

University of Manchester Superannuation Scheme: Annual Engagement Policy Implementation Statement

Introduction

This Annual 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 has been followed during the year to 31 July 2023. 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 guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

'The Trustee's primary objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries.'

To help achieve the primary objective, the Trustee has adopted a revised funding target as part of the 2019 actuarial valuation, which was made in conjunction with a reduction in investment risk, whereby the Scheme is targeting to be fully funded on the Technical Provisions basis by 2031.

Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.'

Policy on Environmental, Social & Governance (ESG) issues, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on ESG issues, 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. This Statement sets out how, and the extent to which, the Engagement Policy has been followed during the year to 31 July 2023 with respect to the SIP.

The Trustee considers that long-term sustainability issues, including climate change, present risks and opportunities that increasingly require explicit consideration.

Statement on ESG, Stewardship and Climate Change

Comments

Ongoing Monitoring

The Trustee regularly monitors and challenges how the investment managers integrate ESG issues within their investment processes and uses the ESG ratings of its Investment Consultant as part of overall investment manager monitoring and review.

Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the Investment Consultant's ESG ratings.

The Investment Sub-Committee (ISC), a sub-set of the Trustee, receives quarterly ESG ratings from its Investment Consultant on each investment manager. If a manager is not highly rated from an ESG perspective the ISC challenges managers to encourage continued progress.

The Trustee considers the mandates in place over the year to have been generally above average in terms of ESG integration in the investment process. The Trustee notes that in fixed income assets, due to the nature of the asset class, it is harder to engage with the issuer of debt and therefore a higher ESG rating is more difficult to achieve.

The ISC met with LGIM in May 2023, where the ISC received an update on the manager's integration of ESG matters. In addition, the presentation included details of the LGIM Future World Net Zero Corporate Bond Fund, a fund aligned with the Paris Agreement. Post Scheme year end, the Scheme made an allocation to this ESG aligned fund.

Voting and Engagement

The Trustee monitors voting activity to verify that the managers are actively voting in investee companies and engaging with management to encourage strong corporate governance and responsible business behaviour.

As the Scheme invested solely in pooled funds over the Scheme year, the Trustee required its investment managers to engage with investee companies on its behalf.

Investment managers provide reporting on a regular basis, at least annually, including stewardship monitoring results. These are reviewed by the Trustee (see voting activity below).

The voting activity section provides information to show how actively the managers have exercised their voting rights over the Scheme year, in particular, how the managers have exercised their voting rights in relation to the Trustee definition of a 'significant vote'.

The Trustee is comfortable with the way managers have voted and engaged with investee companies during this Scheme year.

UK Stewardship

Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

All of the Scheme's investment managers confirmed that they are signatories of the current UK Stewardship Code.

See below a link to the Financial Reporting Council's website where all signatories to the code can be found. Managers' submissions can also be viewed on this site.

[Financial Reporting Council's Website.](#)

Manager arrangement policies

Section 12 of the SIP details the Trustee's policies as regards the arrangements with the Scheme's asset managers:

1. How the arrangements with the investment managers incentivise the managers to align their investment strategy and decisions with the Trustee's policies.

1. Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

As part of this, to maintain alignment of the investment manager's investment strategy and decisions with the Trustee's own policies, the ISC undertakes due diligence ahead of investing, and on an ongoing basis to ensure it is aware of the:

- underlying assets held and how they will allocate between them;

- risks associated with the underlying mix of assets and the steps the investment manager takes to mitigate them;

- expected return targeted by the investment managers and details around realisation of the investment; and

- impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on the investments over the long term.

2. How the arrangements incentivise the manager to make decisions based on assessments of medium to long-term performance of an issuer and to engage with the issuer of debt or equity in order to improve their performance in the medium to long-term.

2. The ISC meets with each investment manager as deemed appropriate, to discuss performance and other investment related matters (including integration of ESG and climate change considerations into the investment process and voting and engagement activities). As part of this, the ISC will challenge decisions that appear out of line with the Scheme's stated objectives and/or policies. The ISC monitors the extent to which its pooled investment managers:

- make decisions based on assessments about medium to long-term performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

3. How the method (and time horizon) of the evaluation of the manager's performance and the remuneration for asset management are in line with the policy of the Trustee.

3. The ISC receives reports on investment manager performance on a quarterly basis, which present performance information over a range of time periods. The ISC reviews absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and performance against the manager's stated target (over various time periods), on a net of fees basis. The ISC's focus is primarily on long-term performance but short-term performance is also reviewed.

The investment managers levy fees based on a percentage of the value of the assets under management. In addition, some of the investment managers also levy a performance related fee element.

4. How the Trustee monitors portfolio turnover costs and how they define and monitor it.

4. Over the year to 31 July 2023 portfolio turnover and associated costs were monitored amongst investment managers.

Turnover is the rate of buying and selling securities in the portfolio. A fund or portfolio that changes securities in the portfolio frequently is said to have a high turnover. As a result, turnover and associated costs for private market managers were immaterial due to the nature of the funds, with majority of managers encountering no turnover (or costs) in their funds.

