

University of Reading Employees' Pension Fund – 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 31 July 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 guidance published by the Pensions Regulator.

Members should be aware that this Statement is part of a wider set of information available on the Fund's governance and investment responsibilities undertaken by the Trustees:

- Members can view the SIP (mentioned above) on the University's website which discloses, in detail, the investment principles, policies, objectives, and strategy followed.
- Members can request a copy of the Annual Report and Financial Statements of the Fund, which contains certain information on the management of the Fund, its governance, investment risks management and level of Trustees' knowledge and understanding.

Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Fund included in the SIP are to invest the Fund's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustees' primary aim is to ensure all benefits are paid when they fall due.

Over the longer term, the Trustees would like to adopt a 'self-sufficiency' approach whereby the Fund's assets are less risky and there is a reduced probability of a funding deficit opening up in the future. It is proposed the portfolio will be invested in a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due. The Trustees are comfortable that the strength of the covenant offered by the University means that they can take a degree of risk in the portfolio over the longer term, and do not intend to move toward a 'lowest risk' portfolio which would be 70-100% invested in government bonds.

Over the 12 months to 31 July 2021, the SIP was updated to reflect the changes to the Fund's investment strategy, which saw the Fund reduce its allocation to index-linked gilts in favour of a 10% allocation to Secured Finance, an allocation split 50/50 between two managers. This change will see the expected return of the Fund's investments increase, whilst increasing diversification within the portfolio. Risk will be marginally increased as a result of this change, however the Trustees believe this is balanced by the increased return expectations, which should help the funding level improve over time. We note that as at 31 July 2021, the transition to the Secured Finance mandates was in progress, with settlement on 4 August 2021.

Assessment of how the policies in the SIP have been followed for the year to 31 July 2021

The information provided in the following section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The changes to the investment strategy made over the year to 31 July 2021 served to increase the return expectations of the portfolio, as well as improve the long-term cashflow position of the Fund through the generation of contractual income. When considering the managers to appoint for the Secured Finance mandates, the Trustees considered the managers' ESG policies and ratings provided by Mercer.

Policies in relation to the Fund's investment strategy, day-to-day management of the assets, and associated risks

Please refer to Sections 5, 6, 7, 10 and 11 of the SIP for the Fund's policies around its investment strategy, the day to day management of the assets, and the associated risks.

The Trustees reviewed the Fund's investment strategy over the year, considering the Fund's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk (including financially material risks such as Environmental, Social and Governance risks, including climate change), the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees also received written advice from their Investment Adviser.

The basis of the Trustees' strategy for the Fund is to divide the Fund's assets between growth assets which consist of diversified growth funds, a high lease-to-value property fund and two secured finance funds, and matching assets, comprising of buy and maintain credit and index-linked gilts holding. The Trustees regard the basic distribution of the assets to be appropriate for the Fund's objectives and liability profile, and the funds in which the Fund invests are expected to provide an investment return commensurate with the level of risk being taken.

The Fund's investment consultant supplies the Trustees with the following on a quarterly basis for each of the Fund's investments:

- Investment returns and performance commentary;
- Updates and developments, if applicable, for each manager and fund;
- A Manager Research rating;
- An ESG rating.

The Trustees use Trustee meetings and Investment Sub Committee meetings to ask questions of the investment consultant, and will also invite managers to present directly to the Trustees from time to time.

The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the investments held within the Fund. As detailed in Section 5 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, and the choice of fund managers.

As the Fund invests in pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager, but believe that appropriate mandates can be selected to align with the overall investment strategy.

The Trustees recognise the need to hold investment managers and advisers to account. Whilst the day-to-day management of the Fund's assets are delegated to the Investment Managers, all other investment decisions including strategic asset allocation and selection and monitoring of Investment Managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

In December 2019, the Trustees put in place investment objectives for its Investment Consultancy Provider, Mercer, and its performance will be reviewed on a regular basis. The objectives may be revised at any time but will be reviewed at least every three years, and after any significant change to the Fund's investment strategy and objectives.

