

University of Wales Superannuation Scheme: Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 July 2020. 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 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 they have set. The Trustees are required to invest the Scheme's assets in the best interest of the members, beneficiaries and the Employer and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this context, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed. The Trustees' objectives are as follows:

- To make sure that the Trustees can meet the obligations which have been promised to the beneficiaries of the Scheme by the Employer;
- To ensure consistency with the Scheme's funding arrangements;
- To pay due regard to the Employer's interest in the size and incidence of the Employer's contribution payments.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term. However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. A further review of the Trustees' policy on ESG factors, stewardship and climate change has taken place after 31 July 2020, but prior to the signing of the accounts.

The following work was undertaken during the year to 31 July 2020 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

As described in the SIP, the Trustees will not consider the ESG policies of Additional Voluntary Contributions ("AVCs") providers and associated investment funds as these are a small proportion of total assets.

Engagement

- The Trustees' investment consultant, Mercer Limited, has highlighted a continuing high rating of Legal and General Investment Management's ("LGIM") passive equity strategies, reflecting their engagement activity, and ratings for LGIM's diversified growth fund are broadly in line with the peer group average as at 30 June 2020. Mercer does not provide ratings for the Scheme's investment in UK government bonds given the more limited scope for engagement in respect of these investments.
- Prior to a change in the Scheme's investment strategy which was implemented in February 2020, the Scheme also invested with Aberdeen Standard Investments ("Aberdeen Standard"). Mercer did not provide a rating for the mandate held with Aberdeen Standard due to the limited scope for ESG integration within this asset class.
- If a particular fund in which the Scheme invests, or LGIM generally, were to have its ESG rating downgraded then the Trustees would consider their continued investment and may put a manager 'on-watch' or, in the case of a material change in rating, terminate the appointment.
- The Trustees requested that the investment manager, LGIM, confirm compliance with the principles of the UK Stewardship Code. LGIM confirmed that they have been a signatory of the current UK Stewardship Code since its inception and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.
- The Trustees also received details of relevant engagement activity for the year from both LGIM and Aberdeen Standard, which are listed below.

LGIM:

- In 2019, LGIM's CIO Sonja Laud established the Global Research and Engagement Platform. This brings together representatives from across its investment and stewardship teams, to unify LGIM's engagement efforts and determine the exposure of sectors and companies to ESG risks and opportunities. The output from the platform strengthens and streamlines the firm's engagement activities, enabling LGIM to collectively set goals and targets at a company level with one voice, whilst supporting and guiding investment decisions across the capital structure. The platform has three overarching objectives:
 - Leverage LGIM's scale;
 - Challenge the firms' investment decisions;
 - Co-ordinate the firms' engagements.
- LGIM engaged with companies over the year on a wide range of different issues including ESG factors. This included engaging with companies on climate

change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).

- LGIM provided examples of instances where they had engaged with companies which they were invested in (or were about to invest in) which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that LGIM invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate whether or not they support the resolution to the company's management.

Aberdeen Standard

When Aberdeen Standard decide to engage with companies from an ESG perspective, they do so in line with the 10 principles of the United Nations Global Impact. There is an expectation that investee companies meet fundamental responsibilities in the areas of human rights, labour, the environment and anti-corruption. However, Aberdeen Standard will also engage on wider corporate issues such a board balance and composition, remuneration policies and audit and risk issues. Engagement is conducted at board level typically with the chairman of the non-executive directors as appropriate, and company secretaries of investee companies.

- Whilst Aberdeen Standard does not currently provide detailed fund by fund engagement reporting, this is something they are looking to develop in future.

Voting Activity

From the inception of this statement, LGIM will be expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustees' investment advisor, on behalf of the Trustees, to ensure voting activity undertaken aligns with their overarching investment policy and the policies set out within the SIP. Any material deviations from the SIP will be raised and discussed with the Trustees.

Currently, the Trustees ask LGIM to highlight key voting activity and the impact on the portfolio. The Trustees are looking to enhance reporting on voting activity by reviewing an annual voting and engagement report which will be produced by the Trustees' investment consultant.

The Trustees do not use the direct services of a proxy voter, although LGIM does employ the services of proxy voters in exercising its voting rights on behalf of the Trustees.

The voting policy of the manager has been considered by the investment consultant, on behalf of the Trustees, who deems it to be consistent with the Trustees' investment beliefs.

LGIM World Equity Index:

- There have been 2,365 votable meetings over the year, in which there were a total of 11,859 resolutions. LGIM voted on 99.9% of resolutions on which they were eligible, voting with management 81.0% of the time.
- LGIM noted a significant vote on behalf of the Trustees in respect of Barclays. LGIM voted for two resolutions, firstly to affirm Barclays' Commitment in Tackling Climate Change and secondly to approve a resolution proposed by ShareAction. LGIM continued to codify Barclays' commitment to climate change and ESG factors and will enable them to continue to drive positive change in the industry. LGIM considers this vote significant due to both mounting client interest and also the positive outcome achieved for long-term asset owners.

LGIM Diversified Fund:

- There have been 7,819 votable meetings over the year, in which there were a total of 11,859 resolutions. LGIM voted on 99.2% of resolutions on which they were eligible, voting with management 80.4% of the time.
- LGIM noted a significant vote on behalf of the Trustees in respect of Amazon. LGIM voted to support 10 out of 12 Shareholder resolutions aimed at improving Amazon's management of its human capital. The resolutions were proposed in reaction to the raft of reports that Amazon workers do not feel safe at work along with an article published in the New York Times in 2015 which accused the company of harsh workplace practices. Whilst the majority of shareholders did not give support to the resolutions, LGIM noted that the sheer number of the resolutions and the focus on them continues to dominate the landscape for the company. LGIM considered this vote significant on account for the following:
 - The number of proposals on the table was the highest of any major US company;
 - There were diverse, global coalitions rallying behind the proposals;
 - There was substantial press coverage at the beginning of the COVID-19 outbreak;
 - Multiple state treasurers had spoken out against the company.

LGIM also noted that their Stewardship team had received more inquiries related to Amazon than any other company over the year.

Aberdeen Standard Global Absolute Return Strategy:

- There have been 164 votable meetings over the year, of which Aberdeen Standard has voted in 157 of these meetings on behalf of the Trustees. In these meetings, there were a total of 2,600 votable items.
- Aberdeen Standard has participated in the vote for 2,466 of the 2,600 votable items (i.e about 95% of the votable items). Of these votes participated, Aberdeen Standard voted against management on 14% of the proposals.

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