

Annual Engagement Policy Implementation Statement (to 31 March 2023)

UCL (Former Medical Schools) Pension Scheme

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the **Statutory Guidance** provides an update on what constitutes a "significant vote":

[Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/reporting-on-stewardship-and-other-topics-through-the-statement-of-investment-principles-and-the-implementation-statement-statutory-and-non-statutory-guidance)

1. INTRODUCTION

This Engagement Policy Implementation Statement (the Statement) sets out the Trustee assessment of how, and the extent to which, they have followed their engagement policy and their policy with regard to the exercise of rights (including voting rights) attaching to the Scheme's investments during the one-year period to 31 March 2023 (the "Scheme Year"). The Trustee's policies are set out in their Statement of Investment Principles (SIP) dated September 2020.

This Statement has been produced in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018* and the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* along with guidance published by the Pensions Regulator and Department of Work and Pensions.

The Scheme's monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE) and in buy-in policies with LV=.

The publicly available [Sustainability Policy](#) sets out how Mercer addresses sustainability risks and opportunities and considers Environmental, Social and Corporate Governance (ESG) factors in decision making across the investment process. The [Stewardship Policy](#) provides more detail on Mercer's beliefs and implementation on stewardship specifically. Under these arrangements, the Trustee accepts that they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds. However, the Trustee has reviewed these policies and note an awareness of engagement topics that are important to the Scheme and integrating the Trustee's views on specific themes, where possible, is an important part of Mercer's Fiduciary duty. Mercer's Client Engagement Survey aims to facilitate this by assessing the level of alignment between Mercer's engagement priority areas and those of the Trustee, while highlighting additional areas of focus which are important to the Trustee. The Trustee reviews regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether the policies are being properly implemented.

Commented [HH1]: Trustees to confirm that they still have these policies, Mercer does not have any oversight of them.

Section 2 of this Statement sets out the Trustee's engagement policy and assesses the extent to which it has been followed over the Scheme Year.

Section 3 sets out the Trustee's policy with regard to the exercising of rights (including voting rights) attaching to the Scheme's investments and considers how, and the extent to which, this policy has been followed during the Scheme Year.

Taking the analysis included in Sections 2 to 3 together, it is the Trustee's belief that their policies with regard to engagement and the exercise of rights attaching to investments has been successfully followed during the Scheme Year.

2. TRUSTEE'S POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES, INCLUDING CLIMATE CHANGE

Policy Summary

Mercer and the Trustee believes stewardship plays an important role in managing sustainability risks and other ESG factors, and helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets consistent with long-term investor timeframes. Consequently, an approach that integrates effective stewardship is in the best interests of the Scheme. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities, including non-financial performance that require the Trustee's explicit consideration.

It is the Trustee's policy that the third party investment managers appointed by Mercer, via Mercer Global Investments Europe (MGIE), report in line with established best practice such as the UK Stewardship Code 2021, to which Mercer is a signatory, including public disclosure of compliance via an external website, when managing the Scheme's assets. Further, in appointing the third party asset managers, the Trustee expects MGIE to select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party investment managers' compliance with this expectation, the Trustee considers regular reports from Mercer that include an assessment of each third party manager's engagement activity.

The Trustee recognises that they have no direct power in respect of the buy-in policies with LV. That said, it is noted that LV in partnership with their asset manager Columbia Threadneedle has an extensive range of Responsible Investment policies, independently rates securities for their ESG contribution and are a signatory to the Principles of Responsible Investment. Investment decisions are based on ESG factors as well as financial performance.

Should the Trustee consider that Mercer, MGIE or the third party asset managers, have failed to align their own engagement policies with those of the Trustee, the Trustee will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change.

Policy Updates	Approach to Exclusions	ESG Rating Review
<p>The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, provide reporting to the Trustee on a regular basis.</p> <p>The Mercer Sustainability Policy is reviewed regularly. In August 2022 the policy update reflected enhancements to the approach to climate change modelling and transition modelling, additional detail on how the policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club.</p> <p>In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Stewardship Policy to specifically address the requirements of the directive. This Policy was also updated in August 2022 to reflect enhancements made to Mercer's stewardship approach including an introduction of Engagement Dashboards and Trackers, an enhanced UN Global Compact engagement and escalation process and a Client engagement survey.</p> <p>UN Principles of Responsible Investing scores for 2021 (based on 2020 activity) were issued over Q3 2022. Mercer were awarded top marks for over-the arching Investment and Stewardship Policy section, underpinned by strong individual asset class results.</p>	<p>As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.</p> <p>Mercer expanded exclusions to further promote environmental and social characteristics across the majority of the multi-client building block funds over the second half of 2022, in line with EU SFDR Article 8 classification, as well as aligning Mercer's existing active and passive exclusions across their fund range.</p> <p>In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.</p>	<p>Where available, ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration and compares the Mercer funds overall ESG rating with the appropriate universe of strategies in Mercer's Global Investment Manager Database (GIMD). Engagements are prioritised with managers where their strategy's ESG rating is behind that of their peer universe.</p>

3. TRUSTEE'S POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO SCHEME INVESTMENTS

Policy

Asset managers appointed to Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within MGIE's (as asset manager to the funds), investment processes and those of the underlying asset managers in the monitoring process.

However, the nature of the Scheme's investments means that there are no voting rights to exercise.

Columbia Threadneedle, on behalf of LV (with whom the Scheme has a buy-in policy) use their voting rights to firmly engage with companies around material ESG risks and opportunities, they also operate some exclusions, including a ban on controversial weapons and tobacco. They aim to use their influence and voting right to drive positive change and generate strong performance over the long-term. They also monitor the revenue generated from coal use, production or extraction.