

University of Edinburgh Staff Benefits Pension Scheme - Implementation Statement

Statement of Compliance with the University of Edinburgh Staff Benefits Pension Scheme's Stewardship Policy for the year ending 31 March 2022.

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy during the period from 1 April 2021 to 31 March 2022.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets which includes the Trustees' approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on an annual basis in line with the Scheme's Statement of Investment Principles (SIP) review which was last completed in December 2021. Following this review, the following wording was added:

- **1.7 Consideration of financially material factors in investment arrangements**
The 2018 Investment Regulations came into effect on 1 October 2019. The regulations aim to clarify language around the consideration of broader long-term financial risks, in particular:
 1. *how the Trustees take account of 'financially material considerations' over the appropriate time horizon, including, but not limited to, ESG factors, including climate change*
 2. *the Trustees' policies, in relation to various stewardship activities for the assets held*
 3. *the extent to which any non-financial matters are taken into account.*
The new regulations also seek to encourage trustees to take greater ownership and be aware of the consequences of their responsible investment policies, rather than adopting a 'box ticking' approach.

You can review the Scheme Stewardship Policy, which can be found within the Scheme's Statement of Investment Principles, at: <https://www.uoesbspensions.co.uk/media/3821/statement-of-investment-principles-december-2021.pdf>. A copy of both the Scheme's Statement of Investment Principles and this statement can also be found at: <https://www.uoesbspensions.co.uk/uoe/documents-and-links/forms-and-publications/>.

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with their investment advisers. The Trustees meet regularly with their managers (at least annually) and the Trustees consider managers' exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustees also monitor compliance with their Stewardship Policy on a regular basis and are satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and, where appropriate, monitor managers' voting patterns. The Trustees also monitor investment managers' voting on particular companies or issues that affect more than one company.

The Trustees have investment in equity assets through three different mandates. The Trustees' investment managers have reported on how votes were cast in each of these mandates as set out in the tables below.

Strategy/Fund name	Baillie Gifford Global Alpha Growth Fund	Baillie Gifford Diversified Growth Fund	LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund
Proportion of Scheme assets (as at 31 March 2022)	14.3%	14.1%	17.4%
No. of meetings eligible to vote at during the year	105	133	3,695
No. of resolutions eligible to vote on during the year	1,307	1,537	43,863
% of resolutions voted	96.6%	88.1%	99.7%
% of resolutions voted with management	97.3%	96.0%	80.6%
% of resolutions voted against management	2.1%	3.4%	18.6%
% of resolutions abstained	0.6%	0.6%	0.8%
% of meetings with at least one vote against management	16.2%	18.1%	72.1%

Note: Percentage totals may not equal 100% due to rounding.

The Trustees are satisfied that voting rights in relation to a high proportion of eligible resolutions have been exercised on behalf of the Scheme. That said, the proportion of votes that Baillie Gifford voted on within the Diversified Growth Fund was below 90%. The Trustees requested Baillie Gifford justify this, who explained that the reason the proportion of resolutions voted was lower was largely due to the following factors:

- They were adhering to their conflicts of interest policy, namely not voting at a shareholder meeting of Baillie Gifford managed vehicles. This occurs where the funds hold another Baillie Gifford pooled fund as part of the strategy;
- Avoiding "blocking", whereby they would have been prevented from trading between casting a vote to the date of the corresponding meeting; and
- The underlying companies had restricted voting rights for non-EU holders, so they were unable to vote.

LGIM has voted against a greater proportion of management resolutions over the year. This is typical of passive mandates that track an index with little choice over stock selection, versus an active mandate with high conviction

being able to exercise choice when selecting investments. It is also indicative of LGIM exercising active stewardship through frequently taking a stance against management. The LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund invests across a high number of companies across various sectors and countries. This includes in emerging markets, where governance practices are not as high as in developed markets, leading to a higher proportion of votes against management.

The resolutions that the managers prioritised voting on the most over the Scheme year were mainly in relation to:

- General governance regarding remuneration policies and reports;
- ESG factor focussed shareholder resolutions; and,
- Election of Boards of Directors and Senior Management

Significant votes

The Trustees have asked their managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustees. Managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote.

From the managers' reports, the Trustees have identified the following votes as being of greater relevance to the Scheme:

Deutsche Börse AG, 19 May 2021

Baillie Gifford Global Alpha Growth Fund opposed a resolution on the election of a director.

Subsequent to Mr Gottschling being put forward for re-election of Deutsche Börse's Chair of the Risk Committee, Baillie Gifford voted against his re-election. Baillie Gifford explained that Mr Gottschling had previously had to stand down from a similar position, at another company, due to ongoing investigations regarding their risk practices.

Whilst currently no evidence of wrongdoing has been found against Mr Gottschling, ongoing investigations at another company led Baillie Gifford to feel unable to support Mr Gottschling's re-election to the same position at Deutsche Börse at the time.

This resolution is significant due to it being opposed to the election of a director.

Booking Holdings Inc., 3 June 2021

Baillie Gifford Diversified Growth Fund supported a shareholder resolution requesting a climate transition report – believing that better disclosure on the transition was in the shareholders' best interests.

Baillie Gifford engaged with Booking Holdings in advance of the Annual General Meeting ("AGM") and advised that they intended to support the resolution. Baillie Gifford was encouraged by the Booking Holdings' progress on this issue however wished to see further reporting on the transition, for example targets to reduce emissions, rather than only focussing on offsetting, and long-term scenario planning on transition risk.

The outcome of this vote was a 'pass' and Baillie Gifford will continue to monitor this topic in their discussions with Booking Holdings.

