

# University of Edinburgh Staff Benefits Pension Scheme - Implementation Statement

## Statement of Compliance with the University of Edinburgh Staff Benefits Pension Scheme's Stewardship Policy for the year ending 31 March 2023.

### Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 April 2022 to 31 March 2023.

### Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

You can review the Stewardship Policy, which can be found within the Statement of Investment Principles, at: <https://www.uoesbspensions.co.uk/resources/statement-of-investment-principles-november-2022/>. A copy of both the Statement of Investment Principles and this statement can also be found at: <https://www.uoesbspensions.co.uk/resources/>.

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that its 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 management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on its dialogue with the Scheme's investment managers which is undertaken in conjunction with its investment advisers. The Trustee meets regularly with its managers (at least annually) and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by its investment adviser.

The Trustee also monitors compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Scheme's Stewardship Policy over the last year.

### Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and, where appropriate, monitors managers' voting patterns. The Trustee also monitors investment managers' voting on particular companies or issues that affect more than one company.

At 31 March 2023, the Scheme held equity assets through three different mandates. The Trustee's investment managers have reported on how votes were cast in each of these mandates as set out in the tables below.

Strategy/Fund name	Baillie Gifford Global Alpha Growth Fund	Baillie Gifford Diversified Growth Fund	LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund
Proportion of Scheme assets (as at 31 March 2023)	10.6%	5.7%	11.1%
No. of meetings eligible to vote at during the year	94	97	3,407
No. of resolutions eligible to vote on during the year	1,173	1,061	39,878
% of resolutions voted	98.3%	97.9%	99.7%
% of resolutions voted with management	97.2%	95.8%	78.9%
% of resolutions voted against management	2.5%	3.3%	19.8%
% of resolutions abstained	0.3%	1.0%	1.3%
% of meetings with at least one vote against management	21.3%	22.7%	69.5%

Note: Percentage totals may not equal 100% due to rounding.

The Trustee is satisfied that voting rights have been exercised across the vast majority of eligible resolutions on behalf of the Scheme, over the period.

LGIM has voted against a greater proportion of management resolutions over the year. This is typical of passive mandates that track an index with little choice over stock selection, versus an active manager being able to exercise choice when selecting investments. It is also indicative of LGIM exercising active stewardship through frequently taking a stance against management. The LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund invests across a high number of companies across various sectors and countries. This includes in emerging markets, where governance practices are not as high as in developed markets, leading to a higher proportion of votes against management.

The majority of the resolutions that the managers voted on over the Scheme year were in relation to:

- General governance regarding remuneration policies and reports;
- Climate change and Net Zero pathway alignment; and,
- Election of Boards of Directors and Senior Management.

### Significant votes

The Trustee has asked its managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustee, and has summarised these below. The Trustee has confirmed why votes identified were significant, the size of the position in the portfolio, how the corresponding manager voted, any engagement the manager had undertaken with the company and the outcome of the vote.

From the managers' reports, the Trustee has selected the following votes as being of greater relevance to the Scheme:

**Netflix Inc. (Allocation of 0.45% in Baillie Gifford's Global Alpha Fund), 2 June 2022**

Baillie Gifford Global Alpha Growth Fund supported a shareholder resolution for Netflix Inc. to produce a report on the lobbying payments and contributions it had made over time, as Baillie Gifford believe enhanced disclosures and transparency on this would be in shareholders' best interests.

Baillie Gifford supported the resolution, with it also receiving 60% support from other shareholders. Given the majority support for the resolution, Netflix has since published a report on its political activity and made this publicly available.

This resolution is significant because it was submitted by shareholders and received a majority vote.

**Fraport AG Frankfurt Airport Services Worldwide (Allocation of 5.07% in Baillie Gifford's Diversified Growth Fund), 24 May 2022**

Baillie Gifford Diversified Growth Fund opposed the resolution to approve Fraport AG Frankfurt Airport Services Worldwide annual remuneration report – as Fraport AG Frankfurt Airport Services Worldwide had exercised discretion to amend the performance conditions detailed in its 2018 Long-Term Incentive Plan ("LTIP"). Baillie Gifford believe this amendment to be against shareholders' best interests.

Fraport AG Frankfurt Airport Services Worldwide Executive Committee's decision to adjust their Earnings Per Share ("EPS") targets to be negative for the 2021 Financial Year, resulted in Fraport AG Frankfurt Airport Services Worldwide 'achieving' 150% of their updated target over the period. Baillie Gifford believe further discretion should have been exercised when determining this executive compensation, preventing overpayments in years when the company experiences negative EPS performance. Baillie Gifford believe incentive pay should not be paid out at below median performance levels – as this would give potential for underperformance to be rewarded. Baillie Gifford encouraged the Fraport AG Frankfurt Airport Services Worldwide Supervisory Board to revise the condition such that no vesting would occur below median performance levels.

