

Arts Council Retirement Plan (1994)

Stewardship report for the
Plan year ending 31 March 2023



Cyngor Celfyddydau Cymru
Arts Council of Wales

Tŷ CERDD

tynnu sylw'r byd at Gerddoriaeth Cymru
promoting the Music of Wales to the world

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Introduction

The Trustees of the Arts Council Retirement Plan (1994) have embarked on a journey to embed responsible investment considerations into all aspects of our decision-making. Although we're a relatively small plan, with just over £200m of assets under management, we believe it to be incumbent on us to demonstrate that all asset owners can deliver high standards of stewardship. We are, therefore, delighted to present our initial report demonstrating how we have met the principles of the UK Stewardship Code.

Our journey has been underpinned by a clear *Vision for a Responsibly Invested Strategy* that recognised both our investment beliefs and the growing interest shown by our members and our participating employers. Over the last three years, we've embarked on a process of change that has seen the shape of our strategy evolve. We have the benefit of being an open pension scheme with a long investment time horizon. This requires us to ensure that we're considering long-term risks such as climate change, but also affords us the ability to invest for the long term in solutions that could have an impact.

As we've begun to consider new areas for investment to ensure that we can meet our Vision, training has been a key element of the Trustees' journey. As a result, we've undertaken training on a range of topics, including climate change, stewardship, ESG and climate metrics, sustainable equity and renewable energy infrastructure. This training, combined with a clear actionable definition of our ambition, has helped guide the action for aligning the investment strategy with our beliefs.

Before this Plan year, we completed a review and restructure of the Plan's equity assets, adding a new investment manager and migrating existing holdings into climate and ESG-oriented funds. In the last 12 months, following our Vision has helped us to implement:

- the introduction of a dedicated Renewable Energy Infrastructure allocation, initially representing 5% of Plan assets; and
- a review of the Plan's Diversified Growth allocation, and a desktop review of the sustainable diversified growth options currently available.

At the year-end, 45% of our assets had clear sustainability-related objectives; a further 20% were managed by managers who were selected based partly on their sustainability credentials. All strategic decisions are accompanied by advice on their contribution to progressing the Vision. In the next 12 months, we intend to review the allocation to corporate bonds and consider the options for a sustainable allocation that meets our ambitions.

Stewardship remains a core focus for the Trustees. We met three of our investment managers for explicit scrutiny meetings over the last year, and we met two of the others as part of our work on renewable energy investments. We support our engagement activity with reporting from our advisers to ensure that we have a clear context for decision-making, can offer challenge where necessary and keep track of the actions arising from – and progress against – our engagements.

We're delighted with the progress that we have made to date, and we look forward to continuing our journey over the next Plan year and beyond.

Chris Daykin
Chair of the Trustees of the Arts Council Retirement Plan (1994)

May 2023

About the Plan

The Arts Council Retirement Plan (1994) ("the Plan") is a multi-employer defined benefit pension plan, open to accrual and new membership. The Plan has five participating sponsoring employers: Arts Council England, The Arts Council of Wales, Creative Scotland, Tŷ Cerdd – Music Centre Wales, and The Crafts Council. The overall membership of the Plan at the start of the Plan year is summarised in the table below.

Membership data as at 31 March 2022

Member status	Number	Salaries / Pensions	Average age
Active	798	£30.2m pa	49.9
Deferred	1,334	£4.3m pa	53.8
Pensioner	499	£3.4m pa	69.8
Total	2,631		

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefit basis. The Plan is governed by a Trustee Board of six individuals, including two trustees nominated by members and an independent professional Chair.

The Trustees' over-riding funding principles for the Plan are to set the employer contribution at a level that is sufficient to:

- build up assets to provide for new benefits of active members as they are earned
- recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term
- ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members
- maintain stable employer contribution rates over the medium term.

We've translated these objectives into a suitable strategic asset allocation benchmark for the Plan, consistent with our view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk. The strategic benchmark is reflected in the choice and mix of funds in which the Plan invests, and guided by our investment beliefs, which are reviewed on a regular basis.

Our investment beliefs

We have agreed a set of investment beliefs that reflect the way in which we'll translate our objectives into actual investment arrangements for the Plan. These beliefs are set out in our Statement of Investment Principles and reproduced below.

Governance

- Clear and well-defined objectives are essential to reflect the Plan's long-term strategic direction of travel and to help build a plan for achieving these objectives.
- The Plan and its liabilities are long-term in nature, and the Trustees support long-term investing as a means of enhancing returns, reducing transaction costs, encouraging improved governance and delivering stable contribution rates.
- Fees and costs matter; investment managers' fees should be transparent and reviewed regularly.

Investment strategy

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Risks should be rewarded. The Trustees believe that investing in certain asset classes offers an adequate risk premium as a reward to justify the risk and are willing to accept the greater volatility associated with such risks.
- Diversification is expected to reduce the overall volatility of investment returns, although diversification over many different managers needs to be balanced against the Trustees' governance budget.

Investment Structure

- There is generally a positive relationship between the level of investment risk taken and the rate of expected investment return. However, for certain investments, it may take a long period of time for this relationship to be established.
- Passive management has a role to play in the Plan's investment structure, most notably in more efficient equity markets.
- Active management can add value in some markets, although outperformance is not guaranteed. Where it is used, the Trustees believe active managers should not be unnecessarily constrained.
- In the light of the very long-term nature of the liabilities in an open fund, the Trustees believe that they should be able to access a premium for illiquidity.

Responsible Investment

- A responsible investment policy can be implemented using third-party products or delegated to third parties; in either case, policies should be regularly monitored and implementation of the policies challenged.
- Investment managers have the ability to positively influence corporate behaviours, and the Trustees believe it is incumbent on managers to represent their interests through engagement and the exercise of voting rights or be prepared to explain the reasons for not doing so.
- Climate change and the expected transition to a low-carbon economy represent a long-term financial risk to Plan outcomes and should be considered as part of the Trustees' fiduciary duty.

Our investment strategy

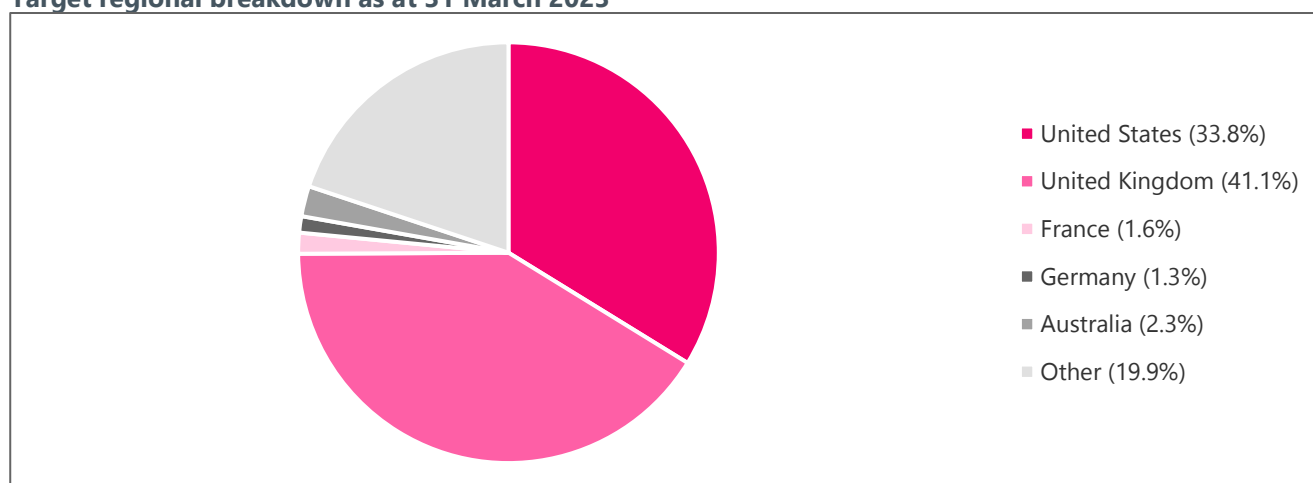
As the pension scheme is open to new membership, benefit payments are expected to continue to be paid long into the future. Therefore, the Plan's investment strategy has been set with reference to a long-term investment time horizon of 20+ years. A recovery plan, which includes a contribution from investment returns, is agreed to remove the funding deficit by 2034. As at 31 March 2023, the Plan's assets were valued at £211m.

