Annual Engagement Policy Implementation Statement

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 5 June 2020. This statement has been produced in accordance with The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees' objective is to invest the Scheme's assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are set out below;

- To ensure the Scheme's obligations to its beneficiaries can be met; and
- To ensure consistency between the Scheme's investment strategy and the return assumptions used by the Scheme Actuary.

Policy on ESG, Stewardship and Climate Change

The Scheme'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 September 2020 and the Trustees are comfortable that Mercer's investment beliefs around sustainability are consistent with theirs. The Trustees note that given that their investment strategy is focussed on investing in gilts, Liability Driven Investment ('LDI') funds and cash, there is limited scope (if any) to integrate ESG, Stewardship and Climate Change considerations into their investment strategy. In particular, the Scheme's low risk investment approach means that there are no voting rights and for the majority of the assets the issuer is the UK government.

The remaining wording in this statement therefore includes reference to analysis in this area available from Mercer, should the Trustees invest in different asset classes in the future.

- The Trustees utilise Mercer investment funds and these assets are managed by Mercer Global Investments Europe ("MGIE") Limited.
- Where relevant, investment managers appointed by MGIE to manage the 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, regardless of where they are domiciled. In addition, they are expected to monitor investee companies and to report on stewardship activities and outcomes on an annual basis, as set out in a publicly available Sustainable Investment Policy.
- If it is applicable, the Trustees will consider 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 is able to provide reporting to the Trustees on a regular basis on ESG integration progress, stewardship monitoring results, and climate-related metrics. Given that the majority of the Scheme's assets are invested in UK Government Bonds ("Gilts"), much of this is limited in practice for the Scheme's fund holdings, and such analysis was not necessary during the period.

Stewardship monitoring

Over the year Stewardship activities where not a relevant consideration for the Trustees and given the nature of the investments it is expected that there will be limited stewardship monitoring required by the Trustees or Mercer.

Member views

Given the overall investment strategy and the nature of the underlying investments, the Trustees currently do not take member views into account in the selection, retention and realisation of investments.

Trustees’ policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as fiduciary investment manager to implement the Trustees’ investment strategy, the Trustees are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme’s assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustees expect Mercer to manage the assets in a manner that is consistent with the Trustees’ overall investment strategy. The Trustees have taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer’s performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustees’ policies, it is open to the Trustees to disinvest some or all of the assets managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer’s appointment.

To evaluate performance, the Trustees receive, and consider, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme’s funding level and the Mercer Funds in which the Trustees are invested. Such reports have information covering fund performance over various time periods. The Trustees review the absolute performance and relative performance against a portfolio’s and underlying investment manager’s benchmark (over the relevant time period) on a net of fees basis. The Trustees’ focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or Mercer Global Investments Europe Limited (“MGIE”) make investment decisions based on their assessment about the performance of an issuer of debt or equity (where relevant). Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers (where relevant) in order to improve their performance in the medium to long term. The Trustees are, however, able to consider Mercer’s and MGIE’s assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager’s responsible investment philosophy aligns with the Trustees’ own responsible investment policy. This includes the asset managers’ policies on voting and engagement (where relevant). It is recognised that the Trustees’ current investment strategy is to invest in only LDI and cash, and that ESG integration is therefore less relevant than for other asset classes.

The SIP provides further details of the steps taken, and information available, to review the decisions made by managers, including (where relevant) voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme. As noted above and in the SIP, the Trustees' investment strategy, which is primarily focussed on investment in UK government bonds, means that there is currently limited scope for integration of factors such as ESG, climate change and stewardship. By investing in this low risk manner relative to the liabilities the Trustees are prioritising the stability of the funding position and security of member benefits, and therefore other selection criteria, such as portfolio construction, implementation and risk management factors are expected to be more relevant for the Trustees' strategy.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustees are long term investors and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustees do keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustees monitor, and evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives. Mercer's, and MGIE's, fees are based on a percentage of the value of the Scheme's assets under management. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance, although this is currently not relevant for the Scheme's investments.

MGIE reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy report prepared for the Trustees, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualized, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustees do not have an explicit targeted portfolio turnover range, given the LDI strategy, but any rebalancing decisions will include consideration of the transaction costs which might be incurred. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.