The remuneration report received majority shareholder approval.

The vote is significant because it opposed remuneration.

**TotalEnergies SE (Allocation of 0.56% in LGIM's RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund), 25 May 2022**

LGIM voted against TotalEnergies SE's Sustainability and Climate Transition Plan.

Although LGIM recognise the progress TotalEnergies SE has made with regard to their net zero commitment, specifically with respect to the level of investments made in low carbon solutions and the strengthening of climate transition disclosures, LGIM remained concerned for TotalEnergies SE's short-term oil and gas production growth. TotalEnergies SE had not provided further details on how its production growth plans were consistent with its targeted 1.5 degrees trajectory, in alignment with the Paris Agreement. As such LGIM chose to vote against this resolution, in the absence of additional information on how TotalEnergies SE's upcoming production growth was aligned with its Sustainability and Climate Transition Plan.

This resolution is significant as it is an escalation of climate-related engagement undertaken by LGIM. TotalEnergies SE's Sustainability and Climate Transition Plan passed the shareholder resolution with c.89% support, however the Trustee continues to support manager engagement on the matter.

## Engagement activity

### Summary of Trustee engagement with managers

The Trustee holds meetings with the Scheme's investment managers on a rolling schedule, seeing each manager once a year, where stewardship issues are discussed in further detail. Some of the areas discussed with the Scheme's managers are summarised below.

- The Trustee requested Baillie Gifford present on their Paris-Aligned version of the Global Alpha fund which, through additional carbon screens, offers a significantly lower weighted average greenhouse gas ("GHG") intensity. The steps for how ESG is incorporated into Baillie Gifford's investment process were also highlighted. Following this discussion, the Trustee transferred the Scheme's Global Alpha holding into its Paris Aligned equivalent.
- The Trustee held a discussion with Threadneedle on climate risk reporting and disclosures required, as well as the progress of key energy performance certificate ("EPC") targets for properties. As part of this, the Trustee evaluated Threadneedle's annual sustainability performance metrics, across energy consumption, greenhouse gas emissions, water and waste and overall climate risk resilience.
- The Trustee discussed Morgan Stanley's new fund, the 1GT Fund, which will target 1 gigaton of CO2 emission avoidance across its portfolio. The Trustee was pleased to see this type of investment being offered by Morgan Stanley, though the Scheme's current overweight allocation to private equity means that additional investments are not being considered by the ISC at this time.

### Summary of manager engagement activity

The Trustee receives annual reporting on Baillie Gifford's engagement activity. The following table summarises the Baillie Gifford funds' key engagement activity for the 12-month period ending 31 December 2022.

Categories engaged on	Number of Engagements	
	Baillie Gifford Global Alpha Growth Fund	Baillie Gifford Diversified Growth Fund
Climate Change	30	17
Natural Resource Use	5	8
Remuneration	24	13
Shareholder Rights	9	2
Company Disclosure and Transparency	60	27

Over 2022, the Baillie Gifford Global Alpha Growth Fund carried out 98 engagements and the Baillie Gifford Diversified Growth Fund carried out 37 engagements. Engagements primarily focused on the understanding of companies' decarbonisation strategies, net zero transitions and ESG-related policies. The main methods of engagement were meetings and calls.

The Trustee receives annual reporting on LGIM's engagement activity. The following table summarises the top five engagement activity topics for the 12-month period ending 31 December 2022.

Topic engaged on	Number of Engagements
Climate Change	281
Deforestation	264
Remuneration	219
Shareholder rights	212
Company Disclosure and Transparency	120

Note: Engagements may cover more than one topic.

LGIM carried out a total of 1,224 engagements over 2022. Engagements primarily focused on governance issues, followed by environmental issues and social issues. The main methods of engagement were written engagements, meeting and calls.

### Use of a proxy adviser

The Trustee's investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

Manager	Proxy Advisor used
Baillie Gifford	ISS/Glass Lewis
LGIM	ISS

While LGIM is mostly in agreement with its proxy advisor, with 87.2% of the votes aligned with their recommendations, the manager is demonstrating ownership of votes and is willing to go against advice when deemed in the best interests of the Scheme and other investors. Baillie Gifford do not currently produce statistics on proxy advisor alignment. The Trustee has encouraged the manager to include this information in the future.

### Review of policies

The Trustee has committed to reviewing the managers' responsible investment policies regularly. The most recent review considered managers' broad approach to responsible investment issues in addition to considering any change in approach by the manager over the year.

The Trustee and its advisors remain satisfied that the responsible investment policies and (where appropriate) voting policies remain suitable for the Scheme.