

# **Annual Engagement Policy Implementation Statement (to 5 April 2021)**

## **Ulster Supported Employment Limited Retirement and Death Benefits 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 Trustees have been followed during the year to 5 April 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.

The second part of this Statement provides detail of the actions taken by the Trustees over the year to meet the Scheme's engagement policies set out in the SIP. The third part of this Statement describes the voting behaviour on behalf of the Trustees over the year.

Mercer Limited (Mercer) in the UK has been appointed as investment manager by the Trustees. Pursuant to that appointment, scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

### **2. 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' views on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

To develop the policy, the Trustees engaged with Mercer, to understand responsible investment including ESG factors, stewardship, climate change and the approach undertaken by MGIE, in its capacity as investment manager to the Ireland-domiciled collective investment schemes, in which scheme assets are invested.

As stated in the SIP, the Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed 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.

The Trustees 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. The Trustees are provided with detailed information on ESG integration progress, stewardship monitoring results, and climate-related metrics and MGIE's investment processes in the quarterly investment performance report produced by Mercer. The Trustees have considered the reports provided by Mercer and not raised any concerns.

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

#### Policy Updates

- In August 2020 the Mercer [Sustainability Policy](#) 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 and Carbon Footprinting

- **Diversified Growth Fund:** Mercer undertake climate scenario modeling and stress testing on the Mercer multi sector funds used by the Scheme on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 March 2020. The results of the climate scenario modelling and carbon footprinting are documented in the [TCFD compliant Climate Change Management Report](#). The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.
- **Equities:** Carbon Footprint analysis of all equity funds is undertaken on a six monthly basis. From 31 December 2019 this approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give the Mercer and MGIE investment teams additional information to drive engagement with managers.
- **Corporate Bonds:** The corporate bond fund does not specifically promote environmental or social characteristics, nor does it have sustainable investment as its objective. However, Mercer reports quarterly on the WACI of the portfolio and corresponding index for information purposes.
- **UK Gilts:** Mercer does not currently provide carbon footprint reporting for UK Government bond funds.

## ESG Ratings

- The 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 Trustees. ESG ratings are reviewed by MGIE during the quarterly monitoring processes, with a more comprehensive review performed annually, which seeks evidence of positive momentum on ESG integration.

## Exclusions

- As an overarching principle, Mercer and MGIE, (the investment manager for the Trustees) prefer an approach of positive engagement rather than negative divestment. However, Mercer and MGIE 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.
- Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainable themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.
- In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

## Diversity

- From 31 December 2020, gender diversity statistics have been included in the quarterly reports for Mercer's equity funds and this is being built into a broader investment policy.

### **3. Voting Activity**

The Trustees' 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 Trustees did 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 vote in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

The statistics in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote. These are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

"Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

- **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

#### 4. Conclusion

The Trustees' opinion is that:

- the activities set out in this Statement indicate that the Trustees have been compliant with the policy set out in the Scheme's SIP in relation to ESG factors, stewardship and climate change; and
- describes the voting behaviour carried out on behalf of the Trustees, including the most significant votes cast by the Trustees or on their behalf, during the year and state any use of the services of a proxy voter during that year.

### Voting Activity Summary 1 April 2020 to 31 March 2021

Fund	Total Proposals	Voted 'For'	Voted 'Against'	Abstained from voting	Unvoted	Other	For Management	Against Management	Use of Proxy Advisor
Mercer Emerging Market Equity	<b>16,563</b>	78%	12%	3%	7%	0%	97%	3%	Yes
Mercer Passive Global Equity CCF	<b>21,551</b>	83%	9%	0%	5%	2%	87%	13%	Yes

### Summary of Significant Votes 1 April 2020 to 31 March 2021

Fund	Shareholder Proposal ("SHP")	Issuer	Vote Decision
<b>Mercer Emerging Market Equity</b>	Management Proposal Reporting on the Company's Approach to Climate-Related Risks	Absa Group Limited	For
	Management Proposal Reporting on the Company's Approach to Climate-Related Risks	Nedbank Group Ltd.	For
	Management Proposal Authority to Issue Singapore Green Financial Bonds	Chongqing Rural Commercial Bank Co Ltd	For
	Management Proposal Approval of the Authorization the General Manager Office of the Company to Handle Matters with the Issuance of Green Corporate Bonds	Tianjin Capital Environmental Protection Group Co., Ltd.	For
<b>Mercer Passive Global Equity CCF</b>	Shareholder Proposal Regarding Linking Compensation to ESG Criteria	Alimentation-Couche Tard, Inc. & Saputo Inc	For
	Shareholder Proposal Regarding Aligning Investments with The Paris Agreement	Mizuho Financial Group, Inc.	For
	Shareholder Proposal Regarding Report on Plans to Reduce Total Contribution to Climate Change	3 companies*	For
	Shareholder Proposal Regarding Reporting and Managing Greenhouse Gas Emissions	Transdigm Group Incorporated	For
	Shareholder Proposal Regarding Diversity and Inclusion Report	Fortinet Inc & Procter & Gamble Co.	For
	Shareholder Proposal Regarding Report on Response to Opioid Epidemic	Johnson & Johnson	For
	Shareholder Proposal Regarding Restriction on Investment in the Japan Atomic Power Company	Chubu Electric Power Co Inc	Against
	Shareholder Proposal Regarding Health Risks of Tobacco Sales During COVID-19	Walgreens Boots Alliance Inc	For
	*3 Companies J.B. Hunt Transport Services, Inc., Union Pacific Corp. & United Parcel Service, Inc.		