This resolution is significant because it was submitted by shareholders and received greater than 20% support. The holding represented c.0.2% of the portfolio.

Mitsubishi UFJ Financial Group, Inc., 29 June 2021

LGIM voted for a shareholder resolution to amend Mitsubishi UFJ Financial Group's articles to disclose a plan outlining the company's business strategy to align investments with the goals of the Paris Agreement.

LGIM views climate change as a financially material issue with implications for the company. In Japan, this was a high-profile proposal where climate-related shareholder proposals are still currently rare.

Voting in favour of this shareholder proposal, LGIM believes, was warranted as it expects companies to be taking sufficient action on the key issue of climate change. Mitsubishi UFJ Financial Group's recent announcements regarding net-zero targets and exclusion policies were noted but LGIM believed these commitments could be further strengthened. The shareholder proposal provided Mitsubishi UFJ Financial Group with a positive directional push.

This resolution is significant because it was submitted by shareholders and received greater than 20% support. The holding represented c.0.2% of the portfolio.

Engagement activity

The Trustees hold meetings with their investment managers on an annual basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustees have met with five of their six managers and the following issues were discussed.

- **Baillie Gifford.** The Trustees met with Baillie Gifford and discussed the manager's Stewardship Policies. These included aims to prioritise long-term value creation, constructive and purposeful boards, long-term focussed remuneration, ensure the fair treatment of stakeholders and sustainable business practices. Baillie Gifford also provided the Trustees with recent examples of engagement undertaken with companies, to encourage behaviour and action in line with their Stewardship Policies. Opportunities regarding the transition to 'greener' energy were also highlighted to the Trustees, such as investments into commodities supporting the energy transition and substantial investment in sustainable infrastructure.
- **LGIM.** LGIM highlighted to the Trustees how its stewardship tackles financially material ESG issues. LGIM summarised the ESG-related actions it took over 2020 such as targeting Net Zero by 2050 for all assets under its management, highlighting the value of its assets held in responsible investment strategies (as well as the number of new responsible investment strategies launched) and how many resolutions LGIM voted on globally. LGIM also raised the ESG options available to its clients in order to deliver specific investment beliefs.
- **Threadneedle.** Threadneedle provided Trustees with an update on its UK Real Estate responsible investment, focussing on the key areas of ESG. Threadneedle highlighted that the Net Zero pathway would be published in 2021 and reporting (such as Streamlined Energy and Carbon Reporting 'SECR' and Global ESG Benchmark for Real Assets 'GRESB') had shown Threadneedle to be making continual improvement in energy and carbon emissions. The Trustee also considered Threadneedle's ESG Policy Statement which defined a road map for achieving various corporate Sustainable Development Goals.
- **Barings.** Barings informed the Trustees of its commitments to ESG, also highlighting its drive in 2021 to continue to advance the middle market on sustainability. Barings specified three components, focussing on: integration (consistently considering ESG factors and underwriting for key risks and opportunities), engagement (maintaining a direct relationship with stakeholders to encourage positive outcomes) and moving forwards (by incentivising positive ESG behaviours via moderate pricing reductions). Barings also provided the Trustees with case studies on its engagements, highlighting responsible investment considerations throughout its investment process.
- **Morgan Stanley.** Morgan Stanley informed the Trustees of its commitment to integrating ESG principles, policies and best practices – highlighting due diligence to be an integral part of its investment process.

The Trustees considered Morgan Stanley’s implementation of ESG which involved: providing training programs to all its investment professionals, the continued engagement of Morgan Stanley’s Investment Committee on ESG findings (and associated risk) of investments considered, annual monitoring to ensure compliance with wider ESG values and establishing systems to flag ESG incidents and notify relevant internal teams for subsequent action to be taken.

Adams Street Partners were appointed during the year and will become part of the Trustees’ regular manager meeting cycle. ESG factors were considered as part of the selection process – both at a firmwide level and with respect to individual investments.

Summary of manager engagement activity

The Trustees receive annual reporting on Baillie Gifford’s engagement activity. The following table summarises the Baillie Gifford funds’ key engagement activity for the 12-month period ending 31 December 2021.

Categories engaged on	Number of Engagements	
	Baillie Gifford Global Alpha Growth Fund	Baillie Gifford Diversified Growth Fund
Environmental/Social	34	22
Corporate Governance	13	6
AGM or EGM Proposals	18	14
Executive Remuneration	4	1

Over 2021, the Baillie Gifford Global Alpha Growth Fund carried out 69 engagements and the Baillie Gifford Diversified Growth Fund carried out 43 engagements. Engagements primarily focused on the understanding of companies’ climate strategies, carbon energy transitions and ESG-related reporting. The main methods of engagement were meetings and calls.

The Trustees receive annual reporting on LGIM’s engagement activity. The following table summarises the key engagement activity for the 12-month period ending 31 December 2021.

Topic engaged on	Number of Engagements
Climate Change	246
Remuneration	205
LGIM ESG Score	133
Company Disclosure and Transparency	131

Note: Engagements may cover more than one topic.

LGIM carried out a total of 773 engagements over 2021. Engagements primarily focused on climate change. The main methods of engagement were written engagements, meeting and calls.

Use of a proxy adviser

The Trustees' investment managers have made use of the services of the following proxy voting advisers over the Scheme year:

Manager	Proxy Advisor used
Baillie Gifford	ISS/Glass Lewis
LGIM	ISS

Review of policies

The Trustees have committed to reviewing the managers' responsible investment policies on an annual basis. The most recent review considered managers broad approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustees also considered changes to their managers voting policies.

The Trustees and their advisors remain satisfied that the responsible investment policies and (where appropriate) voting policies remain suitable for the Scheme.