Midcounties Co-operative Pension Scheme Annual Implementation Statement – scheme year ending 31 December 2020

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# Section 1: Introduction

#### This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Midcounties Co-operative Pension Scheme (“the Scheme”) covering the scheme year (“the year”) from 1 Jan 2020 to 31 December 2020.

#### The purpose of this statement is to set out:

#### Details of how and the extent to which, in the opinion of the Trustee, the Trustee’s policies on engagement and voting as set out in the Statement of Investment Principles (the “SIP”) have been adhered to during the year; and

#### A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of a proxy voting services during the year.

#### The Scheme makes use of a wide range of investments; therefore the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

#### In order to ensure that the investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some responsibilities. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited, to manage the Scheme assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers and seeks to give effect to the policies set out in the Trustee’s SIP.

#### The SIP is a document which outlines the Trustee’s policies with respect to various aspects related to investing and managing the Scheme’s assets including but not limited to: investment managers, portfolio construction and risks. The SIP was reviewed and updated once in the year. The version in place as at the end of the year was dated September 2020. This update incorporated new policies in relation to voting and engagement.

#### For the purpose of assessing how the Scheme’s SIP has been followed, this statement specifically focusses on the SIP agreed in September 2020. We consider that all SIP policies and principles relevant to this statement were adhered to.

# Section 2: How the Trustee has adhered to its engagement and voting policies

Consistent with the Trustee’s view that ESG factors can have a significant impact on investment returns, particularly over the long-term, the Fiduciary Manager believes that sustainability forms the cornerstone of successful long-term investment strategies and has fully embedded the consideration of ESG factors into its process.

Industry wide / public policy engagement

Regarding engagement, the Trustee’s SIP states that:

“The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures which the Fiduciary Manager takes into account in the assessment.

The Fiduciary Manager encourages and expects the Scheme’s investment managers to sign up to local or other applicable stewardship codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives.

The Trustee’s policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.”

The Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustee). The Fiduciary Manager communicates client policies/sentiment to EOS on a regular basis, including via the Client Advisory Board (currently chaired by Willis Towers Watson) and EOS subsequently engages with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. Engagement activities by EOS on public policy over the year included:

* Participation in a series of meetings with the UK Government’s Department for Business, Energy and Industrial Strategy in order to help set out the UK’s decarbonization roadmap and steps to achieve agreed climate targets;
* Feedback/assistance on the production of a new anti-microbial resistance benchmark with the aim of reducing the use of anti-biotics in agriculture;
* Co-signing of an investor letter to the Brazilian government in support of the Amazon Soy Moratorium, an agreement which aims to limit damage and deforestation caused by soy production, supporting expansion only on existing agricultural land;
* [Climate Action 100+](https://climateaction100.wordpress.com/), an investor initiative aiming to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change. EOS is among over 370 investors with over $35tn under management who have signed up to the initiative. Further, they are leading or co-leading the engagement on 27 companies and collaborating with other investors on another 14 companies as part of this initiative.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

* Tier 1 signatory of the UK Stewardship Code;
* A signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
* A member of the Institutional Investors Group on Climate Change (IIGCC);
* A founder of the Coalition for Climate Resilient Investment (with the World Economic Forum).

The Fiduciary Manager engages with the Scheme’s investment managers on behalf of the Trustee. The Trustee has considered and reviewed their stewardship and engagement policies as part of the recent reviews of their Statement of Investment Principles.

The Fiduciary Manager’s process for selecting, monitoring and de-selecting investment managers explicitly and formally includes an assessment of a manager’s approach to sustainable investment (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). The Scheme is invested across a diverse range of asset classes which carry different ownership rights. This document focusses on the equity holdings, which have voting rights attached.