The intention of these objectives is to ensure the Trustees are receiving the support and advice it needs to meet its investment objectives. The objectives set cover both short and long term objectives across strategy, monitoring, compliance and regulation, client servicing and relationship management and member engagement and communications.

Policy on ESG, Stewardship and Climate Change

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.

The Fund'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 May 2021.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training in April 2019 provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. Prior to this training, the Trustees undertook a beliefs survey designed by their investment consultant to assist them with establishing their policies in this area. The results of this survey were presented at the Trustees' meeting on 11 April 2019, when the training took place, with the policy being incorporated into the SIP following this exercise.

Since then, the Trustees have also received an ESG benchmarking report from their investment consultant, which sets out how the Fund's investments compare from an ESG perspective versus the wider universe of managers/funds that Mercer research within the relevant asset classes. The results of this ESG peer group analysis showed that all of the Fund's investment managers score higher than average when compared against the wider universe of managers within each asset class, from an ESG perspective.

The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

The Trustees believe that environmental, social, and corporate governance (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.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising 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 will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustees with ESG ratings for the strategies in which the Fund invests.

The Trustees requested that the investment managers confirm compliance with the principles of the UK Stewardship Code 2020. All managers confirmed that they are signatories of the UK Stewardship Code 2020 that took effect on 1 January 2020, and the FRC has now published the list of confirmed 2020 Signatories after assessing the reporting by each applicant.

Legal and General Investment Management ("LGIM") believe that they have fully applied each of the principles in its investment stewardship activity during 2020, and they have submitted the 2020 Active Ownership Report to the FRC as its response to the UK 2020 Stewardship Code.

As noted earlier, the investment performance report is reviewed by the Trustees on a quarterly basis – this includes ratings (both general and specific ESG) from the investment consultant. All of the managers remained generally highly rated during the year. When implementing a new manager the Trustees consider the ESG rating of the manager. The investment performance report includes how each investment manager is delivering against their specific mandates.

Voting and Engagement Activity

The Trustees have delegated their voting rights to the investment managers, who are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed as part of the production of this statement.

When the investment managers present to the Trustees, the Trustees will ask the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

The Trustees also received details of relevant engagement activity for the year from each of the Fund's investment managers.

The Fund's investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). The Fund's managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate or not their support for the resolution to the company's management.

LGIM

LGIM note that they have established a fully integrated framework for responsible investing to strengthen long-term returns. Their framework for responsible investing is based on stewardship with impact and active research across asset classes. These activities enable LGIM to deliver responsible investment solutions to their clients and conduct engagement with the aim of driving positive change.

LGIM's core investment beliefs are as follows:

1. *“Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes.*
2. *Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns.*
3. *Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole.”*

There are 38 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 58 colleagues whose roles involve a very substantial contribution to their responsible investing capabilities and whose objectives reflect this, although their responsibilities are broader than solely ESG.

A key pillar of LGIM's approach to index strategies is active ownership: encouraging companies to consider sustainability risks develop resilient strategies and consider their stakeholders. They also seek to tackle sustainability risks in some strategies on a product level using tools such as ESG scoring, 'tilting' and exclusions, via index construction or design.

In the face of challenges like climate change, ageing populations or technological disruption, LGIM believe a different approach to managing capital is required – where ESG impact is considered alongside the traditional metrics of risk and return.

In recognition of climate change and its defining issues, LGIM supports efforts to limit carbon emissions to net zero by 2050. Within their Climate Impact Pledge, they commit to helping companies reach this objective. They are also targeting zero net amount of emissions across all assets under management by 2050.

In 2020, LGIM launched high-profile campaigns to drive greater ethnic diversity within boards while engaging on gender and leadership diversity in Japan. They opposed 208 directors globally due to concerns over board diversity. In 2021, LGIM expanded their diversity policy to vote against companies in the TOPIX 500 in instances where there are no women on the board. This resulted in 51 votes against the chairman or most senior member of the board during the second quarter of 2021.

