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 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.

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 latest SIP (mentioned above) on the University's website here: https://www.reading.ac.uk/human-resources/-/media/project/functions/human-resources/documents/urepf-sip-july-2023.pdf?la=en&hash=4E734A5DF0E33ECE85ACF27165957B5D 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.

The Trustees have adopted 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, relative to the prior strategy. The portfolio is predominantly invested in a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due. The overall investment strategy is set to target an expected return that supports the Technical Provisions discount rate (which is higher than the self-sufficiency target of gilts + 0.5% p.a.).

The Trustees are comfortable that the strength of the covenant offered by the University means that they can afford to maintain a degree of risk in the portfolio over the longer term.

Assessment of how the policies in the SIP have been followed for the year to 31 July 2023

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.

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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 long-term objectives over the year, and considered next steps for the investment strategy in order to align with this, taking into account the Fund's liability profile and appetite for risk, the views of the University on investment strategy, the University's appetite for risk, and the strength of the University's covenant. The Trustees also received written advice from their Investment Adviser in relation to the structure of the Fund's liability matching assets

The basis of the Trustees' strategy for the Fund is to divide the Fund's assets between growth assets which consist of a diversified growth fund, 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 holdings. These matching assets are expected to behave in a similar way to the Fund's liabilities in response to movements in long-term interest rates and inflation expectations. The Trustees updated their liability hedging target over the year to aim to hedge broadly 80% of the interest rate and inflation risk associated with the Fund's liabilities on the Self-Sufficiency (gilts +0.5% p.a.) basis. 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 last review of the objectives was in October 2022, with no changes made to those already in place.

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The intention of these objectives is to ensure the Trustees are receiving the support and advice they need to meet the investment objectives. The Consultancy Provider 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 July 2023, and was updated to include the Trustees' definition of a "significant vote".

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.

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.

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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.

Following new guidance from the Department for Work and Pensions ('DWP'), the Trustees are required to define what constitutes a 'most significant vote' to guide the inclusions in this Implementation Statement.

The Trustees have decided to measure significance by holding size in the funds' portfolios and by consistency with the University's sustainability priorities/themes. The Trustees have decided to report in this Implementation Statement on votes related to material holdings (over 5% of assets in any of the Scheme's underlying investments), and will aim to focus on in the following stewardship areas:

- Environmental (E) - Climate change
- Social (S) - Human rights (including modern slavery)
- Governance (G) - Executive remuneration (any vote against a remuneration report where executives are awarded bonuses despite missing targets)
- Governance (G) - Diversity (any vote against chair when the board is not sufficiently diverse)

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 refer to themselves as a "universal owner" on behalf of their clients. As a result, they believe:

"Responsible investing is essential to improve long-term returns, unearth opportunities and mitigate risks by fostering sustainable markets and economies

We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes

ESG factors are financially material, albeit not all to the same degree. And patience is required, because the time horizons of ESG outcomes and investment returns are not always aligned

Engagement with consequences is the best way to deliver long-term, systemic change on a global scale"

Implementation Statement (Cont)

LGIM's three key stages to their overall investment process are as follows:

1. *"Research: Through rigorous analysis, we seek to identify key ESG issues, which we consider as part of our investment processes, strategies and solutions*
2. *Engagement: We engage with companies, occupiers and other stakeholders on these issues. And we work with policymakers, regulators, industry peers and stakeholders to raise overall market standards*
3. *Outcomes: When necessary, we will escalate our engagement activity via stewardship tools, to take steps against companies that fail to listen. We also use our ESG insights to inform investment decisions."*

There are c. 90 LGIM employees with roles dedicated exclusively to ESG activity. This covers leadership positions to implement their responsible investing strategy across their Investment Stewardship, Investments, Distribution, Product, and ESG IT and Change teams. In addition, there are a further 65 colleagues whose roles involve a substantial contribution to LGIM's responsible investing capabilities and whose objectives reflect this, although they have broader responsibilities

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 partnership with, and on behalf of, LGIM's clients, they target a broad range of ESG objectives. These include:

1. Reaching net-zero greenhouse gas emissions by 2050 or sooner across all assets under management
2. Setting an interim target of 70% of eligible AUM to be managed in alignment with this net-zero ambition by 2030
3. Achieving net-zero carbon across their real estate portfolio by 2050 In 2022, LGIM's campaigns involved expanding their work on diversity to emerging markets; efforts to tackle commodity-driven deforestation; and fighting for equal voting rights, particularly in the US.

