

# **Annual Engagement Policy Implementation Statement (to 31 March 2021)**

## **UCL (Former Medical Schools) Pension Scheme**

### **1. Introduction**

This Engagement Policy Implementation Statement ('the Statement') sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee have been followed during the year to 31 March 2021. 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

Section 2 of this Statement provides detail of the actions taken by the Trustee to meet the Scheme's engagement policies set out in the SIP over the year. Section 3 describes the voting behaviour on behalf of the Trustee along with the relevant statistics over the year.

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.

### **2. Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.

As noted in the SIP, the Trustee believes that 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The asset managers appointed to manage the Mercer Funds are expected where applicable 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. It is noted that this is more difficult when the Scheme is only invested in fixed income securities.

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.

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

#### Policy Updates

- The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying asset managers in the monitoring process. Mercer have provided reporting to the Trustee on a regular basis.
- The Mercer [Sustainability Policy](#) is reviewed regularly. In August 2020 the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021 there was a further update in relation to sustainability-related disclosures in the financial services sector ("SFDR") implementation.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [Engagement Policy](#) to specifically address the requirements of the directive.

#### Climate Change Reporting and Carbon Foot printing

- Mercer undertake carbon footprint analysis on their funds on a regular basis.

#### ESG Rating Review

- ESG ratings assigned by Mercer (and its affiliates') global manager research team, 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. Since Q3 2020 the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.

## Update to Exclusions

- As an overarching principle, Mercer prefer an approach of positive engagement rather than negative divestment. However Mercer 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.
- In addition, Mercer monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

### 3. Voting Activity

The Trustee's investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustee does not use the direct services of a proxy voter.

The MGIE [Engagement Policy](#) outlines this framework.

Set out below is a summary of voting activity for the year to 31 March 2021 relating to the relevant Mercer Funds.

- **Voting:** As part of the monitoring of managers' approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.
- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds

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.