Evolving their capabilities to assess and engage with companies on ESG criteria is a vital objective for LGIM. Over the course of 2020, their Global Research and Engagement Group of 73 analysts devoted significant time and resource to tackling emerging ESG issues across a range of sectors from both sides of the capital structure. These included supply chains, biodiversity and climate change.

LGIM have also expanded their Climate Impact Pledge engagement programme to focus on around 1,000 global companies in 15 climate-critical sectors in 2020.

In 2020, LGIM opposed the election of 4,700 directors due to governance concerns. They engaged with 665 companies, and voted on 66,037 resolutions worldwide.

A summary of the voting activity undertaken by LGIM on behalf of the Trustees over the last 12 months is set out below. This in relation to the Fund's holdings within the Dynamic Diversified Fund.

Key votes undertaken over the year – 1 August 2020 – 31 July 2021	
<p>Dynamic Diversified Fund</p> <p>Over the year to 30 June 2021, LGIM voted on 99.8% of resolutions put forward at 65,734 meetings. LGIM voted against management for c. 16% of the total resolutions.</p>	<p>Company: <i>Aston Martin Lagonda Global Holdings Plc</i></p> <p>Resolutions proposed: <i>Re-elect Lawrence Stroll as Director</i></p> <p>LGIM vote: <i>Against</i></p> <p>Background: <i>“LGIM views gender diversity as a financially material issue for our clients, with implications for the assets they manage on their behalf. For 10 years, we have been using our position to engage with companies on this issue. As part of our efforts to influence our investee companies on having greater gender balance, we apply voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board. We also apply voting sanctions to the FTSE 100 companies that do not have 30% women on their executive committee. For smaller companies we expect at least one woman at board level”.</i></p> <p>Further comment from LGIM: <i>“LGIM will continue to engage with investee companies, publicly advocate our position on this issue and monitor company and market-level progress.”</i></p>
	<p>Company: <i>WH Group Limited</i></p> <p>Resolutions proposed: <i>Elect Wan Long as Director</i></p> <p>LGIM vote: <i>Against</i></p> <p>Background: <i>“LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. LGIM views the two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on their website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.”</i></p> <p>Further comment from LGIM: <i>“LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).”</i></p>

Key votes undertaken over the year – 1 August 2020 – 31 July 2021	
	<p>Company: <i>PPL Corporation</i></p> <p>Resolutions proposed: <i>Elect Director Craig A. Rogerson</i></p> <p>LGIM vote: <i>Against</i></p> <p>Background: <i>“The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Note that this company was also divested by LGIM across its Future World range of funds.”</i></p> <p>Further comment from LGIM: <i>“LGIM will continue to engage with the company and monitor progress. LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, our flagship engagement programme targeting some of the world's largest companies on their strategic management of climate change.”</i></p>

For the Fund’s property mandate, one of LGIM’s key initiatives to promote ESG integration includes producing an asset sustainability fund for each property under management coordinated with maintenance and refurbishment funds, in order to reduce greenhouse gas emissions. This is linked with the inclusion of sustainability-related performance indicators in employees’ appraisal targets and property supplier contracts.

Invesco

Invesco’s fundamental belief is that ESG investing is an essential part of the solution to a sustainable future. They view it as an important agent of change in driving a holistic perspective on the investment industry’s role in creating value.

Invesco’s purpose is to deliver an investment experience that helps people get more out of life. Sustainable value creation and effective risk mitigation are fundamental to achieving that goal. As a result, their focus is on integrating ESG into the heart of their investment process, with their investment teams taking decisions every day on how to manage this integration and how to use their leverage in important areas such as client engagement and proxy voting.

They also flex this work around more specific client needs, using skills such as their self-indexing capabilities to provide the right ESG solutions. Invesco’s dedicated global ESG Team act as a center of excellence to guide, support and inform all of their work in this area.