The ISC monitors investment manager performance net of all fees, including transaction costs. These costs are implicitly monitored as part of the ongoing performance monitoring of investment managers against their stated benchmarks.

The most significant turnover within the Scheme was with respect to the Wellington Multi-Asset Credit Fund that produced a c. 87.3% turnover over the year to 31 July 2023 with associated turnover costs of 0.24%. A level of turnover is to be expected within Multi-Asset Credit Funds due to the nature and objective of the strategy.

The trading activity of the strategy has been demonstrated to add value given the net performance of the strategy over the year was 7.1%.

5. Duration of arrangement with Managers

5. As the Trustee is a long-term investor, it appoints investment managers with an expectation of a long-term partnership. The focus of performance assessments is on longer-term outcomes so the Trustee would not ordinarily expect to terminate a manager's appointment based purely on short-term performance. The legal terms will vary from manager to manager.

Where the Scheme invests with a manager, the Trustee expects to retain the manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

For investment in a closed-ended vehicle with an investment manager, the Scheme is invested for the lifetime of the strategy (which is disclosed to the Trustee at point of investment).

Engagement Activity

The Trustee has delegated engagement with equity and debt issuers to the Scheme's investment managers, through owning units in pooled funds.

The ISC monitors engagement carried out on the Trustee's behalf during meetings with the Scheme's investment managers. During the year, the ISC met with LGIM. Examples of engagements that the ISC considered to be significant are provided below.

Stewart

Stewart engaged across environmental, social and governance issues over the year to 31 July 23. Examples of these engagement are detailed below:

Environmental

- Climate change reporting and disclosure with regards to a computer automated design software company
- Supply chain sustainability with regards to personal hygiene company

Social

- Gender pay dispute with regards to one of the world's largest producer of industrial enzymes
- Modern slavery with regards to one of the world's largest independent semiconductor foundries

Government

- Remuneration and incentives with a global leader in engineering simulation and software company
- Gender diversity with a market leading supplier of precision test and measurement instrumentation company

Impax

Impax have been involved in collaborative engagements and joint representations with other institutions and investors are an important part of their stewardship work.

Examples of Impax's collaborative engagement activity include;

ShareAction's Health Markets Initiative (HMI) – This coalition helps investors collectively engage with companies to promote and support healthier consumer diets and sustainable company growth.

ShareAction – Outreach to chemicals industry on decarbonisation coordinated by ShareAction

Finance Sector Deforestation Action (FSDA) – Consumer staples industry outreach on deforestation coordinated by the Finance Sector Deforestation Action.

The Institutional Investors Group on Climate Change (IIGCC) – Coordinated Net Zero Engagement Initiative – outreach on net zero transition planning.

Cost-of-Living – Letter sent to obtain companies views and to initiate a dialogue on companies’ efforts to support employees in the current environment of higher inflation and for many lower income employees – a cost-of-living crisis.

Collaborative Nature Action 100 – Letter signed by Impax, sharing investor expectations for companies to address nature loss.

RLAM

RLAM have continued their work with their collaborative engagements including gender diversity in Japan, Farm Animal Investment Risk and Return Initiative (FAIRR) - waste and pollution, cybersecurity, Churches, Charities and Local Authorities (CCLA) corporate mental health and access to medicines. This included engagement with 44 companies as part of their Net Zero Asset Managers initiative (NZAM)

Voting Activity

The Trustee has delegated its voting rights to the Scheme’s equity investment managers, through owning units in pooled funds.

For the purpose of this Statement, the Trustee has requested that the Scheme’s investment managers report their voting behaviour and the impact this has had on the Scheme over the year to 31 July 2023. The key voting activity by the investment managers on behalf of the Trustee is summarised in the table below.

Voting data to 31 July 2023	Stewart	Impax
No. resolutions eligible to vote	645	664
% resolutions voted on where eligible	100%	100%
Of resolutions voted, % with management	94.0%	90.7%
Of resolutions voted, % against management	5.9%	8.0%
Of resolutions voted, % abstained	0.2%	1.4%
Of resolutions votes, % withheld	0.0%	0.0%

Stewart

Stewart use Glass Lewis as a third-party provider to assist with proxy voting operations. Voting decisions are not outsourced to a third party or separate department, instead, Glass Lewis provide proxy research and voting solutions in a centralised online platform which Stewart uses to collate all ballot information applicable to a company meeting. Stewart also use the centralised platform to instruct Glass Lewis on how they wish to vote in particular company meetings. Glass Lewis then distributes how Stewart have elected to vote to the relevant sub-custodians across all their eligible funds.

Over the year to 31 July 2023, Stewart voted on 100% of the 645 resolutions that they were eligible to vote on. Of the resolutions voted on, Stewart voted against management 38 times (5.9%) and abstained from voting once (0.2%).

