

United Norwest Co-operatives Employees' Pension Fund Engagement Policy Implementation Statement

11 June 2021

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 Fund, setting out the policies they need to explicitly include in their Statement of Investment Principles (the document that governs the way the Fund's assets are invested). In particular, by 1 October 2020 the Statement of Investment Principles (or "SIP") needed to include the Trustee's policies in relation to its arrangements with the asset managers that invest the Fund'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 Fund's SIP in 2020, and the latest version is available on the Fund's website, <https://coop.pacepensions.co.uk/other-schemes/>.

In addition, the 2019 regulations introduced a requirement for the Fund to produce a statement annually setting out (among other things) how the Trustee has followed its policies on the exercise of voting rights attaching to its investments and engagement activities. This document is the first of these annual Statements, and will be included in the Fund's Report and Accounts and published on the Fund'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 Fund's 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 mandate to restrict investment in companies identified as conflicting with the Trustee's aims under these issues.</i>	Where assets are held directly by the Fund (specifically the segregated RLAM 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 Fund invests entirely in pooled investment funds alongside other investors, and does not therefore directly invest in

<p><i>in these areas and to act in the best interests of Fund 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>underlying companies or have the ability to engage directly with these companies.</p> <p>The Fund’s equity manager is Legal & General Investment Management (“LGIM”); in July 2019, the Trustee moved the Fund’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; in July 2020 following the launch of additional funds, the Fund also switched its ‘emerging market’ equity holdings from a “market cap” fund to the Future World Emerging Market equity index fund. The Trustee believes this approach is better aligned with the Fund’s Responsible Investment Policy.</p> <p>The Fund’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 Investment Stewardship Team in accordance with their corporate governance policies.</p> <p>LGIM disclose their voting records on their website, including summaries of their positions for significant shareholder votes, and these are summarised in their quarterly ESG impact reports (see below).</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 (for example, in July 2020 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 six of the Fund's managers throughout the year as part of a rolling program, and ESG 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 Fund's Investment Committee met with LGIM in December 2020 where LGIM provided an update on the Fund's equity investments and LGIM's engagement with companies invested in through the Future World funds, as well as an update on LGIM's Climate Impact Pledge and the widening of its engagement with companies on climate change.</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 Fund'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>In addition, since Q2 2020 each quarter the Investment Committee has reviewed LGIM's quarterly ESG impact report, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions.</p>
<p><i>As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's</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 2019.</p> <p>As noted above, the Co-op's Manager Monitoring committee met with all six of the Fund's managers throughout the year as part of a rolling program, and ESG factors and</p>

<p><i>Responsible Investment policy. This includes the investment managers' policy on voting and engagement.</i></p> <p><i>In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.</i></p>	<p>engagement with investee companies were discussed at each meeting. The Investment Committee also met directly with LGIM and received a presentation on their ESG policies and approach to engagement in December 2020.</p>
<p><i>The Fund'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 published in April 2020 and reviewed by the Investment Committee at its meeting on 3 September 2020.</p> <p>The 2020 report was published in April 2021 and is intended to meet the 12 Principles of the new 2020 UK Stewardship Code. This report will be reviewed later in 2021 by the Investment Committee.</p>

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Voting activity

As noted above, the Trustee invests in equities through pooled funds managed by LGIM. LGIM provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly Investment Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny)
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote
- A sanction vote as a result of a direct, or collaborative, engagement
- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy

Significant votes identified during the year included:

- A vote to support a management resolution at **Barclays** (supported by ShareAction) outlining its target to align the entire business to the goals of the Paris Agreement through plans to shrink its carbon footprint to net zero by 2050; this was deemed 'significant' because of the interest across LGIM's clients in relation to the AGM and voting intentions;

- A vote against the election of the most senior member of the board at **Olympus Corporation** in line with LGIM's policy for companies in the TOPIX100 to vote against the chair of the nomination committee or the most senior board member if there were no women on their boards or at executive level, to support greater diversity at board level. This was deemed 'significant' as LGIM considers it imperative that the boards of Japanese companies increase their diversity; and
- a vote to support a shareholder proposal at the **Proctor and Gamble (P&G)** AGM in relation to increasing transparency around palm oil and wood pulp, to limit deforestation. The resolution received the support of over two thirds of shareholders (including LGIM), and LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement. This was deemed 'significant' as it was linked to LGIM's five-year strategy to tackle climate change, and attracted a great deal of interest from LGIM's clients.