The asset class and geographical breakdown is summarised in the table and chart below:

Asset allocation and geographical exposure

Asset class	Regional exposure	Strategic Target allocation	Actual allocation
Passive equity	Global	40%	41.1%
Absolute return	Global	5%	9.7%
Corporate bonds	UK	10%	7.6%
Index-linked gilts	UK	20%	16.2%
Infrastructure	Global	15%	15.2%
Property	UK	10%	9.0%
Cash	Global	0%	1.2%
Total		100.0%	100.0%

Target regional breakdown as at 31 March 2023



Despite the Plan's long investment time horizon, our initial Vision for a responsibly invested strategy targets being fully implemented in 2024. This reflects the actions of the Plan's participating employers and our understanding of beneficiaries' expectations for the Plan's assets:

- The participating employers have a 10-year corporate strategy for 2020–2030 that incorporates investment principles on environmental responsibility.
- Pensioner members currently in receipt of benefits who have a shorter time horizon for promoting stewardship practices are perceived to expect their benefits to be protected against shorter-term risks that could be mitigated by a more responsibly invested strategy and heightened stewardship practices.

Principle 1: Purpose, strategy & culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Responsible investment has become a central practice of ours, and we dedicate time at each Trustees' meeting to monitoring and engaging with our investment managers on their stewardship practices and reviewing the Plan's aggregate and individual mandate ESG data. However, a key demonstration of our commitment to responsible investment is through our ongoing systematic approach to implementing our investment beliefs.

In 2020, we agreed our *Vision for a Responsibly Invested Strategy*. Based on our investment beliefs, and reflecting the interests of both the Sponsoring Employers and the feedback we had increasingly received from members, we distilled the following objective and associated actions.

Vision for a Responsibly Invested Strategy

To invest in a manner where sustainability issues are not just considered as part of what managers do, but so that the invested assets contribute positively to a more sustainable future.

1. To embed sustainability in the appointment and ongoing scrutiny of the investment managers, embedding the opportunities that sustainability issues bring, not just the risks.
2. To think about how the assets are invested and the nature of the mandates employed. The energy transition and the accompanying need for a social transition will inevitably bring opportunity through time and, as an open pension scheme, the Trustees can seek to be positioned on the right side of these opportunities.
3. To measure the contribution of the Plan's investments towards more sustainable outcomes. Their ambition does not commit the Trustees to only invest in things that contribute positively to a sustainable future. Instead, on a net basis, the contribution must be positive.

The Trustees devote time to the ongoing implementation of their Vision at each meeting. We recognised that we needed the information and knowledge not only to challenge and enhance our stewardship, but also to devote enough time within the Trustees' calendar to properly focus on investment strategy. While we could have introduced a separate decision-making or scrutiny committee, we believed it appropriate to involve all Trustees in this to ensure an ongoing understanding of the issues and to allow a broad-based scrutiny of decisions. To achieve this, we have:

- Ensured that in the ongoing development of strategy, we consistently reference our Vision, thus challenging ourselves to be consistent in how we embed sustainability issues into all decisions.
- Separated manager scrutiny meetings from our primary trustee meetings. We meet virtually with our managers the day before our trustee meetings, allowing the participation of all Trustees, and our advisers, but increasing the time committed to discussion. This also allows the Trustees the opportunity to reflect and subsequently discuss any feedback during our primary trustee meetings.
- Worked with our advisers to tailor not only the information provided ahead of meetings, but also the content of these scrutiny meetings. We receive detailed stewardship/portfolio reporting prior to each meeting to frame our understanding and agendas are set for managers to ensure that our discussions are properly focused. Actions from prior scrutiny meetings are documented by our advisers and progress against these actions reported to the Trustees to allow continuity of dialogue.

- Ensured that we receive the right training and, where necessary, draw training from multiple sources. For example, in considering investment in renewable energy infrastructure over the last year, we had separate training sessions from two parties (our advisers and an investment manager) prior to interviewing two separate asset managers.

On an annual basis, the Chair appraises each of the Trustees' contributions over the year, including their effectiveness in serving the best interests of stakeholders. Trustees are expected to demonstrate their commitment to devoting sufficient time to carry out their responsibilities effectively. The review includes consideration of aspects where a strong contribution has been made to decision-making and considers needs for further training and development. Results are logged and used to inform agenda-setting and additional training initiatives. The Chair's effectiveness is reviewed annually by a trustee representing the principal employer in line with contract renewal processes. A separate review of overall trustee board effectiveness is carried out every three or four years.

A key consideration for both Chair and Trustees is that the Plan's beneficiaries continue to be in receipt of timely and accurate benefit payments. This responsibility is delegated to the Plan's administrator, and at each Trustee meeting, we assess the administrator's performance in this role. Over the last 12 months, there were no concerns raised in the review of the Trustees, the Chair or the administrator in performing their roles on behalf of the key stakeholders.

The Trustees have periodically received enquiries from various of the Plan's stakeholders regarding the approach being taken to address responsible investment within the Plan. That we've been able to positively respond to such enquiries, demonstrating the proactive actions that have been taken, while also overseeing improvements in the funding position of the Plan, leads the Trustees to conclude that they are positively serving the best interests of beneficiaries.

Principle 2: Governance, resources & incentives

Signatories' governance, resources and incentives support stewardship.

The Trustees are responsible for the governance and management of the Plan. Our investment governance arrangements are proportionate to the current size of the Plan's assets; we operate as one committee (ie no investment sub-committee) and meet at least three times a year. We hold pre-meetings with our investment managers, allowing us to meet each manager approximately every 18 months, with the more detailed consideration of investment arrangements taking place in the pre-meeting framework to enable us to focus solely on their actions as stewards of our assets.

Currently, the Trustee Board comprises six members; three appointed by the employers, two members of the Plan (one active member, one pensioner member), and one who is an independent professional trustee (Chair). This mix of Trustees ensures that there is sufficient representation of stakeholders, including the Plan's members and the multi-employer sponsor. There is also diversity of gender mix and age within the Trustees. An independent Chair balances these stakeholder representatives and brings a level of experience to the Trustees that is valuable in ensuring decisions and processes are performed in members' best interests.

The Trustees operate an advisory model for the ongoing management of the Plan, retaining responsibility for both strategic decision-making and the appointment of asset managers. To support these arrangements, the Trustees also receive external professional advice from advisers, who support our governance practices relating to stewardship in the following ways:

- **Actuarial advisers** – responsibilities include monitoring the Plan’s funding level, assisting with setting the Plan’s Funding Principles, and carrying out the triennial actuarial valuation. With respect to the Plan’s stewardship, the actuarial advisers identify climate considerations that should be incorporated into the Plan’s funding strategy (both short and long term) and included in the setting of individual financial and demographic assumptions.
- **Legal advisers** – responsibilities include advising the Trustees on regulatory and legislative changes that may impact on the Plan’s assets and issues relating to the Trustees exercise of fiduciary duty. The legal advisers may also provide relevant training.
- **Investment advisers** – responsibilities include advising the Trustees on the Plan’s investment strategy, reviewing the appropriateness of both managers and individual mandates, facilitating the transition of assets between mandates, and providing support on regular governance requirements. With respect to the Plan’s stewardship, the investment advisers help to facilitate training, setting responsible investment beliefs, and ensuring climate-related risks and opportunities are embedded into all investment decisions in line with the Statement of Investment Principles and Vision for a Responsibly Invested Strategy.

This simplified governance structure is appropriate and cost-effective given the size of the Plan’s assets and enables us to have oversight of stewardship activities. Despite the simplified process, our individual performance in the role is assessed annually by the Chair, with oversight from the sponsoring employers. The assessment considers our actions on behalf of the beneficiaries, which includes our stewardship of the Plan’s assets on their behalf. Therefore, we are collectively responsible for the stewardship of the Plan’s assets, despite its day-to-day implementation being delegated to the investment managers. Stewardship practices are summarised to members at least on an annual basis via the member newsletter, and we engage directly with members on all topics, including stewardship and wider responsible investment.