Impax

Impax uses Glass Lewis as a research tool and its viewpoint as the platform for proxy voting. Impax has used Glass Lewis as its proxy voting service provider since March 2019.

Over the year to 31 July 2023, 664 proposal votes were cast across underlying companies in the fund. Impax voted against management 53 times (8.0% of votes), abstained from voting 9 times (1.4% of votes).

Significant votes

Following the Department for Work and Pensions' (DWP) 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"*) updated guidance was issued regarding the definition of a significant vote.

Following consultation with Mercer, the Trustees decided that the following areas, based closely on the UN Sustainable Development Goals ("SGDs"), which is one of the areas of focus in the Scheme's Responsible Investment Policy, as fulfilling the criteria of a significant vote:

Environment:

- **Climate Change:** Low carbon transition and physical damages resilience.
- **Pollution and Natural Resource Degradation:** Air, water, land (forests, soils and biodiversity).

Social:

- **Human Rights:** Modern slavery, pay & safety in workforce and supply chains and abuses in conflict zones.

Governance:

- **Diversity, Equity and Inclusion (DEI):** Inclusive & diverse decision making.

Stewart

Manager / Fund	Significant votes
Stewart Investors Worldwide Sustainability Strategy	<p>A.O Smith Corp.</p> <p>Shareholder Resolution - "Shareholder Proposal Regarding Report on Racism in Company Culture"</p> <p>Date of vote: 4 November 2022</p> <p>Voting: Against</p> <p>Manager Rationale: "Stewart believe the company is committed to diversity and inclusion as reflected in its Board, which is 50% female and/or from underrepresented racial/ethnic groups. The company began tracking racial diversity in leadership roles in 2021, has enhanced its inclusivity training for leaders and continues to promote and discuss the topic heavily."</p> <p>Vote Outcome: Resolution failed</p> <p>Criteria that this vote meets: Governance</p>
Stewart Investors Worldwide Sustainability Strategy	<p>Texas Instruments</p> <p>Shareholder Resolution - "Shareholder Proposal Regarding Report on Customer Due Diligence"</p> <p>Date of vote: 27 April 2023</p> <p>Voting: For</p> <p>Manager Rationale: "Stewart supported shareholder proposals relating to Texas Instruments which requested the company report on its process for customer due diligence, by outlining sanctions and export control compliance, risks associated with Russia's invasion of Ukraine, more information on the know-your-customer due diligence process, and an assessment of legal, regulatory and reputational risks to the company."</p> <p>Vote Outcome: Resolution failed</p> <p>Criteria that this vote meets: Social</p>
Stewart Investors Worldwide Sustainability Strategy	<p>Weg S.A.</p> <p>Shareholder Resolution - "Election of Supervisory Council"</p> <p>Date of vote: 25 April 2023</p> <p>Voting: Abstain</p> <p>Manager Rationale: "Stewart abstained from voting on the election of the supervisory council as they preferred to support the minority candidate."</p> <p>Vote Outcome: Resolution passed</p> <p>Criteria that this vote meets: Governance</p>
Stewart Investors Worldwide Sustainability Strategy	<p>Weg S.A.</p> <p>Shareholder Resolution - "Approve Recasting of Votes for Amended Supervisory Council Slate"</p> <p>Date of vote: 25 April 2023</p> <p>Voting: Against</p> <p>Manager Rationale: "Stewart voted against WEG's request to recast votes for the amended supervisory council slate, as they preferred to vote in favour of the female candidate nominated by minority shareholders and who has been on the fiscal council for two years."</p> <p>Vote Outcome: Resolution passed</p> <p>Criteria that this vote meets: Governance</p>

Impax

Manager / Fund	Significant votes
<p>Impax Global Opportunities Strategy</p>	<p>Cintas Corporation Shareholder Resolution - "Elect Joseph Scaminace" Date of vote: 25 October 2022 Voting: Against Manager Rationale: "Vote against nominating committee members when there are less than three women on the board of directors, unless more than 30% of the directors are women. Director is Chair of the NomCom." Vote Outcome: 92.22% votes FOR Criteria that this vote meets: Governance</p>
<p>Impax Global Opportunities Strategy</p>	<p>Microsoft Corporation Shareholder Resolution - "Shareholder Proposal Regarding Report on Hiring Practices" Date of vote: 13 December 2022 Voting: For Manager Rationale: "Stewart would expect to see this issue further addressed in the company's forthcoming racial equity audit (results due in 2023) and hence support this resolution." Vote Outcome: 10.8% votes FOR Criteria that this vote meets: Governance</p>
<p>Impax Global Opportunities Strategy</p>	<p>Boston Scientific Corp. Shareholder Resolution - "Elect Edward J. Ludwig" Date of vote: 4 May 2023 Voting: Against Manager Rationale: "Vote against nominating or governance committee members when there are less than three women on the board of directors, unless more than 30% of the directors are women." Vote Outcome: 96.23% votes FOR Criteria that this vote meets: Governance</p>