

Padley & Venables Pension Fund: Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees objective is to invest the Fund's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and controls of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- To achieve sufficient stability in the ongoing funding level such that Fund assets remain in excess of accrued non-discretionary ongoing liabilities;
- To deliver performance in excess of the return that can be achieved by investing in the lowest risk investments, with a view to covering the cost of discretionary benefits and future service liabilities without recourse to the Sponsoring Company.

When these objectives conflict with each other, the Trustees will aim to achieve a balance between them but with a higher weighting to the first objective than the second.

Policy on ESG, Stewardship and Climate Change

The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. A further review of the Trustees' policy on ESG factors, stewardship and climate change has taken place after 5 April 2021, but prior to the signing of the accounts.

The following work was undertaken during the year to 5 April 2021 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

- The Trustees' investment consultant Mercer has highlighted a continuing high rating of the investment manager Legal and General Investment Management's (LGIM) passive equity strategies, reflecting their engagement activity, and ratings for LGIM's active and buy and maintain corporate bond mandates broadly in line with the peer group average. Passive corporate bonds, gilts, swaps and cash investments are not rated due to the more limited scope for ESG integration within these asset categories.

- If a particular fund in which the Fund invests were to have its ESG rating downgraded then the Trustees could consider their continued investment and may put a manager 'on watch' or, in the case of a material change in rating, terminate the appointment.

- The Trustees requested that the investment manager, LGIM, confirm compliance with the principles of the UK Stewardship Code. LGIM confirmed that they have been a signatory of the current UK Stewardship Code since its inception and fully intends on being a signatory to the 2020 UK Stewardship Code once applicable.

- The Trustees, via their investment consultant, also received details of relevant engagement activity for the year from LGIM, which are listed below.
 - In 2020, LGIM launched 20 strategies that target explicit ESG goals, helping companies to go even further in expressing a conviction on sustainability themes. Many of these strategies, which include strategies specific to index funds, are focused on hastening the transition to a low-carbon economy.

 - On the fifth anniversary of the Paris Agreement, LGIM was a founding member of the Net Zero Asset Managers Initiative, under which LGIM pledged to work in partnership with companies to set decarbonisation goals for their portfolios, in line with global efforts to reach net zero greenhouse gas emissions by 2050.

 - LGIM gave particular attention to the near-term dangers posed by COVID-19 and the longer-term threat of climate change, while doubling down on their progressive stance on income inequality, diversity and board independence.

 - LGIM provided examples of instances where they had engaged with companies which they were invested in (or were about to invest in) which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that LGIM invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate whether or not they support the resolution to the company's management.

Voting Activity

LGIM are expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustees' investment advisor, on behalf of the Trustees, to ensure voting activity undertaken aligns with their overarching investment policy and the policies set out within the SIP. Any material deviations from the SIP will be raised and discussed with the Trustees.

For the purpose of this statement, the Trustees have asked LGIM to highlight key voting activity and the impact on the portfolio. The key voting activity over the year to 31 March 2021 by the LGIM on behalf of the Trustees is summarised below.

The Trustees do not use the direct services of a proxy voter, although LGIM does employ the services of proxy voters in exercising its voting rights on behalf of the Trustees.

The voting policy of the manager has been considered by the investment consultant, on behalf of the Trustees, who deems it to be consistent with the Trustees' investment beliefs.

LGIM noted that they take very seriously their responsibility to exercise voting rights of their clients' assets. LGIM directs the vote of a significant proportion of a company's shares by exercising the shareholder rights of the vast majority of their clients. This scale improves the effectiveness of voting in supporting LGIM's engagement activities and effecting change in the market as a whole. LGIM are wholly committed to using their scale to encourage companies to improve their management of ESG issues, and continue to dedicate significant resources to stewardship obligations.

All World Equity Index Fund and All World Equity Index Fund - GBP Currency Hedged

- There have been 6,779 votable meetings over the year, in which there were a total of 70,672 resolutions. LGIM voted on 99.9% of resolutions on which they were eligible, voting with management 83.3% of the time.
- LGIM reported on a number of significant votes which they undertook on behalf of the Trustees. An example is in respect of Barclays. LGIM, along with 99.9% of shareholders, voted for a resolution calling on Barclays' commitment in Tackling Climate Change, which sets out its long-term plans and has the backing of ShareAction and co-filers.