

Engagement Policy Implementation Statement

GATX UK Pension Scheme (“the Scheme”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustees (the “Trustees”) and covers the Scheme year 6 April 2021 to 5 April 2022.

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:

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

Executive summary

Based on the activity over the year by the Trustees and their investment managers, the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that their fiduciary manager and all of their investment managers were able to disclose strong evidence of voting or 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 5 April 2022.

The full SIP can be found here:

<https://pensioninformation.aon.com/gatx/fileviewer.aspx?FileID=11951&FileName=GATX%20Statement%20of%20Investment%20Principles%202020.pdf>

As part of their delegated responsibilities, the Trustee expects the Scheme’s investment managers to:

- take into account social, environmental or ethical considerations in the selection, retention and realisation of investments; and
- exercise the Trustee's voting rights in relation to the Scheme'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.

Scheme stewardship activity over the year

Training

Over the year, the Trustee did not receive responsible investment training sessions with their investment advisor.

Updating the Stewardship Policy

Throughout the year, the Trustee has been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

This has been made available on a new Aon website where it can be accessed by the public.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Manager Appointments

During the year to 5 April 2022 the Trustee reviewed the Scheme's investment strategy and appointed Aon Investments Limited (AIL) to manage its assets with 50% invested in its Diversified Liquid Credit Strategy, with the other 50% allocated to Liability Driven Investment. Additionally, as part of the Scheme's manager selection, the manager's ESG credentials were actively considered by the Trustee to ensure they were aligned with the Scheme's policies.

Following the update to the Scheme's investment strategy, the Trustee implemented revised wording and updated the SIP to meet the regulatory requirements.

Engagement activity – Fiduciary manager

The Trustees have delegated the management of the Scheme's assets to its fiduciary manager, 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 of Environmental, Social and Governance ("ESG") focussed meetings with the underlying managers across its strategies. At these meetings, AIL discussed ESG integration, 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 ("the Code"). 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"). 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.

Engagement example:

In September 2021, Aon engaged with an underlying manager to understand why the manager's submission for the Code was not accepted. 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 fixed income funds through its investment with AIL. This section provides an overview of the engagement activities of some of the most material underlying managers.

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.

AIL Diversified Liquid Credit Strategy

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's 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 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.

At the time of writing, Schroders did not provide fund-level engagement examples. The Trustees' fiduciary manager, AIL, will raise this issue with Schroders at their next meeting. The example provided below is at a firm level, i.e. it is not necessarily specific to the fund the Scheme is invested in.

Engagement example (firm level)

In 2021, Schroders engaged with a number of FTSE 100 companies to inform them that, from 2022 onwards, it will be using its shareholder votes to apply pressure on firms that have failed to meet board diversity targets.

Schroders's believes that diversity is important for a company's long-term strategy and success. Further, this will allow for more constructive debate of different views as well as a better representation of wider stakeholders.

Schroders engaged by sending out letters to companies. Since sending out these letters, 25 companies acknowledged receipt, 15 provided a substantial response and one has since appointed a non-white director to its board. Schroders will monitor the progress of companies on this issue.

Barings LLC (“Barings”) – Active Short Duration

Engagement

Barings’ engagements involve interactions with current or potential investees on ESG issues. Engagements are undertaken to influence ESG practices and improve ESG disclosure. Through its engagement, Barings aims to enhance the performance of its investments for the benefit of its clients. Barings believes that value is derived from transparent communication with the entities in which it invests, coupled with the expertise and discretion of its experienced investment professionals.

Engagement Example

In 2021, Barings engaged with an energy corporate issuer on the natural resource usage and impact of the company. From the engagement, Barings aimed to assess the issuer’s views on their future energy mix, corporate strategy, and board composition. The engagement covered various topics such as company’s renewable build out, financial policy targets, recent equity activist involvement and management changes. As a result of the engagement, the issuer effectively addressed ESG-related concerns surrounding multiple areas of the business. Barings will continue to monitor developments on this engagement.

Aegon Asset Management (“Aegon”) European 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.