The following wording in regards to the Global Targeted Returns Fund, is taken from the latest ESG paper (published in 2020) for Invesco’s Multi-Asset offerings.

“The Global Targeted Returns strategy has two targets – risk and return. These are financial targets, and as such, the strategy does not have a sustainability target that we are mandated

to deliver against. However, ESG considerations are a key element of our investment analysis because some have been crucial for a long time and other considerations are growing in importance and relevance for asset prices.

Within the Multi Asset team we have always analysed factors that sit within the broad church of ESG, and over recent years we have formalised that analysis so that it is defined and illustratable to clients. Though ESG, from a philosophical standpoint, does not form the sole basis of an investment decision, their consideration is a component of our investment analysis and their relevance and importance differ from idea to idea.

The Invesco Global Targeted Returns strategy has a very defined and repeatable three-step risk-based portfolio management process, and ESG considerations play a role within each step. Within the first step of our investment process we analyse the risk and return of our macro-themed ideas. Within that analysis, we consider many factors that are ESG in nature. These can include major political or regime change, environmental concerns, trade negotiations, demographics and inequality to name a few.

In the second step of our investment process, scenario testing is at the core of our risk analysis. We use scenarios to review the impact on the portfolio of adding, removing and changing ideas. Several scenarios that we test the fund against are ESG risk factors, and these include natural disasters, social unrest and a reversal of wealth inequalities.'

With regards to their approach within Multi-Asset strategies, ESG is integrated through Central Economic Thesis (CET) within Invesco's monthly reviews, where many ESG considerations are discussed, which recently (as of Q2 2021) has included reviews of US politics, inflation, reform in Chile & Russia, trade tensions and many other elements.

Invesco's 3-step process in integrating ESG within Multi-Asset strategies can be summarized at a high level as follows:

Step 1. Ideas – each research note has a dedicated ESG considerations section

Step 2. Fund management process – Scenario testing (including two-degree climate scenarios)

Step 3. Implementation – Active ownership via proxy voting within segregated sleeves.

The Multi Asset team have also provided tailored ESG solutions for clients, with two strategies that have specific exclusions and/or ESG factors.

Invesco have a global ESG team of 13 people & dedicated resources, and engaged with 2000+ companies on ESG topics in 2020.

In 2020 Invesco voted globally on 10,399 meetings; 98%% of those available for them to vote. Of the 247,465 proposals voted on, 43% were against one or more of the management recommendations.

A summary of the voting activity undertaken by Invesco on behalf of the Trustees over the last 12 months is set out below. This in relation to the Fund's holdings in the Global Targeted Returns Fund.

Key engagement activity undertaken over the year – 1 August 2020 – 31 July 2021	
<p>Diversified Growth Fund</p> <p>Over the year to 31 July 2021, Invesco engaged with companies on 35 occasions.</p>	<p>Issuer Industry : <i>Financials</i></p> <p>Background: <i>The bank in question recently published their green bond framework. The Invesco ESG team joined the meeting with a fixed income analyst to discuss the key points of the framework and its alignment with the International Capital Market Association’s green bond principles.</i></p> <p>Engagement Result: <i>Invesco discussed the bank’s internal oversight of its sustainability activities, including:</i></p> <ul style="list-style-type: none"> • <i>The use of proceeds from green bond issuances</i> • <i>The qualifying criteria for green mortgages issued by the bank</i> • <i>The banks sustainability impact reporting and broadly, how it considers the environment and sustainability as part of its lending outside the direct use of proceeds raised from green bond issuances.</i>
	<p>Issuer Industry : <i>Utilities</i></p> <p>Background: <i>During a webinar, the company outlined their ESG strategy, and the key role they will play in facilitating the electrification of carbon-intense industries and products such as automobiles. They outlined their carbon reduction targets, which include a 2050 net-zero target as well announcing on the webinar an interim scope 3 reduction target for 2030. They also announced social objectives they are working on, including getting more women into STEM from a young age.</i></p> <p>Engagement Result: <i>Following the webinar, Invesco provided feedback that although the overall vision set out by the company was very strong, more clarity was needed about how their gas business can be decarbonised and the feasibility of proposed solutions such as Renewable Natural Gas or hydrogen blending.</i></p>