The Scheme’s equity holdings as at the end of the year were held within the following four pooled investment vehicles:

* Legal & General Investment Management (LGIM) Adaptive Cap ESG Equity Fund
* Legal & General Investment Management (LGIM) Robeco Global Sustainable Multi-Factor Equity Fund
* Legal & General Investment Management (LGIM) Heitman Global Prime Property Fund
* Legal & General Investment Management (LGIM) Infrastructure Equity MFG Fund

As such, the voting entitlements in these funds lie with the equity manager LGIM. However, the Fiduciary Manager engages with LGIM on areas for development, namely around resourcing, and improving the breadth and depth of corporate engagements.

Section 3: Voting information

The Scheme is invested in a diverse range of asset classes. However, this document focusses on the equity investments which have voting rights attached. The Scheme invested in the following standalone equity funds over the year to 31 December 2020.

* **LGIM Adaptive Cap ESG Equity Fund:** Global equity index fund which includes considerations to climate change and sustainable investment factors through allocation weightings and exclusions.
* **LGIM Robeco Global Sustainable Multi-Factor Equity Fund:** Global equity semi-passive fund which includes considerations to climate change and sustainable investment factors through allocation weightings and exclusions.
* **LGIM Heitman Global Prime Property Fund**: Global listed equity fund that focusses on prime property
* **LGIM Infrastructure Equity MFG Fund:** Global listed equity fund that focusses on infrastructure assets

As set out in the SIP, the Trustee’s policy is to delegate the exercising of rights (including voting and stewardship) and the integration of ESG considerations in day-to-day decisions to the Scheme’s investment managers. This section sets out the voting activities of the Scheme’s equity investment managers over the year, including details of the investment managers’ use of proxy voting.

The Scheme’s investment managers have their own voting policies which determine their approach to voting, and the principles they follow when voting on investors’ behalf. All investment managers also use voting proxy advisors which aid in their decision-making when voting. Details are summarised in the table below:

|  |  |
| --- | --- |
| **Manager** | **Use or proxy advisor services:** |
| **LGIM** | LGIM’s Investment Stewardship team uses Institutional Shareholder Services’ (ISS) electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decision. LGIM use ISS recommendations to augment their own research. LGIM’s internal investment stewardship team also use research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.LGIM have a custom voting policy in place which includes specific voting instructions which apply to all markets globally. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit. |

Further information on the voting and engagement activities of the managers is provided in the table below. Where managers provided multiple examples of “significant votes” we show three demonstrative examples.

**LGIM Adaptive Cap ESG Equity Fund**

|  |  |
| --- | --- |
| **Voting activity** | Number of votes eligible to cast: 3,820Percentage of eligible votes cast: 99.8%Percentage of votes with management: 81.8%Percentage of votes against management: 17.5%Percentage of votes abstained from: 0.7% |
| **Most significant votes cast** | **Company** | Fast Retailing Co. Limited. | Qantas Airways Limited | Cardinal Health |
| **Size of holdings** | Unknown | Unknown | Unknown |
| **Resolution** | Elect Director Yanai Tadashi | Approve Remuneration Report. | Advisory Vote to Ratify Named Executive Officers' Compensation |
| **Decision /Vote** | Against | For | Against |
| **Rationale for decision** | LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. They deem this a de minimis standard. | LGIM supported the remuneration report given the executive salary cuts, short-term incentive cancellations and the CEO’s voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic.  | LGIM has in previous years voted against executives pay packages due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company’s performance.  |
| **Rationale for classifying as significant** | LGIM considers it imperative that the boards of Japanese companies increase their diversity. | Highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package. | LGIM believe it is imperative that pay structures are aligned with company performance and that certain expenses over which directors have control and influence should not be allowed to be excluded in the calculation of their pay. |

