in the Latin American stock indices. In May 2021, BlueBay initiated an engagement with the Finance Ministry of Colombia to suggest improvements for how it could be more transparent about how it raises and spends public resources. BlueBay asked them to publish online a citizens budget, which aims to present budget information in an accessible format.

The Budget Office gave a comprehensive account of both the budget cycle and the new online resources that have improved public access to information on how public money is being used. The Budget Office presented several metrics showing strong performance by the Organization for Economic Cooperation and Development ("OECD") standards. They expressed hope that their International Budget Partnership ranking (a measure of a country's budget transparency) would improve at the next review in 2022.

Aegon Asset Management ("Aegon") – European Asset Backed Securities ("ABS") Fund

Engagement

Aegon believes that actively engaging with companies to improve their ESG performance and corporate behaviour is generally more effective than excluding companies from investment. Engagements are conducted by its investment managers, research analysts and its Responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment (“PRI”). Aegon also participates in collaborative engagement initiatives such as the UK Investor Forum and the Institutional Investors Group on Climate Change.

Aegon engages with ABS issuers regularly through ESG questionnaires that are specific for consumer loan ABS. It has meetings to discuss the questionnaire answers, the companies’ ESG goals and any areas for improvement.

Engagement Example

In 2021 Aegon engaged with Brignole, an ABS issuer. Aegon wanted to better understand the consumer loans issued by the company, so it could assess if the loans had any environmental impact. Further, Aegon suggested that the company increase borrowing for an environmental purpose by offering borrowers a discount.

To start the engagement, Aegon sent Brignole its ESG questionnaire. After receiving the answers, Aegon discussed the answers with Brignole’s management. It also discussed the company’s ESG goals and areas for improvement.

From the engagement, Aegon gained a better understanding of the loans. This helped Aegon make a thorough ESG analysis of the issuer. Further, Brignole agreed to implement Aegon’s suggestion to offer loans with environmental purposes at a discount. Aegon stated it will pursue similar engagements with other consumer loan issuers.

Schroders plc (“Schroders”) – International Selection Fund (“ISF”) Securitised Credit Fund

Engagement policy

Schroders engages on a broad range of topics including climate risk. Schroders believes that engagement provides it with an opportunity to influence company interactions with their stakeholders; ensuring that the companies it invests in are treating their employees, customers and communities in a responsible way.

In Schroders’ ISF Securitised Credit Fund, cashflows from various loans, such as mortgages, car loans and credit card payments, are grouped together into bonds known as asset-backed securities. In its engagements, Schroders engages with the managers of the underlying loan products. Schroders has developed questionnaires specifically for collateralised loan obligation (“CLO”) managers and commercial mortgage-backed securities managers, which it issues as part of its engagements. The information received is incorporated into its manager due diligence.

Engagement example

In 2021, Schroders engaged with financial services company, OneMain Financial about its customer base and how it facilitates financing for a group of consumers that are more ‘credit insecure’. OneMain Financial shared with Schroders its criteria for defining ‘credit insecure’ customers and how it achieves better credit results with this more ‘at-risk’ borrower base, including offering the borrower financial education and services. Schroders also discussed differences between OneMain Financial and its peers, specifically disruption potential to its operations and consumer servicing from storms.

Reams Asset Management ("Reams") – Unconstrained Bonds Fund

Reams subscribes to engagement services provided by ISS, where ISS engages with companies on behalf of its subscribers to address ESG issues and risks. Reams believes this is an effective means to leverage the strength of the group of investors represented by ISS to influence issuers. The process is passive from Reams perspective, but Reams tracks the engagements that ISS make on a quarterly basis and reviews the relevant reports provided by ISS regarding the progress.

Reams' parent company, Carillon Tower Advisers ("Carillon"), is developing corporate engagement protocols and tools to roll out across its affiliate companies. The protocols will help to identify the themes for engagement and establish priorities. Also, it will provide a framework for engagements by setting milestones, measuring progress, and documenting outcomes. Carillon expects this to lead to more focused and effective engagements.

At the time of writing, Reams did not provide an engagement example. The Trustees' fiduciary manager, AIL, will raise this issue with Reams at their next meeting.

T.Rowe Price – Absolute Return Bonds Fund

Engagement

When engaging with companies, T.Rowe Price looks for factors which could have a negative impact on performance, rather than focusing on broad engagement themes. It will sometimes ask companies to make specific changes or seek more information on an ESG issue to ensure investment decisions are well informed.

T.Rowe Price's engagement programme is driven by its portfolio managers who are supported by its analysts and specialists in corporate governance and sustainability.

Engagement Example

In late 2021, T.Rowe Price engaged with Ambev, a Brazilian brewer, regarding human and labour rights related issues. Earlier in the year, Ambev was fined for the illegal employment in slavery-like conditions of Venezuelan migrants working for a transportation subcontractor of Ambev. T.Rowe's engagement sought to better understand the controversy, whether the incident was indicative of any organisational or cultural issues at the company, and what actions management took in response to the event.

As a result of the incident, Ambev terminated the sub-contractors contract immediately in line with its company policy. Ambev also launched a full investigation into the incident. Ambev noted that it is making its supply chain risk management more robust by using data analytics and enhanced auditing. The company has enlisted several consultants to support this process.

T.Rowe Price believes that Ambev acted quickly and responsibly in relation to the incident. It also sees that the company is researching and investing in ways to make its supply chain management more robust and mitigate the risk of future controversies. T.Rowe Price continues to invest in the company.

Engagement Activity – Alternative Funds

The Trustees acknowledge that the ability of alternative managers to engage with and influence investee companies may be less compared to equity managers.

Over the year, the Scheme invested in alternatives such as insurance linked securities and gold. This section details examples of policies and practices at Leadenhall Capital Partners, the appointed underlying insurance linked securities manager.

Leadenhall Capital Partners LLP ("Leadenhall") – Insurance Linked Securities

Engagement

Leadenhall performs a detailed review of its investment counterparties' ESG policies and controls. Where appropriate Leadenhall will avoid investment counterparties who are not aligned with its own ESG policies. Leadenhall assesses its investment counterparties' alignment with its own ESG principles by considering specific factors including:

- Environmental impact such as pollution prevention, reduced carbon emissions, and adherence to environmental safety standards.
- Social impact including human rights, welfare and community impact issues.
- Governance issues including board structure, remuneration, accounting quality and corporate culture.

Conclusion

Overall, the Trustees are of the opinion the stewardship carried out on behalf of the Scheme is adequate. The Trustees delegate responsibility to AIL to encourage and monitor improvement in this area with the appointed underlying managers.

The Trustees acknowledge that stewardship may be less applicable to certain asset classes, such as hedge funds and real estate, but generally would still expect to see RI policies and processes formalised and developed over time.

The Trustees recognise that they have a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in.

The Trustees will continue to use influence to drive positive behaviour and change among the managers that they have employed to invest the assets of the Scheme, and with other third parties that the Trustees rely on, such as their investment advisor. The Trustees will, as appropriate, set increasingly higher standards for these parties in future, and will monitor, assess and ultimately hold them to account to ensure that the assets of the Scheme are appropriately invested.