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 Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Fund included in the SIP are to invest the Fund’s assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustees’ primary aim is to ensure all benefits are paid when they fall due.

Over the longer term, the Trustees would like to adopt a ‘self-sufficiency’ approach whereby the Fund’s assets are less risky and there is a reduced probability of a funding deficit opening up in the future. It is proposed the portfolio will be invested in a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due. The Trustees are comfortable that the strength of the covenant offered by the University means that they can take a degree of risk in the portfolio over the longer term and do not intend to move toward a ‘lowest risk’ portfolio which would be 70-100% invested in government bonds.

Policy on ESG, Stewardship and Climate Change

The Fund’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. This was last reviewed in May 2020.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training in April 2019 provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. Prior to this training, the Trustees undertook a beliefs survey designed by their investment consultant to assist them with establishing
their policy in this area. The results of this survey were presented at the Trustees’ meeting on 11 April 2019, when the training took place, with the policy being incorporated into the SIP following this exercise. The Trustees keep their policies under regular review with the SIP subject to review at least triennially.

The following work was undertaken during the year 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.

**Engagement**

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UI< Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustees with ESG ratings for the strategies in which the Fund invests.

The Trustees requested that the investment managers confirm compliance with the principles of the UI< Stewardship Code. All managers confirmed that they are signatories of the current UK Stewardship Code 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 investment performance report is reviewed by the Trustees on a quarterly basis - this includes ratings (both general and specific ESG) from the investment consultant. All of the managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor. When implementing a new manager the Trustees consider the ESG rating of the manager. The investment performance report includes how each investment manager is delivering against their specific mandates.

The Trustees also received details of relevant engagement activity for the year from each of the Fund’s investment managers.

The Fund’s investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance 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). The Fund’s managers provided examples of instances where they had engaged
with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers 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 or not their support for the resolution to the company's management.

**Blackrock**

As an investor in fixed income, it is important to note that there is relatively limited scope for engagement.

However, Blackrock provided an engagement summary with showed that they had a total company engagement of 1,793 with 285 companies engaging multiple times. This also stated that BlackRock Investment Stewardship (BIS) views engagement as a key mechanism for providing feedback or signalling concerns to companies about factors that affect long-term performance. BlackRock defines an engagement as a meeting between with a company where meaningful dialogue occurred.

**LGIM**

LGIM believe that responsible investing is crucial to mitigate risks, capture opportunities and strengthen long-term returns. Active engagement with companies and policy-makers is a key component of their approach.

LGIM have worked with regulators globally to develop solutions to market-wide issues, from climate disclosure, to diversity, shareholder rights and climate change. In their engagements with policy makers, they aim to make constructive recommendations to improve the entire financial system for their clients.

One case study example that LGIM provided outlined how the firm, together with other major shareholders, put forward a proposal calling on a large company in the energy sector to explain how its strategy was consistent with the Paris Agreement on climate change. The outcome was that LGIM worked with the company board to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders. LGIM have since met with the company repeatedly— including its chair and incoming CEO— to advise on implementing the resolution. The company has since announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

For the Fund's property mandate, one of LGIM's key initiatives to promote ESG integration includes producing an asset sustainability plan for each property under management coordinated with maintenance and refurbishment plans, in order to reduce greenhouse gas emissions. This is linked with the inclusion of sustainability-related performance indicators in employees' appraisal targets and property supplier contracts.
In regards to the Global Targeted Returns (GTR) Fund in which the Fund invests, Invesco have provided details around a number of engagements with companies for the period covering 31 March 2019 through to 31 March 2020. Some of the key engagements and outcomes are noted below:

Compliance, ethics and sustainability financing: A company within the banking and financial services sector had come under scrutiny for market manipulation and compliance failures in recent years, leading to substantial fines and a deferred prosecution agreement with the US Department of Justice. Invesco engaged with management to understand its compliance procedures and how it incorporates sustainability into its loan portfolio. The company has reduced the numbers of customers it deals with and the number of countries it operates in as a result of its stricter compliance provisions. Independent ESG scores are now directly incorporated into the executive remuneration policy.

Business ethics, governance and carbon impact: A company specializing in commodity trading and mining was flagged as "watchlist" on Invesco’s UN Global Compact external screen. The Head of ESG conducted a proprietary ESG review of the company, and Invesco engaged directly with the company regarding allegations of corruption and their exposure to coal. In addition, Invesco engaged collaboratively through Investor Initiative on Mining and Tailings Safety regarding the ESG risks facing the company, as well as meeting with the company’s chair and head of human resources regarding revisions to its remuneration policy. The company has capped its global coal production in response to investors’ appeals, tightened internal controls and enhanced its annual compliance reporting and will follow up on remuneration consultations once their ongoing CEO succession is completed.

The following wording in regards to the GTR Fund, is taken from the latest ESG paper for Invesco’s Multi-Asset offerings.

The Global Targeted Returns strategy has two targets - risk and return. These are financial targets, and as such, the strategy does not have a sustainability target that we are mandated to deliver against. However, ESG considerations are a key element of our investment analysis because some have been crucial for a long time and other considerations are growing in importance and relevance for asset prices.

Within the Multi Asset team we have always analysed factors that sit within the broad church of ESG, and over recent years we have formalised that analysis so that it is defined and illustratable to clients. Though ESG, from a philosophical standpoint, does not form the sole basis of an investment decision, their consideration is a component of our investment analysis and their relevance and importance differ from idea to idea.

The Invesco Global Targeted Returns strategy has a very defined and repeatable three-step risk-based portfolio management process, and ESG considerations play a role within each step. Within the first step of our investment process we analyse the risk and return of our macro-themed ideas. Within that analysis, we consider many factors that are ESG in nature. These can include major political or regime change, environmental concerns, trade negotiations, demographics and inequality to name a few.
In the second step of our investment process, scenario testing is at the core of our risk analysis. We use scenarios to review the impact on the portfolio of adding, removing and changing ideas. Several scenarios that we test the fund against are ESG risk factors, and these include natural disasters, social unrest and a reversal of wealth inequalities.

**Voting Activity**

The Trustees have delegated their voting rights to the investment managers.

Investment managers are asked to provide voting summary reporting on a regular basis, at least annually.

Currently, when the investment managers present to the Trustees at a quarterly meetings, the Trustees ask the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

A summary of voting activity on behalf of the Trustees over the last 12 months are set out below. This is in relation to LGIM, manager of circa 40% of the Fund’s investments.

In 2019, LGIM engaged with 493 companies (from a total of 739 engagements) and voted on 50,900 resolutions. They voted against management at 71% of companies, primarily due to concerns around the suitability of directors or auditors, pay or other elements of company strategy.

Of the possible 739 engagements, the top five engagement topics were climate change (249), remuneration (169), diversity (143), board composition (140) and strategy (94).

An independent report (https://shareaction.org/research-resources/point-of-no-returns/) ranked LGIM third out of the world’s 75 largest asset managers for our approach to responsible investment. One of only five worldwide to receive an A rating, LGIM was the highest rated among UK, index and the 15 largest global asset managers.