**LGIM Robeco Global Sustainable Multi-Factor Equity Fund**

|  |  |
| --- | --- |
| **Voting activity** | Number of votes eligible to cast: 2,670Percentage of eligible votes cast: 99.7%Percentage of votes with management: 81.9%Percentage of votes against management: 17.7%Percentage of votes abstained from: 0.4% |
| **Most significant votes cast** | **Company** | The Procter & Gamble Company (P&G) | Medtronic plc |
| **Size of holdings** | Unknown | Unknown |
| **Resolution** | Report on effort to eliminate deforestation. | Advisory Vote to Ratify Named Executive Officers' Compensation. |
| **Decision /Vote** | For | Against |
| **Rationale for decision** | A key priority issue for LGIM is to ensure that companies we invest our clients assets in are not contributing to deforestation. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources. | Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as we are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met. |
| **Rationale for classifying as significant** | Linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest. | LGIM believe it is contrary to best practice in general and our pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment. |

**LGIM Heitman Global Prime Property Fund**

|  |  |
| --- | --- |
| **Voting activity** | Number of votes eligible to cast: 123Percentage of eligible votes cast: 100.0%Percentage of votes with management: 85.2%Percentage of votes against management: 14.7%Percentage of votes abstained from: 0.2% |
| **Most significant votes cast** | There were no significant votes made in relation to the securities held by this fund during the reporting period. |

**LGIM Infrastructure Equity MFG Fund**

|  |  |
| --- | --- |
| **Voting activity** | Number of votes eligible to cast: 96Percentage of eligible votes cast: 99.9%Percentage of votes with management: 85.0%Percentage of votes against management: 15.0%Percentage of votes abstained from: 0.0% |
| **Most significant votes cast** | There were no significant votes made in relation to the securities held by this fund during the reporting period. |

Other matters

In relation to investment factors, the Trustee has identified a number of risks which it seeks to manage and monitor, in conjunction with the Fiduciary Manager. The Fiduciary Manager reports to the Trustee on Solvency and mismatch risk, investment manager risk, liquidity risk, and interest rate and inflation risks in quarterly meeting papers which were discussed at the Trustee’s quarterly meetings.

In addition to these risks, through the fiduciary manager the Trustee also seeks to measure and manage:

* Currency risk: some of the Trustee’s investments are denominated in a different currency to the Scheme’s liabilities which creates a mismatch. The Fiduciary Manager managed the Scheme’s exposure to foreign currencies within guidelines set by the Trustee. Currency hedging was implemented using a combination of hedged and unhedged pooled fund exposures. The Fiduciary Manager left a proportion of the Scheme’s foreign currency exposure unhedged for diversification and return perspective. The Fiduciary Manager monitored the Scheme’s unhedged exposures on a regular basis and reported this to the Trustee as part of its quarterly meeting papers.
* Custodial risk: the Scheme is exposed to the risk that any assets held on the custodian’s balance sheet could be lost if the custodian was to become insolvent. The Trustee addressed this by investing in pooled funds where the Scheme’s assets are held by a separate custodian appointed by the manager. In addition, any uninvested cash was swept into a pooled cash fund at the custodian where the assets are held off the custodian’s balance sheet. In addition, the Fiduciary Manager’s specialist research team reviews the custodian on a periodic basis.
* Political risk: the Trustee recognises that the value of the Scheme’s assets may be impacted by political regimes and actions, particularly in less established/ more opaque markets. Throughout the year, the Scheme’s portfolio remained well diversified by geography. The Fiduciary Manager considers political risk when determining whether to allocate capital to an investment and in determining the relative sizing of an investment.
* Sponsor risk: the Trustee evaluates information relating to the Sponsor covenant on a regular basis. In addition, the Trustee engages an independent covenant assessor at each triennial valuation. The Trustee has agreed a contribution and funding schedule commensurate with the strength of the Sponsor and the Scheme’s journey plan.

# Section 4: Conclusion

The Trustee believes that the Scheme’s engagement policy as outlined in the SIP has been adhered to over the scheme year.

Following monitoring of the Scheme’s investment managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that LGIM are acting in the Scheme members’ best interest and are effective stewards of the Scheme’s assets.

The Fiduciary Manager will continue to monitor the investment managers’ stewardship practices on an ongoing basis. The Fiduciary Manager believes that the governance policies of both the investment managers and the fiduciary manager are aligned with the engagement policy outlined in the SIP.