Our advisers help us set an annual business plan to ensure we can meet all our responsibilities to beneficiaries, including the exercise of stewardship. Budgets are agreed annually to reflect the delivery of services appropriate to meet our objectives and thus ensure that we are provided with sufficient resource. While our advisers’ incentive structures are not explicitly linked to stewardship, we believe that the governance structures surrounding the relationship clearly set the expectation of the support they provide in delivering our stewardship goals.

The advisory team supporting the Trustees comprises a partner, an investment consultant and an investment analyst, thus providing a range of seniority and experience and includes a responsible investment specialist who supports the Trustees in achieving their objectives. Further, the team draws on other expertise with the firm as needed. For example, infrastructure research specialists were directly involved with the Trustees during the appointment of a renewable energy infrastructure manager during the year.

We monitor the performance of our advisers annually. Our overall assessment of service delivery considers performance against objectives that include explicit reference to how they incorporate our responsible investment beliefs into their advice and reporting, and their contribution to improving our knowledge and understanding of responsible investment. Further details of this are set out in our response to Principle 8.

One key role of all our advisers is to provide support on the development of Trustee knowledge and understanding. Over the previous 12 months, our advisers provided us with training on issues including renewable energy transition, ESG and climate metrics and stewardship reporting. Our investment managers are also expected to provide an element of training via their meeting presentations to us when discussing their portfolio engagements, voting activity and related internal processes. This training has supported the Trustees’ ability to scrutinise their managers and the underlying implementation of strategy.

The Trustees continually strive to improve their approach to stewardship and their governance arrangements, challenging themselves and their advisers to do more. Over the 2023/24 year, the Trustees expect to improve their stewardship by:

- Introducing at least one further meeting to ensure that they can meet with all the Plan's managers during the course of each Plan year.
- Reviewing their investment beliefs and developing specific stewardship themes that will provide additional points of focus.
- Continuing to develop the stewardship reporting they receive from their investment advisers to ensure it best meets their needs.

In addition, the Trustees expect to review the learnings from having prepared this report to ascertain what further actions they can take to improve their stewardship.

Principle 3 – Conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

We recognise that, in performing our duty on behalf of beneficiaries, conflicts of interest may arise. A conflicts of interest policy is maintained and reviewed every three years. We also have in place a conflicts management plan with our actuarial advisers which covers the provision of advice to both the Trustees and the sponsoring employers of the Plan. This was updated during the past year.

Key aspects of the Trustees conflicts of interest policy are:

- Defining the potential conflicts that may arise in the execution of the Trustees responsibilities.
- Setting out the duty of the Trustees to identify such conflicts.
- Process for evaluating and managing conflicts as they arise.
- Ongoing monitoring of conflicts.

The Trustees maintain a conflicts log, which is updated as necessary at each meeting. The log records each Trustee's roles in relation to the Plan and the participating employers that may lead to potential conflicts in running the Plan in a Trustee capacity. The log is reviewed at each formal Trustees' meeting and from time to time, should there be any changes to circumstances that need to be reflected. The diverse representation that comprises the membership of the Trustees, and the professional administrative support from our advisers, also helps identify any conflicts. No material conflicts were raised during the 12 months to 31 March 2023, other than regular conflicts such as membership of the plan or responsibilities within the sponsoring employers.

Our investment advisers also have a conflicts policy. We note that they advise investment managers, some of whom may be parties in their recommendations to us such as manager selection exercises, moving money to or from a manager or supporting retention of or disinvestment from a manager. We are comfortable that there is no conflict that would influence their advice, by virtue of their having a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from their client and other relationships with investment managers. This is confirmed annually for our records.

Our advisers' assessment of the Plan's managers also incorporates a review of the managers' own conflicts policies. We consider any conflicts of interest arising in the management of the Plan and its investments and have ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose to us any potential or actual conflict of interest, although we have not been formally noted of any conflict that affected our investments during the year.

We do not engage directly with issuers but actively encourage their investment managers to engage with key stakeholders – which may include corporate management, regulators and governance bodies – relating to their investments, to consider the management of conflicts of interest and influence corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify us of any issue on which it may be beneficial for us to undertake further engagement. We review engagement activity undertaken by their investment managers as part of our broader monitoring activity.

Principle 4: Promoting well-functioning markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We recognise that a number of factors create uncertainty in the future returns that may be achieved from our investment strategy. We further recognise that the financial materiality of any factor, including ESG factors, is context specific and that, while some factors may be relevant to certain stocks/assets, they may not be relevant to others. As long-term investors, we consider such factors in the development and implementation of our investment arrangements.

Our approach to investment seeks to allow these factors to be directly integrated into decision-making through the structure of the mandates, the benchmarks adopted and the selection of investment managers. Our equity mandates all make reference to ESG and climate factors in their construction, allowing them to incorporate and respond to the emergence of different systemic factors, particularly where these arise as a consequence of environmental and/or social factors.

We rely primarily on input from our managers and advisers to identify market-wide and systemic risks. Over the course of the last year, we have recognised and addressed two key market-wide issues:

- **Russia-Ukraine conflict.** Following the Russian invasion of Ukraine, we swiftly contacted all our investment managers to determine the Plan's exposures to the region and the managers' planned responses to the event. We agreed to minimise our exposure to Russia on ethical grounds and engage with our managers to understand how they mitigate the risk to the assets of similar geopolitical events arising in future. This response was aligned with that of one of the participating employers and allowed us to provide timely comfort to beneficiaries on the security of their benefits.
- **Inflation.** Through our investment adviser and risk register, we identified inflation as a growing investment risk. We conducted a high-level exercise on the assets' exposure to inflation risk, and our advisers now incorporate commentary on inflation in the regular reporting they provide. We also made strategic adjustments to the Plan's assets to help protect against inflation risk, replacing our allocation to nominal gilts with an increased allocation to index-linked gilts.

As long-term investors with a scheme open to future accrual, the Trustees have chosen not to implement an LDI strategy and were thus not materially affected by market conditions in September/October 2022. However, the Trustees subsequently discussed these market events and the potential impact that the Plan may have felt in order to better understand the underlying risks.

The Trustees currently focus on climate risks

In considering systemic risks, the Trustees have primarily focused on climate change as a systemic risk factor. We recognise that the long investment time horizon means that climate change poses a long-term systemic risk that could affect the returns achieved from the investment strategy. Our beliefs explicitly note that climate change and the expected transition to a low-carbon economy represent a long-term financial risk to Plan outcomes and should be considered as part of our fiduciary duty.

We have taken steps to mitigate climate risk in the implementation of the strategy through the inclusion of equity mandates that make explicit allowance for climate-related risks. In the last 12 months, we also committed c.5% of assets to a renewable energy strategy, which focuses on the development of infrastructure that contributes to the energy transition and is expected to have a positive impact on carbon emissions. We intended to consider increasing our allocation further over 2023/24 in addition to exploring how climate-related risks can be better addressed within our bond portfolio.

We've also focused on climate risk within our engagement with managers and note that:

- Discussion with our property manager during the year explored their net zero plans for the portfolio and the measurement of Scope 3 emissions.
- We discussed performance of one of our global equity portfolios in light of returns from the oil & gas sector over 2022 and the positions that they've taken within the portfolio. We also discussed alternative measurement benchmarks with this manager.
- The introduction of detailed portfolio reporting has provided the Trustees with further information on climate metrics in order to scrutinise the underlying assets of the Plan.

Although the Trustees do not directly contribute to broader industry initiatives, we monitor our managers' involvement in such initiatives through our stewardship reporting (see Principles 7 and 8) and will discuss their involvements as appropriate. The recognition of, and action to address, climate risk is a key factor in the ongoing appointment of our managers.

Case study: Climate a primary consideration in a manager appointment

A key manager appointment is that of LGIM, the Trustees' single largest manager. A key reason for this appointment was LGIM's Climate Impact Pledge. The Trustees' equity investments with LGIM benefit directly from this in both the construction of the mandate and through LGIM's exercise of stewardship. This has led to 14 companies being divested for failing to properly address climate risks and over 80 companies being subject to voting sanctions during 2022 for not meeting minimum climate standards.