Key engagement activity undertaken over the year – 1 August 2020 – 31 July 2021	
	<p>Issuer Industry : <i>Transportation, Logistics</i></p> <p>Background: <i>Invesco proactively reached out to the company to inquire about the issue of living wage and how the company manages labour relations with its seasonal workers, and generally to better understand their ESG strategy and practices. They spoke with the firm on the topic of “Living wage” for temporary/seasonal workers, and other ESG relevant issues. This has been a longstanding concern, which was proactively raised by campaign groups such as ShareAction and other investors. The company has been sued by workers for failing to pay the national living wage as set by the Living Wage Foundation. The issue has been systematic for the company and the logistics industry. The company discussed with Invesco how the majority of its 140,000 workers are permanent with strong labour protection and that 95% of the seasonal workers are recruited from temp agencies. The issue is with the remaining 5% of seasonal workers, who are not recruited from agencies and who are employed without labour protection.</i></p> <p>Engagement Result: <i>The company followed up with an email with additional information on the status of its seasonal workers, clarifying that 80% of the seasonal workers in 2020 stayed over 12 weeks and were payed as permanent workers. The company provided information on how it engages with seasonal workers, how it discloses demographic data and what independent assessment it is implementing. Finally, they sent Invesco a copy of their response to ShareAction, in which it reasserts its practices of paying above the Real Living Wage to majority of its workers and its willingness to participate in government negotiations.</i></p>

Blackrock

As an investor in fixed income, it is important to note that there is more limited scope for engagement (relative to equity investors that can vote on resolutions etc.), however we have included wording from BlackRock below in regards to their engagement and reporting policies within this area.

Blackrock believes that effective disclosure can lead to real change in how companies are managed for the benefit of all stakeholders. Their Investment Stewardship team is a key partner for all investment teams at BlackRock. Their Investment Stewardship efforts, including their direct engagement and voting activities, encourage companies to deliver long-term, sustainable growth and returns for their clients.

Partnership across teams at BlackRock ensures they can leverage insights and knowledge, and bring the voice of all stakeholders, including corporate bond holders, to the table.

BlackRock's footprint in the fixed income markets also means that they have substantial opportunity to engage with sovereigns and debt management offices, issuers of securitized bonds, rating agencies, index providers as well as partnering with their public policy teams regarding ESG regulation, policy, and disclosure. BlackRock can also play a role in promoting awareness, disclosure, fostering debate, and highlighting risks, across various financial market participants.

Engagement is core to BlackRock's stewardship program as it helps them assess a company's approach to governance, including the management of relevant environmental and social factors. To that end, they conduct approximately 3,000 engagements a year on a range of ESG issues likely to impact their client's long-term economic interests.

For 2021, BlackRock are focusing on the following five engagement priorities:

- Board quality and effectiveness – Quality leadership is essential to performance. Board composition, effectiveness, diversity and accountability remain top priorities.
- Climate and natural capital – Climate action plans with targets to advance the transition to a low carbon economy. Managing natural capital dependencies and impacts through sustainable business practices.
- Strategy, purpose and financial resilience – A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience.
- Incentives aligned with value creation – Appropriate incentives reward executives for delivering sustainable long-term value creation.
- Company impacts on people / human capital – Sustainable business practices create enduring value for all key stakeholders

The priorities outlined above are aligned with the firm's commitment to make sustainability BlackRock's standard for investing and to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

BlackRock has as an ESG Capital Markets working group, including investment professionals globally across fixed income asset and capital markets, specifically focused on driving innovation and diversifying issuance in ESG oriented fixed income securities, working directly with issuers and dealers to expand issuance across sectors and market new concepts.