

NEC Staff Pension Scheme (UK) – Annual Engagement Policy Implementation Statement

Introduction:

This statement sets out how, and the extent to which, the Trustees policy on ESG, Stewardship and Climate Change and the Investment Manager arrangements in the Statement of Investment Principles (“SIP”) has been followed during the year to 30 June 2020. 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 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 Scheme specified in the SIP are as follows:

- The Scheme has been established primarily to pay benefits to members on retiring from the Scheme, benefits to members’ dependants on death before retirement as well as to provide benefits to dependants of retirees. These benefits are funded, in part, by members’ contributions. The balance of the cost is met by the Principal Employer and Participating Employers.
- The Trustees’ aim is to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided as and when they fall due.

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.

In order to establish these beliefs and produce this policy, the Trustees undertook training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided in July 2019 and was used as a basis for the updates made to the Scheme’s SIP in September 2019.

The Trustees look to meet with each of its managers on a regular basis (at least every two years if possible), at which point the Trustees may ask the investment managers to highlight key voting (where applicable) and engagement activity, and the impact on the portfolio.

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.

Engagement Activity

The Scheme’s investment performance report is reviewed by the Trustees on a quarterly basis and includes ratings (both general and specific ESG) from the investment consultant. The majority of the Scheme’s managers were highly rated during the year. The Trustees acknowledge that managers in areas such as fixed income (particularly in relation to LDI) may not have a high ESG rating assigned by the investment consultant due to the nature of

the asset class, where it is harder to engage with the issuer of debt. When implementing a new manager the Trustees would consider the ESG rating of the manager.

AXA, Aberdeen Standard Investments, Mercer, Aviva and Legal & General Investment Management confirmed that they are signatories to the current UK Stewardship Code and plan to submit the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020.

As noted, the Trustees meet with the Scheme’s investment managers at the quarterly Investment Committee (“IC”) meetings. Over the year to 30 June 2020, the Trustees met with AXA, Aberdeen Standard Investments, Mercer (in relation to the illiquid credit mandate) and Schroders.

The Trustees’ investment consultant has requested, on behalf of the Trustees, details of relevant engagement activity for the period from each of the Scheme’s investment managers.

The Scheme’s investment managers engaged with companies over the period on a wide range of different issues including ESG matters. 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 (e.g. those linked to the Paris agreement). The Scheme’s investment managers provided examples of instances where they had engaged with companies they were invested in or 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 investment managers invest in or by voting on key climate-related resolutions at companies’ Annual General Meetings.

Voting Activity

The Trustees have delegated their voting rights to the investment managers. Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

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

Over the prior 12 months, the Trustees have not actively challenged any of their investment managers on its voting activity. Going forwards, the Trustees may be more active in reviewing and challenging voting activity, particularly in respect of its beliefs on climate change.

Over the year to 30 June 2020, the key voting activity on behalf of the Trustees was as follows;

Manager	
Legal & General Investment Management	Key votes undertaken over the period are summarised below:
All World Equity Index	There were 3,706 voteable meetings over the year, of which LGIM voted in all 3,706 of these meetings on behalf of the Trustee. In these meetings, there were a total of 41,799 voteable proposals.
	LGIM participated in the vote for 41,714 of the 41,799 votable proposals. In around 81% of these votes for proposals, LGIM indicated their support to the companies’ management, while

	voting against around 18% of the proposals, and abstaining from less than 1% of the proposals.
Legal & General Investment Management FTSE RAFI AW 3000 Equity Index	<p>Key votes undertaken over the period are summarised below:</p> <p>There were 3,250 voteable meetings over the year, of which LGIM voted in all 3,250 of these meetings on behalf of the Trustee. In these meetings, there were a total of 39,276 voteable proposals.</p> <p>LGIM participated in the vote for 39,013 of the 39,276 voteable proposals. In around 81% of these votes for proposals, LGIM indicated their support to the companies' management, while voting against around 19% of the proposals, and abstaining from less than 1% of the proposals.</p>
Schroders Diversified Growth Fund	Schroders participated in all 121 voteable proposals over the year. In around 96% of these votes for proposals, Schroders indicated their support to the companies' management, while voting against the other 4% of the proposals.