The Trustees have also noted from their engagement activity the growing importance of biodiversity-related issues, particularly deforestation. While the Trustees have not yet taken steps to directly address this issue, the theme will be considered during our activities over 2023/24.

We recognise the importance of addressing market-wide and systemic issues in the development and implementation of our investment strategy, and we believe that the steps we've taken so far are proportionate to our asset size and governance budget. We continue to take steps to address climate-related risks and will challenge our asset managers and advisers to do more.

We believe that the actions we take as a relatively small scheme to address climate change can be an example to other asset owners as to what can be practically achieved. Our Chair has participated in industry events to highlight the steps that the Trustees have taken.

Principle 5: Review & assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Plan's Statement of Investment Principles details the approach to stewardship and engagement. It's reviewed on an annual basis and following an actuarial valuation and any changes to the Plan's investment strategy. The document contains and reflects our investment and responsible investment beliefs and our approach to stewardship. We have not made any material changes to our policy over the Plan year. The beliefs are reviewed triennially to determine that they remain suitable and will be evolved where necessary. Our investment advisers will provide us with training in June 2023 to refresh our understanding of setting responsible investment beliefs and investment objectives.

We plan to formally review our investment beliefs as part of this exercise but expect this to lead to the more detailed consideration of stewardship themes, in line with guidance published during 2022. The Trustees currently focus on one core theme – climate change – although discussion among the Trustees has explored a range of other issues over the last year. The Trustees intend to formalise the adoption of a small number of core themes to further focus stewardship activity.

Our *Vision for a Responsibly Invested Strategy*, detailed in Principle 1, has been integral to the development of our investment strategy. The Vision document is reviewed and updated annually to reflect any changes in our views or industry trends. The document is used to plan and prioritise areas of focus and has guided the steps taken in the implementation of strategy. Following the review set out above, the Trustees will also formally review the Vision over the course of the 2023/24 Plan year.

One component of the Vision is to be able to measure the progress of the contribution of the Plan's investments towards more sustainable outcomes. While our investment managers are expected to report on their stewardship practices, we recognise the need for an independent, unbiased and comparable assessment of the managers. Our investment advisers were asked to provide an annual stewardship and ESG metrics report during the course of the last Plan year, with an associated dashboard to allow the ongoing monitoring of the Plan's strategy. The introduction of this reporting was accompanied by training to provide appropriate context.

This reporting has helped us consider the impact of the managers' engagement with the portfolio companies and is now used to support our manager engagement meetings. Further details on this are provided in our response to Principle 8. We expect to work with our advisers to continue to refine this reporting over the next 12 months and develop our approach to assessing managers on their alignment with our stewardship and climate ambitions.

While this exercise has improved our own stewardship practices, we recognise the compounded benefit it has in holding our investment managers closely accountable for their actions and encouraging them to improve their stewardship and collaborate with industry peers.

Principle 6: Client & beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

The Trustees' approach has been framed to reflect their investment beliefs but also draws on input from the participating employers, who are represented on the Trustee Board. This has allowed the views of multiple stakeholders to be incorporated into the strategy employed and the ongoing governance of the investment arrangements. Periodic feedback from employer-nominated trustees has served to reaffirm the alignment of approach with the views being shared by participating employers.

The Trustees' primary communication channel with members is via an annual newsletter, summarising the latest funding information and providing an update on ESG and stewardship activities. The Trustees also maintain a [Plan website](#) that provides members with:

- The most up-to-date Statement of Investment Principles, summarising the Plan's investment beliefs, including responsible investment beliefs and engagement principles.
- The Implementation Statement, which addresses how we've complied with the Plan's Stewardship Policy during the previous Plan year. This incorporates details of the stewardship activity undertaken by and on behalf of the Trustees.
- Historic Trustee Reports.
- Member Guide, which contains contact details to allow members to ask us questions and give us their feedback.

We encourage the Plan's beneficiaries to engage with us throughout the year, and the annual newsletter invites their feedback. During the last 12 months, we received queries from beneficiaries on a number of topics, including:

- The Plan's exposure to Russian holdings in light of the Russia-Ukraine conflict – we reviewed each of the mandates and confirmed that there was no material exposure to the region and that any residual exposure had been unwound or written down.
- The risk profile of the Plan's assets – to which we provided an overview of the existing investment strategy and an indication of the associated risks, as well as highlighting how we consider risks as part of all decision-making, including ESG risks. We pointed the member to the relevant documentation listed above that sets out the main risks the Plan faces and how they are mitigated and monitored.

The Principal Employer, Arts Council England, has also covered pensions in their [Environmental Responsibility Action Plan 2022–24](#), which addresses how they plan to work with the Trustees to help align the Plan's activities with their own ambitions to reduce emissions. The action plan includes commitments to:

1. Undertake a survey in 2023 to review appetite for responsible investment among staff who are pension fund members.
2. Propose that a standing environmental item is added to the Trustee meeting agendas. This is reflected in our ESG metrics and stewardship reporting, as well as the incorporation of responsible investment considerations into all investment decisions.
3. Propose that Trustees review the Plan's assets in relation to ESG factors. We believe this is achieved through our *Vision for a Responsibly Invested Strategy*, which is updated annually and progressed at each meeting.

We believe the current stakeholder engagement frameworks sufficiently incorporate the needs of beneficiaries and the opinions of other stakeholders. We consider the best channels for our engagement on an ongoing basis, although we've not yet formally evaluated the effectiveness of our approach. We propose to utilise the member survey scheduled to be undertaken during the year as a means for getting feedback on both our current communication and our approach to the integration of sustainability into our strategy. We also expect this survey to inform the stewardship themes that are monitored by the Trustees.

We cover our engagement with managers and our assessment of their compliance with our policies under Principles 7, 8 and 9 below.

Principle 7: Stewardship, investment & ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Our Beliefs and Vision are set out earlier in this report. They outline our priorities for assessing investments prior to holding and monitoring the existing mandates. We seek to embed sustainability in the appointment of, and ongoing scrutiny of, the investment managers, and to consider how assets are invested and the nature of the mandates employed. We may choose not to invest if a fund does not align with our responsible investment beliefs and Vision, seeking only to invest in investments that, on a net basis, contribute positively to a sustainable future.

Climate change is integrated into our equity strategy

As part of the journey to implement our Vision for a responsibly invested strategy for the Plan's assets, we previously reviewed the equity portfolio for its ESG risks and credentials. In reviewing the equity portfolio, we were keen to include responsible investment themes while achieving their primary objective of maximising investment returns within agreed risk levels. As a long-term investor, we wanted to consider and look to mitigate the financial and non-financial impacts of ongoing and potential future industry trends that affect equity markets, such as the transition to renewable energy resources and the accompanying need for a social transition.

We framed the review around our belief that climate change and the expected transition to a low-carbon economy represent a long-term financial risk to Plan outcomes, with a view to creating a strategy that is positioned to benefit from such a transition. We considered a shortlist of sustainably themed passive or passive-like equity funds, analysing their approaches to sustainable equity investing, their approach to divestment and engagement, and how they incorporate climate solutions into their strategy, for example by gaining exposure to opportunities presented by a decarbonising economy. We also considered traditional investment risk metrics and – cognisant that the transition to a carbon-neutral economy was underway – their carbon footprinting.

We're proud that this exercise resulted in a transformation of our equity portfolio, representing 40% of Plan assets, to a fully sustainable strategy across three separate mandates. Each mandate has a different approach to balancing investment and ESG risks, as well as their stewardship priorities and approaches, albeit with a particular focus on climate risk. We believe that this balance helps diversify our risk mitigation approaches and provides us with a range of strong stewardship practices on our behalf.

We're progressively embedding sustainability into all aspects of our strategy

Our Vision also requires that we monitor managers. We achieve this via an annual stewardship and ESG metrics report, the annual Implementation Statement, and regular engagement meetings, where key priorities are addressed and managers are asked to demonstrate where they have engaged on our behalf. We also request managers to explain their approach if or when an engagement fails to yield the desired outcomes.

The Trustees assess the integration of ESG issues into manager decision-making in a number of ways.

1. **Manager ratings:** Our investment adviser provides us with biannual reporting on the Plan's investment arrangements, which includes our advisers' rating of our managers, assessed at an overall level and separately through an ESG lens. Our advisers' responsible investment rating considers issues such as firm culture and policies, the use of ESG data in decision-making processes and the exercise of stewardship over assets. The Trustees noted that, as at 31 March 2023, all of the Plan's investment managers were rated at least 'Good' for their responsible investment practices.