In 2021, LGIM expanded the LGIM ESG Academy in partnership with the United Nation's (UN) Principles for Responsible Investment (PRI), with the aim of providing education to all employees on how their job relates to and interacts with LGIM's purpose and activities as a responsible investor.

There were no votes undertaken on behalf of the Trustees over the year to 31 July 2023 by LGIM that formally meet the significant vote criteria – however the Trustees have set out votes consistent with the significant voting priorities. This is in relation to the Fund's holdings within the Dynamic Diversified Fund.

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Key votes undertaken over the year	
Dynamic Diversified Fund Over the year to 30 June 2023, LGIM voted on 99.8% of resolutions put forward at 9,368 meetings. LGIM voted against management for c. 23% of the total resolutions.	**Company:** *Shell Plc* **Resolutions proposed:** *Approve the Shell Energy Transition Progress* **LGIM vote:** *Against* ***Outcome of the vote:*** *Pass* **Background:** *"A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory."* **Further comment from LGIM:** *"LGIM continues to undertake extensive engagement with Shell on its climate transition plans."*
	Company: *Amazon.com, Inc.* **Resolutions proposed:** *Report on Median and Adjusted Gender/Racial Pay Gaps* **LGIM vote:** *For (against management recommendation)* ***Outcome of the vote:*** *Failed to Pass* **Background:** *"A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as we believe cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society."* **Further comment from LGIM:** *"LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf."*

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.

Implementation Statement (Cont)

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.

BlackRock Investment Stewardship's (BIS) Engagement Priorities reflect the five themes on which they most frequently engage companies, where they are relevant, as these can be a source of material business risk or opportunity. As such, they may impact companies' ability to deliver the long-term financial returns on which their clients depend to meet their investing goals. The vast majority of BIS' work is focused on corporate governance. In BlackRock's experience, sound governance is critical to the success of a company, the protection of investors' interests, and long-term financial value creation.

BIS' work aligns with BlackRock's fiduciary responsibilities as an asset manager to always act in their clients' best financial interests. BIS takes a constructive, long-term approach to engagement with companies and focuses on the drivers of risk and financial value creation in their business models. Engagement is core to BlackRock's stewardship efforts as it provides them with the opportunity to improve their understanding of a company's business model and the risks and opportunities that are material to how they create financial value, including business relevant sustainability-related risks and opportunities.

- BIS' current engagement priorities are as follows: 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 financial 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

Implementation Statement (Cont)

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.

In BlackRock's Stewardship voting summary for the year ended 30 June 2023, they provide the following summary:

"In our engagements with companies, one thing remains clear: sound corporate governance — the quality of company leadership and management — has never been more important for companies to successfully navigate these strategic questions. Our discussions therefore continued to center on core governance practices that align with our clients' long-term financial interests as investors in these companies – including board quality, the company's strategy and financial resilience, and executive incentives.

We also continued to engage with companies on sustainability-related factors that are material to their business models, including management of potential risks associated with climate and natural capital, as well as the impacts of a company's operations on their workforce, and broader value chain. We were encouraged by the disclosure improvements companies have made to help investors understand how they are navigating material risks and opportunities arising from these factors.

Energy companies, in particular, faced a complex set of choices as they sought to balance the immediate national and societal demand for energy security and affordability, with their long-term plans to invest in technologies that will enable them to continue to be successful as the world transitions to a lower carbon economy. By and large, companies garnered support from shareholders for their actions to balance these important — but sometimes competing — objectives. We continue to believe that companies would benefit from greater clarity in public policy to support their decision-making on these issues. This, in turn, would allow these companies to provide shareholders more transparency about their strategies."

Mercer

The sub-managers within the Mercer Secured Finance Funds engage with issuers via regular engagement meetings, related to various ESG issues. An example of an instance where Insight, one of the underlying sub-managers, have engaged with an underlying issuer is outlined below.

Key engagement activity undertaken over the year
Company: *Pepper* Pepper's environmental risk management was identified as an areas of weakness as a result of their responses to Insight's proprietary questionnaire. Insight engaged with the issuer to improve the quality of data provided as well as details as to how environmental risks are assessed and overseen. Insight raised a number of areas for discussion, but with a focus on how Pepper manage environmental risks and how these are overseen at board level. Data disclosures are also poor, and they do not monitor the carbon impact of their mandate. *"Engagement was positive, with Pepper confirming that they are in the process of improving how they gather and track environmental metrics for use in future disclosures.* *They have confirmed they will revert to us as they bring future deals as to how they are making progress in including environmental assessments as part of the future underwriting process."*