

## Annual Engagement Policy Implementation Statement (to 31 March 2024)

### 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 2024 (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.

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.**

## Annual Engagement Policy Implementation Statement (to 31 March 2024)

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

#### 2. Trustee's Policy on Environmental, Social, and Governance (ESG) Issues, Including Climate Change

##### Policy Summary

Mercer and the Trustee believe 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.

## Annual Engagement Policy Implementation Statement (to 31 March 2024)

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

#### 2. Trustee's Policy on Environmental, Social, and Governance (ESG) Issues, Including Climate Change (continued)

##### 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

The Trustee regularly reviews how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers within the Mercer Funds, in the monitoring process. Mercer, and MGIE, provide reporting to the Trustees on a regular basis.

The Mercer Sustainability Policy is reviewed regularly. In August 2023 the governance section was updated, and the climate scenario modelling section is now detailed in the standalone Task Force on Climate Related Financial Disclosures (TCFD) report.

In line with the requirements of the EU Shareholder Rights Directive II (SRD II), Mercer has implemented a standalone Stewardship Policy to specifically address the requirements of SRD II. SRD II is a regulatory framework aimed at enhancing shareholder rights and improving corporate governance within the European Union.

The most recent UN Principles of Responsible Investment results (based on 2022 activity) awarded Mercer with 4 out of 5 stars for Policy Governance and Strategy. The United Nations Principles for Responsible Investment (UN PRI) is a global initiative that provides a framework for incorporating environmental, social, and governance (ESG) factors into investment practices.

The Financial Reporting Council confirmed in February 2024 that MGIE continues to meet the expected standard of reporting and will remain a signatory to the UK Stewardship Code, which represents best practice in stewardship

##### Approach to Exclusions

Mercer and MGIE's preference is to emphasise integration and stewardship approaches, however, in a limited number of instances, exclusions of certain investments may be necessary based on Mercer's Investment Exclusions Framework. Controversial weapons and civilian firearms are excluded from active equity and fixed income funds, and passive equity funds. In addition, tobacco companies and nuclear weapons are excluded from active equity and fixed income funds.

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.

##### ESG Rating Review

Stewardship and active ownership form an important part of Mercer's ratings framework applied during the manager research process.

Mercer's ratings include an assessment of the extent to which ESG factors are incorporated in a strategy's investment process as well as the manager's approach to stewardship.

Across most asset classes, Mercer ratings are reviewed during quarterly monitoring by the portfolio management teams with a more comprehensive review performed annually. In these reviews, Mercer seek evidence of positive momentum on managers' ESG integration.

These ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee.

## **Annual Engagement Policy Implementation Statement (to 31 March 2024)**

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

#### **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.

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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.