2. **Stewardship/ESG reporting:** Our investment adviser also provides the Trustees with annual reporting on manager portfolios, assessing underlying holdings through an ESG lens. This reporting sets out a range of portfolio characteristics in both absolute terms and relative to index benchmarks. The Trustees use this information to consider the extent to which managers are applying their processes to identify potential outliers and trends through time and to identify areas for discussion with their managers. We elaborate on our monitoring in Principle 8.

The Trustees have also considered the integration of ESG issues as a factor in tenders for managers, this being a consideration in the appointment of the current property, infrastructure and equity managers over recent years. However, in the most recent change to our investment strategy, an allocation to renewable energy infrastructure made during 2022, the Trustees directly reflected their vision and investment beliefs, as illustrated below:

Case study: Allocating with a long-term time horizon

As a Plan that is open for accrual, it has a long investment time horizon, which we believe exposes us to climate risks, which our long-term investments should therefore look to address directly. As a result, during 2022 we explored an allocation to renewable energy infrastructure; not only are the investment characteristics of investing in renewables attractive, but another compelling feature is the positive impact assets can deliver through helping contribute to a more sustainable planet. The continued growth in the renewables sector will directly contribute to the reduction of carbon dioxide emissions from power generation.

Our long-term investment horizon also aligns with our ability to take illiquidity risk, as reflected in our investment beliefs. While we have typically invested in open-ended vehicles, which offer some liquidity, we were prepared to allocate assets to a closed-ended vehicle, as we believed the selected manager best met our goals. Our chosen renewables manager specialises in building infrastructure relating to renewable energy, energy storage and grid stability infrastructure assets across the US, UK and Australia. The selected manager has a particular focus on acquiring infrastructure assets that support decarbonisation.

ESG integration was a key consideration during our selection exercise, with the chosen manager having a comprehensive responsible investment and ESG policy, which is complemented by a separate Stewardship and associated other policies. During their interview with the manager, the Trustees were able to explore various aspects of the manager's investment process, considering in detail how ESG issues were considered. The manager's Head of Responsible Investment participated in the interview process, offering the Trustees further reassurance.

The Trustees have an existing investment in a Diversified Growth Fund (DGF), which has some sustainability considerations integrated in its management, although the fund has no formal sustainability-related objective. The manager launched a sustainable DGF in May 2022, and the Trustees had an initial meeting with their manager ahead of the launch to discuss the new fund. It was agreed that the Trustees would formally review the sustainable DGF for potential inclusion in the portfolio.

Case study: Reviewing the potential evolution of an existing strategy

A two-stage review was undertaken. First, our investment advisers' research team completed due diligence on the fund, concluding that it could be considered a lighter-touch ESG option, not materially different from our existing DGF. Our advisers noted that the sustainable DGF would offer a suitable option for clients taking the first steps in their responsible investment journey with a climate focus. However, given our Vision, the Trustees concluded that alternatives better aligned with our aspirations should be explored.

The Trustees subsequently requested a desktop review of alternative sustainable multi-asset options with a stronger sustainability-related objective. At the time of writing this report, this exercise is not yet concluded, although the Trustees believe that this demonstrates the need for conviction in the approach being followed.

The Trustees have noted that they've been able to obtain less data on their private market investments, particularly in respect of climate and carbon metrics. The Trustees noted this in their engagement with their property manager, as reported under Principle 8, and have requested that their manager make available more extensive information.

One of our expectations of managers is that voting rights are cast wherever possible, this being an element of our stewardship policy. While Storebrand has not met our expectations over the 2022/23 plan year, as a consequence of focusing voting on an asset weighted basis, they have confirmed that their process was updated towards the Plan year-end, with the consequence that voting levels are expected to be more in line with our expectations.

Principle 8: Monitoring managers & service providers

Signatories monitor and hold to account managers and/or service providers.

We have set clear objectives and monitor our investment advisers against them

While the Trustees regularly discuss and review the performance of all their service providers, it is their relationship with their investment adviser that's most directly relevant in the Trustees' exercise of stewardship. The Trustees have agreed formal objectives with their investment adviser, Hymans Robertson, which relate directly to our own goals. These objectives cover:

- The design of an appropriate investment strategy to meet the liabilities.
- Cost-effective implementation of the strategy in accordance with the Trustees' beliefs and principles.
- Ongoing support in the governance of the investment arrangements.
- Ensuring that regulatory requirements are met.

A key underlying objective for our adviser is to: "Embed the consideration of responsible investment principles into their investment advice and reporting". We have agreed a range of success measures against our objectives. In relation to stewardship, success measures include:

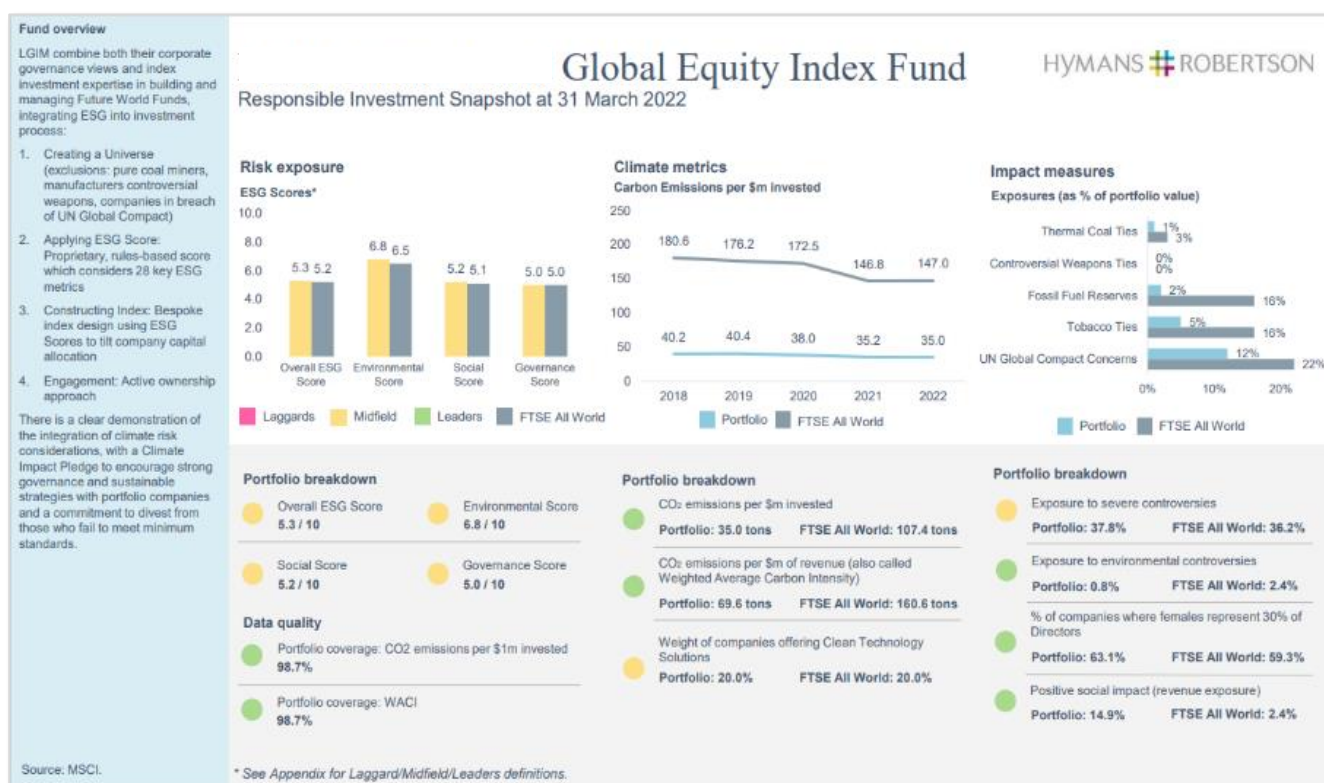
- Reporting on managers' implementation of responsible investment (RI), including engagement and voting, and successes (and failures) in influencing.
- Trustees given the opportunity to meet investment managers on a regular basis and to hold them to account, with high-quality briefing from investment consultant in relation to each such meeting.

