

**Somerfield Pension Scheme
Engagement Policy Implementation Statement**

24 September 2020

Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

These regulations introduced new requirements for pension schemes like the Scheme, setting out the policies they need to explicitly include in their Statement of Investment Principles (the document that governs the way the Scheme’s assets are invested). In particular, by 1 October 2020 the Statement of Investment Principles (or “SIP”) needs to include the Trustee’s policies in relation to its arrangements with the asset managers that invest the Scheme’s assets on behalf of the Trustee.

This expanded legislation introduced in 2018 which required schemes’ SIPs to include (from 1 October 2019) the Trustees’ policies on how they take account of Environmental, Social and Corporate Governance (“ESG”) considerations when setting investment strategy and how they exercise voting rights in, and undertake engagement activities with, those companies they invest in.

The Trustee updated the Scheme’s SIP in 2020, and the latest version is available on the Scheme’s website, <https://coop.pacepensions.co.uk/other-schemes/>.

In addition, the 2019 regulations introduced a requirement for the Scheme to produce a statement setting out (among other things) how the Trustee has followed its policies on the exercise of voting rights attaching to their investments and engagement activities. This document is intended to meet those requirements, and will be included in the Scheme’s Report and Accounts and published on the Scheme’s website.

The Trustee’s policies on the exercise of voting rights and undertaking engagement activities

The Trustee’s policies on engagement are set out in the SIP, and are summarised below, together with the Trustee’s assessment of how and the extent to which these policies have been implemented:

Policy	Assessment
<i>The Trustee seeks to address [the broad Responsible Investment issues set out in its Responsible Investment Policy] ... in a number of ways. For example, the Scheme’s developed market equity assets are invested in the LGIM Future World Funds which have tilts towards companies with positive ESG scores.... The Trustee also applies a specific exclusion list of stocks for the segregated investment grade credit mandates to restrict investment in companies identified as conflicting with the Trustee’s aims under these issues.</i>	Where assets are held directly by the Scheme (specifically the segregated RLAM and LGIM corporate bond assets), the Trustee applies explicit exclusion lists to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. This has been applied throughout the year with updated exclusions lists provided to the managers quarterly based on ESG data licensed from MSCI.
<i>The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices</i>	Elsewhere, the Scheme invests entirely in pooled investment funds alongside other investors, and does not therefore directly

<p><i>in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.</i></p>	<p>invest in underlying companies or have the ability to engage directly with these companies.</p> <p>The Scheme’s equity manager is Legal & General Investment Management (“LGIM”); in July 2019, the Trustee moved the Scheme’s ‘developed market’ equity investments from “market cap” index-tracking equity funds (which invest in companies around the world in proportion to their size, or market capitalisation) into LGIM’s Future World equity index funds, which “tilt” investments towards companies assessed as having better ESG ratings (e.g. more diverse boards, lower carbon footprints or stronger supply chain policies), and that also publicly disinvest from companies who have failed to engage seriously on climate change. The Trustee believes this approach is better aligned with the Scheme’s Responsible Investment Policy.</p> <p>The Scheme’s equity investments are held through pooled vehicles and the Trustee does not therefore directly exercise voting rights. LGIM votes on these shares using ISS’s ProxyExchange electronic voting platform, but voting decisions are retained by the manager and are strategic decisions made by LGIM’s Corporate Governance Team in accordance with their corporate governance policies.</p> <p>LGIM disclose their voting records on their website at the end of each month, including summaries of their positions for significant shareholder votes.</p>
<p><i>The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.</i></p>	<p>Ad hoc queries have been raised throughout the year through the Co-op Pensions Department (a good example, although subsequent to the year end, was in relation to the equity fund holdings in BooHoo.com and LGIM’s assessment of their ESG ratings in light of related press coverage).</p>
<p><i>Investment Managers are asked to report to the Investment Committee on the issue of responsible investment.</i></p>	<p>The Trustee has, directly or through the Co-op’s Manager Monitoring committee, met with all five of the Scheme’s managers throughout the year as part of a rolling program, and ESG</p>

	<p>factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments, and areas of engagement as well as developments over the year.</p> <p>In particular, the Investment Committee met with LGIM in September 2018 when considering investing in the Future World equity funds, and in November 2019 once implemented for an update on their stewardship activity.</p>
<p><i>In addition, the Investment Committee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.</i></p>	<p>As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Investment Committee receives reporting from its investment consultants integrated into the Scheme's quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.</p>
<p><i>The Trustee considers how ESG and stewardship are integrated within investment processes in appointing new managers, and all existing managers are expected to have policies in these areas.</i></p>	<p>No new managers were appointed over the year, although the strength of LGIM's ESG processes were a major consideration in the switch to the Future World developed market equity funds in mid 2019.</p>
<p><i>The Scheme's equity manager (who is registered in the UK) is expected to report on their adherence to the UK Stewardship code on an annual basis.</i></p>	<p>LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report, with the 2019 report having been published in April 2020. This will be reviewed later in 2020 by the Investment Committee alongside LGIM's 2020 update on their Climate Impact Pledge.</p>

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year; nonetheless, in preparing and discussing this statement we have identified that more time can be spent reviewing LGIM's voting record and the summaries of their positions for key votes, and to allow challenge and further scrutiny of their policies; this will be included on the Scheme's business plan for 2020/21.