The Trustees review both the actions undertaken over the course of the year and the support provided by the adviser. This review is undertaken every November, and the results of the Trustees' assessment are shared with our adviser. Where there are any concerns, the Trustees will highlight these to the adviser and discuss appropriate remedies. No material concerns were reported in the November 2022 review.

Our investment advisers support us in monitoring our investment managers

The Trustees use a range of mechanisms for the ongoing monitoring of our investment managers. We receive quarterly reporting from each of our managers alongside bi-annual performance reporting from our investment adviser, as detailed in Principle 7. This reporting generally considers financial performance and associated business issues and portfolio management.

Stewardship issues are monitored through similar approaches, including reporting and manager meetings. Stewardship reporting considers the Plan's assets at both a manager and product-specific level. Manager assessments consider the firm's culture, commitments and policies, approach to climate change and exercise of stewardship responsibility. This overview is provided alongside an assessment from the Plan's investment adviser, summarising the strength of the manager's responsible investment practices.



Product level assessment, as illustrated above, looks at each portfolio through an ESG lens to consider metrics on:

- carbon emissions, including trends through time
- ESG scoring
- impact measures such as exposure to controversies and climate solutions
- data quality.

Where relevant, portfolios are compared with an appropriate benchmark. The purpose of this reporting is to allow the Trustees to consider whether portfolios are in line with the sustainability expectations framed when each manager was appointed and to identify points for discussion. For example, one of the metrics considered is 'Thermal Coal ties', which has allowed the Trustees to ask the manager questions about the policies they've adopted.

This report also supplements the Trustees' ongoing engagement with the Plan's managers. As noted, the Trustees aim to meet with all of their managers over an 18-month cycle as part of a focused session. We are considering holding a dedicated manager engagement meeting next year, meeting with multiple managers in one session, to provide greater consistency in our engagement and allow better comparison between the managers. At engagement meetings, the managers are asked to detail their ESG and stewardship approach and demonstrate any relevant case studies. We provide challenge to the managers and monitor and document the outcomes of these sessions, following up where necessary.

We summarise the engagement meetings held over the year in our response to Principle 9. Engagement meetings have generally led to requests for further information or clarification on certain topics. A case study outlining a line of discussion with one of our Global Equity managers is set out below.

Case Study: Global sustainable equity mandate

During Q2 2022, one of the Plan's global sustainable equity managers changed the ESG screening methodology used in the fund. Until Q2 2022, the manager incorporated screening data provided by ISS Ethix and Sustainalytics to identify companies that have violated the UN Global Compact and exclude these from the portfolio. These external screens were replaced with the manager's own proprietary analysis screen.

The manager believed that their analysis was more tailored to their strategy's objectives. This decision was driven by ISS's announcement at the beginning of July 2022 that they planned to add two large tech companies to their recommended portfolio screens. Maintaining the external ESG screens and excluding Amazon and Tesla from the portfolio would consume a large amount of the tracking error budget versus the benchmark index and would impact the portfolio's ability to meet the strategy's climate risk objectives. However, the two tech companies were not in violation of the UN Global Compact, according to the manager's proprietary analysis, reflecting that the evaluation of ESG issues could, on occasion, be subjective.

We challenged this decision of the manager, requesting further clarity around the change and examples of how they would be engaging with these two companies. We met with the manager in November 2022 and discussed the change, gaining comfort from the decision to replace the external sustainability screens. A key advantage of this strategy, which attracted us to invest in it in the first place, is the willingness of the manager to evolve its process over time and respond to developments in climate science and data. We view this as an example of the portfolio manager exercising this ability to better achieve the strategy's objectives.

Manager communication supports the Trustees' oversight

Given that the Trustees delegate responsibility for the ongoing management of portfolios to their investment managers, which includes the management of ESG issues, they rely on their managers to communicate activity to them to ensure they can exercise their governance responsibilities. Ensuring the effective flow of information has been a request made by the Trustees of their managers during several meetings over the year. Following these discussions, the Trustees received more complete quarterly climate reporting from one of their equity managers.

Case Study: Effective manager communication

The Trustees' infrastructure manager reported a safety incident within one of the fund's assets during Q2 2022, which resulted in the asset ceasing to operate, thus having an impact on the fund. The manager first provided a notification of the incident, followed by a more detailed communication and reassurance that there had been no injuries. The manager further noted the steps that needed to be taken to bring the asset back to operation and subsequently communicated with the Trustees once all steps had been completed.

The manager's communication provided the Trustees with confidence that ownership responsibilities were being taken seriously and that safety was a prime consideration, reinforcing the Trustees' view of the manager's stewardship capabilities.

Principle 9: Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

Our engagement is focused on dialogue with our investment managers

The Trustees' direct engagement activity is focused on their ongoing dialogue with their investment managers, this being undertaken in conjunction with their investment advisers. As noted previously, the Trustees receive a detailed briefing from their advisers prior to each meeting, and action points are logged for follow-up. This approach is appropriate to the Trustees' governance arrangements, given all investments are made via pooled funds. While the areas of focus for each engagement meeting may be varied by asset class, the Trustees' primary engagement theme of climate change is a factor in each meeting.

During the year, the Trustees held meetings with the following managers, with a summary of the key engagement topics covered also set out. Follow-up actions are also detailed:

Manager/Mandate	Engagement topics	Action
Federated Hermes Property	<ul style="list-style-type: none"> Performance following the pandemic, including rent collection, bad debt and ongoing relationships with tenants. Net zero commitment for the portfolio, energy reduction commitments and embodied carbon targets alongside detailed asset audits. EPC ratings within the portfolio. Measuring Scope 3 emissions including occupier engagement. 	<ul style="list-style-type: none"> Review reporting on net zero targets once published. Ensure carbon data is provided to the Trustees and that Federated Hermes participate in Hymans' data collection exercise.
Storebrand Global equity	<ul style="list-style-type: none"> Changes to the screening mechanisms applied to the portfolio, which impacted on investments in Amazon and Tesla. Engagement with Amazon and Tesla. Selection of alternative assessment benchmarks and indicators to assess impact on climate. Managing deforestation risk within portfolio holdings. 	<ul style="list-style-type: none"> Review choice of benchmarks available for comparison. Receive climate reporting and review against Hymans' reporting.
Baillie Gifford Multi-asset	<ul style="list-style-type: none"> Investment themes: inflation, energy revolution, technology, Ukraine. Commitment to net zero. Engagement with companies in China and the application of governance standards. Sustainable multi-asset investing. 	<ul style="list-style-type: none"> Conclude review of sustainable multi-asset funds.

While the Trustees also met with both Quinbrook and IFM during the Plan year, these meetings were primarily focused on renewable energy products rather than on the scrutiny of existing investments. The Trustees plan to meet with both managers during the 2023/24 Plan year.

We monitor the engagements that our managers undertake on our behalf

The Trustees actively encourage their investment managers to engage with key stakeholders – which may include corporate management, regulators and governance bodies – relating to their investments, to consider the management of conflicts of interest and influence corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of their broader monitoring activity.

The Trustees receive annual reporting on each manager's engagement activity. The following table summarises the engagement activity for the 12-month period ending 31 March 2023 as reported to the Trustees.

Manager/Asset Class	Number of engagements	Topics engaged on
LGIM (Multifactor global equity)	432	Environmental (145), Social (101), Governance (159), Other (27). Climate change followed by executive remunerations were the topics most commonly engaged on.
LGIM (Global equity)	720	Environmental (256), Social (179), Governance (251), Other (34). Climate change followed by executive remunerations were the topics most commonly engaged on.
LGIM (Corporate bonds)	64	Environmental (30), Social (10), Governance (18), Other (6)
Storebrand (Global equity)	779	Environmental (397, with a particular focus on Climate Action), Social (242), Governance (140)
Baillie Gifford (Multi-asset)	38	Annual General Meeting or Extraordinary General Meeting proposals (2), Environmental/Social (17), Corporate Governance (19)
IFM (Infrastructure)	n/a	IFM have operational control of most portfolio assets. Engagements covered topics including energy, emissions management, biodiversity, water and waste management, safety, labour relations and diversity.
Federated Hermes (Property)	n/a	Federated Hermes pursue an active engagement strategy. They have direct contact with occupiers at 61% of total assets (by value) within the fund, facilitating a strong level of engagement with respect to climate change, climate resilience, and health and wellbeing. Other assets are held under FRI leases and hence have lower levels of direct engagement.

A single LGIM engagement could cover multiple topics and may apply to several funds.

*Storebrand engagement figures relate to their global engagement across Storebrand Asset Management (topics engaged on splits are approximate)

Case Study: LGIM engagement on climate change

LGIM is the Trustees' largest equity manager, and their Climate Impact Pledge underpins the Trustees' investments. LGIM has increased the number of companies subject to direct engagement to over 100 while also undertaking quantitative assessment and publishing climate ratings on over 5000 companies.

LGIM engages with Nordic energy company Fortum under its Climate Impact Pledge, also co-leading the engagement as part of the Climate Action 100+ collaboration. Through their engagement, LGIM has overseen some significant commitments from the company, including its December 2021 production of its first lobbying report, which helped the company to gain joint-first place in InfluenceMap's assessment of lobbying activities of CA100+ companies, and the subsequent update in 2022.

Further progress was made with the company's climate ambitions, including the bringing forward of the carbon neutrality target and the commitment to set a 1.5-degree-aligned goal. LGIM expect to continue their engagement and emphasise expected minimum standards.

Case Study: Baillie Gifford engagement with Lynas Rare Earths Ltd

Lynas Rare Earths Ltd focus on neodymium and praseodymium, both of which are key components of permanent magnets, which are integral to electric vehicle batteries and wind turbines, and thus also relevant to the Trustees' direct investment in renewable energy infrastructure. Baillie Gifford categorised Lynas as 'Adapting' in its ESG Materiality Assessment, deeming the company a priority engagement given the materiality of environmental and social factors of the mining industry, as well as the high carbon footprint.

Baillie Gifford met with management on multiple occasions during 2022, to learn about the company's approach to sustainability, environmental priorities and its net zero target. Net zero target-setting is a responsibility shared among the entire leadership of the company, and Lynas tries to avoid relying on carbon credits to meet its objectives. Baillie Gifford expressed the importance of not only reducing emissions in the operations of mines but also in the transportation of goods, given the large product-shipping footprint.

Baillie Gifford later re-engaged, to explore how the company considers what impact its operations have on communities and its subsequent engagements with local stakeholders. Baillie Gifford believes that this holding requires ongoing engagement and monitoring to ensure progress is made. Baillie Gifford has created a list of milestones, ranging from transparent reporting, stakeholder disclosure, materiality-based environmental target setting and others, and will follow up with management to ensure these are met.

Case study: IFM supporting social inclusion

IFM invest in a leading sustainable transport infrastructure operator in Central America. The company is recognised for its sustainability practices, and particularly its support for women, initiatives which are actively supported. For example, the company offers scholarships to young women living in communities without health services, enabling them to pursue nursing and obstetrics technical studies. The company also offers an introduction to port work, aimed at women who are heads of households, and supports labour training for productive entrepreneurship, targeted at working class and indigenous communities.

Principle 10: Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

The Trustees do not have the resources to participate directly in collaborative activity, given the size of the Plan and its corresponding governance arrangements. We encourage the investment managers to participate in collaborative action on behalf of the Plan and discuss such collaborative action during engagement meetings. Our investment advisers also review collaborative action by the investment managers. We set out three examples of collaborative action undertaken by the investment managers on the Plan's behalf below.

Baillie Gifford: Engagement collaboration

Baillie Gifford joined The Investor Forum to collaborate on an engagement with a multinational portfolio company that deals with mining, metals, and natural gas petroleum. The discussion concerned the company's Climate Transition Action Plan ahead of their annual general meeting for shareholders, and the objective of the meeting was to provide effective stewardship for shareholders and their holdings.

Baillie Gifford expressed a concern that say-on-climate proposals would repeat the mistakes of say-on-pay in failing to address underlying issues of alignment and pay-for-performance, creating an industry of engagement and consultation without providing an effective stewardship tool for shareholders and their holdings. Regarding the portfolio company's climate strategy, Baillie Gifford conveyed their belief that the company would need to do more to address downstream emissions, which make up 95% of its carbon footprint.

Following The Investor Forum discussion, Baillie Gifford decided to oppose the Climate Transition Action Plan at the annual general meeting for shareholders on behalf of the Plan. While Baillie Gifford believed that the company has made good progress with its approach to climate and climate-related goals when focusing on its own operations, the material climate risks and opportunities relate to its Scope 3 emissions. Baillie Gifford believes that the company needs to be more ambitious in how it addresses this part of its value chain, through target-setting, engagement and investment.

Storebrand: Collaborative engagement with the chemicals industry

Storebrand initiated a collaborative engagement on chemicals, targeting 54 companies ranked by ChemScore on their work to reduce their hazardous chemical footprint. This ranking system was developed to allow investors to assess which companies have strong chemicals-management strategies. The investor group, coordinated and led by Storebrand and Aviva, wrote to all 54 companies, asking for greater transparency on the chemicals they produce, engagement with ChemSec and the phasing out of the most hazardous chemicals.

During 2022, Storebrand led engagement with three of the companies: Yara, Umicore and 3M, all held within the pooled fund in which the Trustees invest. Storebrand also sent a follow-up letter to all of the ranked companies repeating previous requests and seeking an improvement in the ChemScore ranking. ChemScore subsequently reported that more companies are willing to engage with them and want to understand the methodology. Out of the 54 companies ranked, 20 companies showcased an improvement in their score compared to last year, 7 were neutral or new in the ranking, and the rest showcased a deteriorating score. In the updated 2022 ranking, all of the three companies Storebrand engaged with demonstrated an improvement (in particular Yara and Umicore). In December 2022, 3M also announced that they will exit the production of persistent chemicals. During 2023, Storebrand will co-chair the Investor Initiative on Hazardous Chemicals (IIHC) and will continue to lead the engagement with selected companies.

LGIM/Storebrand: Collaborating on deforestation

In response to commitments made at COP26, LGIM and Storebrand joined with over 30 financial institutions as part of the Finance Sector Deforestation Action (FSDA) initiative, which drives efforts to eliminate agricultural commodity-driven deforestation from investment portfolios by 2025. The FSDA initiative aims to accelerate progress in key sectors and across value chains and includes commitments to assess deforestation risk exposure, disclose exposures and mitigation activities, continue engagement activities and report on engagement outcomes.

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

The Trustees have delegated responsibility for investment decisions, voting and engagement activity in respect of the underlying assets to the Plan's investment managers, including, where necessary, the escalation of stewardship activities. Where the Trustees engage directly with their investment managers, as set out under Principle 9, the Trustees can directly raise any issues of concern. They can also escalate issues of concern via their investment advisers, although no direct escalations were made during the 2022/23 Plan year.

The Trustees' investment managers all have escalation policies in place that the Trustees will discuss when appropriate. Examples of the practical application of these policies are set out below.

LGIM: Escalation under their Climate Impact Pledge

Following a commitment in 2022 to increase pressure on companies without suitably ambitious and credible transition plans by filing shareholder resolutions, LGIM co-filed a shareholder resolution at Glencore's 2023 AGM, requesting that the company disclose how its thermal coal production is aligned with the Paris Agreement objective of limiting the increase in global temperature to 1.5°C. This follows a number of years' engagement with the company under LGIM's Climate Impact Pledge and reflects growing concerns about the company's commitment to net zero.

Storebrand: Implementing an escalation policy

Storebrand defines objectives for its individual engagements and sets objectives and milestones to be achieved by companies together with other investors in collaborative engagements. Storebrand monitors progress against defined objectives and tracks the progress of action taken when original objectives are not met, revisits them and, if necessary, revises objectives. Potential escalations if the outcomes of company engagements are not in line with expectations include, but are not limited to:

- Expressing its views publicly by issuing a public statement.
- Collaborating with other investors.
- Proposing, filing or co-filing resolutions at the annual general meeting.

Following an ongoing period of engagement with Toyota amid concerns over climate lobbying, Storebrand, in conjunction with several other investors, has indicated its intention to file a shareholder proposal at the company's 2023 AGM.

Quinbrook: Control over assets minimises the need for escalation

Quinbrook's funds are typically the sole or majority owners of investee companies. This is a central part of Quinbrook's active management strategy, which enables them to manage their investments directly and work with management on a day-to-day basis to implement changes, adopt new strategies, ensure ESG alignment and to direct company activities by exercise of voting and Board control. Central to this active management is an 'early intervention' approach, which aims to alleviate any issues prior to their escalation.

In instances where escalation is required, due to Quinbrook's level of involvement and control, they have been able to act directly to implement any required changes. For example, Quinbrook was able to implement extensive modern slavery policies, processes and audit tools and procedures, enabling portfolio companies to be working extensively to seek to avoid human rights issues in solar photovoltaic supply chains, before these had to be escalated.

Principle 12: Exercising rights & responsibilities

Signatories actively exercise their rights and responsibilities.

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Plan's investment managers. We believe it's important that the investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues that affect a company's financial performance.

Investment managers report voting activity to us on a periodic basis. We monitor voting activity and will periodically review and compare managers' voting patterns, particularly in relation to climate-related issues. We may also monitor investment managers' voting on particular companies or issues affecting more than one company. Where we deem it appropriate, we will raise issues of concern in respect of voting activity directly with their managers. The voting record of the Plan's investment advisers is formally reviewed on an annual basis as part of the Plan's Implementation Statement.

The Plan's investment managers vote according to their in-house policies, as detailed below:

Storebrand

Storebrand's votes are cast in accordance with their sustainable investments policy, which includes guidelines on value creation, board composition, incentive systems, capital expenditure, reporting, audit and climate change proposals. Storebrand typically vote against management on excessive executive compensation, lack of board diversity and independence, anti-takeover mechanisms, needless or unfair changes to the capital structure, and in the event that inadequate information has been provided ahead of the meeting.

LGIM

LGIM have a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example, from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to voting judgement.

Baillie Gifford

While Baillie Gifford are cognisant of proxy advisers' voting recommendations, the manager does not delegate or outsource any stewardship activities or follow or rely upon their recommendations when deciding how to vote. All client voting decisions are made in line with an in-house policy.

Baillie Gifford aim to vote on all their holdings globally, and their ESG Services Team has primary responsibility for coordinating proxy voting across all the firm's holdings. ESG analysts work closely with the multi-asset investors to manage the proxy voting across the multi-asset portfolios. Their dedicated analysts also provide bespoke ESG analysis for relevant holdings and issues. Any vote against a management resolution represents the combined view of their dedicated governance specialist and the multi-asset investors, and typically follows engagement with company management. Baillie Gifford always advise management in advance where they intend to oppose a management resolution, which often initiates further conversations.

Voting outcomes

In their review of voting outcomes from the 2021/22 resolutions, the Trustees focused on common themes, noting that:

- LGIM voted against management for a variety of reasons, including corporate structure, remuneration and in respect of climate issues.
- Storebrand more commonly voted against management in relation to improved climate and net-zero reporting.
- Baillie Gifford more commonly voted against management for reasons related to executive remuneration.

For the 2022/23 Plan year, the Trustees have obtained details of the votes cast within the pooled funds in which they invest by their managers, these being set out below.

	Fund 1	Fund 2	Fund 3	Fund 4
Proportion of Plan assets as at 31 March 2023	20.1%	10.3%	10.7%	9.7%
No. of meetings eligible to vote at during year	1,917	5,067	725	97
No. of resolutions eligible to vote on during year	25,282	54,368	10,197	1,061
% of resolutions voted	99.8%	99.9%	46.8%	97.9%
% of resolutions voted with management	80.8%	80.4%	89.4%	95.8%
% of resolutions voted against management	18.8%	18.6%	10.6%	3.3%
% of resolutions abstained	0.4%	1.0%	0.2%	1.0%
% of meetings with at least one vote against mgmt	72.3%	63.3%	19.7%	22.7%

Funds 1 and 2 are managed by LGIM; Fund 3 is managed by Storebrand, Fund 4 is managed by Baillie Gifford

Figures may not sum due to rounding

While the Trustees will review voting outcomes from the 2022/23 Plan year in more detail during the remainder of 2023, the Trustees have engaged with Storebrand on the low number of resolutions voted, with votes cast at only 47% of meetings, this being out of line with the Trustees' expectations. Storebrand noted that their approach has historically been to focus voting on an asset weighted basis and to prioritise ESG-related resolutions. However, reflecting the Trustees' and other clients' requirement for a higher coverage by number of votes, they implemented a new voting system that covers all holdings. This new system was implemented in February 2023, and in Q1 Storebrand voted on 80% of votable items.

Example votes

The Trustees have also asked LGIM, Storebrand and Baillie Gifford to report on the most significant votes cast within the portfolios they manage on our behalf. Managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote.

While the Trustees have agreed climate change as a primary theme against which manager activity is scrutinised, from the managers' reports, we have identified the following votes as being among those of greater relevance to the Plan and subject to future dialogue with the managers.

Company/AGM Date	Subject	Manager's vote and rationale	Outcome
UBS Group 6/4/22	Climate Change – to approve a Climate Action Plan	Against – Storebrand shared concerns with the gaps in the company's climate reporting and lack of science-based target setting	Pass
CBRE Group 18/5/22	Corporate Governance – shareholder resolution to lower the threshold to call a special meeting	Against – Baillie Gifford believes that the existing 25% threshold is appropriate	Fail
Nextera Energy 19/5/22	Corporate Governance – shareholder resolution requesting board diversity and qualifications matrix	For – Baillie Gifford believes shareholders would benefit from individualised information on the skills and qualifications of directors, as well as disclosure on climate-related skills and qualifications	Fail
Amazon 25/5/22	Human Rights – report on Protecting the Rights of Freedom of Association and Collective Bargaining	For – Storebrand believes that shareholders would benefit from increased transparency and disclosure on how the company is managing human-rights-related risks	Fail
Amazon 25/5/22	Board Composition – election of Daniel P Huttenlocher	Against – LGIM voted against electing this director, as they are a long-standing member of the Leadership Development & Compensation Committee, which LGIM believes is accountable for human capital management failings Storebrand also voted against the re-election	Pass
Meta Platforms 25/5/22	Board Composition – require independent board chair	For – LGIM expects companies to establish the role of independent board chair; this vote was an escalation of previous engagements with the company Storebrand also voted for the proposal	Fail
Lowe's Companies 27/5/22	Diversity – Report on Median Gender/Racial Pay Gap	For – Storebrand believes that the report would enable shareholders to better measure the progress of the company's diversity inclusion initiatives and its management of related risks	Pass
Alphabet 1/6/22	Climate Change – Report on Climate Lobbying	For – Storebrand believes that shareholders would benefit from a review of how the company's lobbying positions align with the Paris Agreement, in light of risks to the company caused by climate change	Fail
Alphabet 1/6/22	Climate Change – Report on Physical Risks of Climate Change	For – LGIM expects companies to be taking sufficient action on climate change	Fail

Company/AGM Date	Subject	Manager's vote and rationale	Outcome
NVIDIA Corporation 2/6/22	Board Composition – election of Harvey C Jones	Against – LGIM expects a company to have at least 25% women on the board, with the expectation of reaching a minimum of 30% of women on the board by 2023. LGIM is targeting the largest companies as it believes that these should demonstrate leadership on this critical issue. LGIM also expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure and background.	Pass
Booking Holdings 9/6/22	Executive Remuneration – to approve the executive compensation	Against – Baillie Gifford opposed the executive compensation due to concerns with adjustments made to the plan and the granting of retention awards. Baillie Gifford engaged with the company in advance of the vote to discuss concerns.	Fail

For fixed income assets, the Trustees do not engage directly with issuers but actively encourage their investment managers to engage with key stakeholders – that may include corporate management, regulators and governance bodies – relating to their investments to consider the management of conflicts of interest, improve corporate behaviours and performance, and mitigate financial risks. Given the Trustees' current fixed income assets are primarily passively invested, the Trustees have limited expectations of their primary manager in this regard. The Trustees plan to review their approach to fixed income investment during 2023/24.