

University of Bristol Pension and Assurance Scheme

Annual Engagement Policy Implementation Statement to 31 July 2021

Introduction

This Engagement Policy Implementation Statement ('the Statement') sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 July 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

The Trustee has appointed Mercer Limited (Mercer) to act as the Scheme's discretionary investment manager. Pursuant to that appointment, the majority of the Scheme's monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE) and Mercer Alternative AG. The Scheme also invests in the Legal and General Investment Management ("LGIM") UK Managed Property Fund.

This Statement is structured as follows:

- Section 1 – A summary of the Scheme's investment objectives
- Section 2 – Provides detail on the actions taken by the Trustee to meet the Scheme's engagement policies set out in the SIP over the year
- Section 3 - Describes the voting behaviour of the underlying managers appointed within the Mercer and LGIM Funds in which the Scheme invests, along with the relevant statistics over the year.

1. Investment Objectives of the Scheme

The Trustee's aim is to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. The investment strategy and asset allocation is designed to achieve an expected return which is sufficient to meet the Scheme's liabilities.

In meeting this objective, the Trustee's further objective is:

- By means of an agreed combination of investment returns together with deficit contributions from the University, move the Scheme to a position of being fully funded by 2030 on a de-risked funding basis (Gilts + 0.5% p.a.).

2. Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.

In order to establish the Trustee's beliefs and to produce the policy in the SIP, the Trustee has discussed the topic with Mercer on a number of occasions in order to understand the actions Mercer undertakes on their behalf. The most recent training undertaken by the Trustee in relation to ESG took place on 6 July 2021.

As stated in the SIP, the Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, over the year ending 31 July 2021, the Trustee had appointed Mercer to act as the discretionary investment manager in respect of the Scheme's assets, and such assets are invested in a range of Mercer Funds managed by MGIE, as well as LGIM in respect of the Scheme's property holding. Asset managers appointed within the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

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

Policy Updates

- The Trustee considers how ESG, climate change and stewardship are integrated within the investment processes of both Mercer and MGIE, as well as those of the underlying asset managers. Both Mercer and MGIE have provided reporting to the Trustee during the year and will continue to do so regularly going forward.
- The Mercer [Sustainability Policy](#) is reviewed regularly. In August 2020, the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement, as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021, there was a further update in relation to sustainability-related disclosures in the financial services sector ("SFDR") implementation.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [Engagement Policy](#) to specifically address the requirements of the directive.

Climate Change Reporting and Carbon Footprinting

- Mercer undertakes climate scenario modeling and stress testing on the Mercer multi-sector funds used by the Scheme on a regular basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 December 2019. The results of the climate scenario modelling and carbon footprinting are within the [TCFD compliant Climate Change Management Report](#). The findings of the modelling are integrated within the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.
- Carbon Footprint analysis of all equity funds is completed on a six-monthly basis. From 31 December 2019, the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give Mercer and MGIE additional information to drive engagement with managers.
- Since Q3 2020, carbon footprinting metrics for Mercer's active equity funds have been included in the quarterly reporting reviewed by the Trustee, and a comparison of these against the metrics of their representative benchmarks. Over 2020 there has been a 15% reduction in the WACI across the Mercer discretionary equity funds and, as at 31 December 2020, 100% of the active equity funds used by the Scheme have a carbon intensity lower than the benchmark. In the Q4 report, this analysis was extended to include Mercer passive equity funds.

ESG Rating Review

- ESG ratings assigned by the manager research teams of Mercer and its affiliates are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee. ESG ratings are reviewed by MGIE during its quarterly monitoring process, with a more comprehensive review performed annually, which seeks evidence of positive momentum on ESG integration. Since Q3 2020, the quarterly performance report has included the overall ESG rating for each Mercer Fund compared to the appropriate universe of strategies in Mercer's global investment manager database.
- As at 31 December 2020, the Trustee noted that 95% of Mercer Funds now have an ESG rating equal to or above their asset class universe, a 10% improvement on 2019.

Update to Exclusions

- As an overarching principle, Mercer and MGIE, as the Trustee's discretionary investment manager, prefer an approach of positive engagement rather than negative divestment. However, Mercer and MGIE recognise that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, as well as tobacco, are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to the passive equity funds, also. The dedicated Mercer sustainability-themed funds have additional exclusions in place, for example covering gambling, alcohol, adult entertainment and fossil fuels.
- In addition, both Mercer and MGIE monitor for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

Sustainably themed investments

- The Scheme invests in both the Mercer Global Sustainable Equity Fund and the Sustainable Opportunities sleeve within its Private Markets commitment. The strategic allocation to Sustainable Equities within the Scheme's Growth Portfolio increased by 3.9% over the year, while a further 25% of the Sustainable Opportunities commitment was invested.
- A detailed standalone sustainability monitoring report is produced for the Active Sustainable Global Equity Fund on a semi-annual basis, including a more granular breakdown of the Fund against ESG metrics, for example the UN Sustainability Development Goals, and is available to the Trustee on request.

Diversity

- From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader investment policy.

3. Voting Activity

The Scheme's investments take the form of shares or units in a selection of Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustee does not use the direct services of a proxy voter.

The MGIE Engagement Policy outlines this framework.

Set out below is a summary of voting activity for the relevant Mercer Funds for the year ending 30 June 2021 (latest available information). Please note that the voting activity summary excludes the LGIM Fund as the underlying holdings are properties rather than equities with voting rights attached.

- **Voting:** As part of the monitoring of each underlying managers' approach to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

"Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds

Voting Activity Summary 1 July 2020 to 30 June 2021

Fund	Total Proposals	Voted 'For'	Voted 'Against'	Abstained from voting	Unvoted	Other	For Management	Against Management	Use of Proxy Advisor
Mercer Global Listed Infrastructure	204	90%	4%	5%	0%	0%	96%	4%	Yes
Mercer Global Small Cap Equity	9,738	92%	6%	1%	1%	0%	94%	6%	Yes*
Mercer Low Volatility Equity	7,610	93%	5%	1%	1%	0%	94%	6%	Yes
Mercer Sustainable Global Equity	4,879	85%	13%	1%	1%	0%	88%	12%	Yes
Mercer Emerging Market Equity	17,430	83%	12%	5%	0%	0%	87%	13%	Yes
Mercer Eurozone Equity	4,486	85%	13%	3%	0%	0%	88%	12%	Yes*
Mercer UK Equity	977	98%	2%	0%	0%	0%	99%	1%	Yes
Mercer Passive Global REITs	3,057	82%	13%	0%	4%	0%	86%	14%	Yes
Mercer Multi-Asset Credit Fund	24	63%	0%	38%	0%	0%	93%	7%	Yes**

*Proxy advisor not used by at least one underlying manager of the fund.

** Due to the nature of the Mercer Multi-Asset Credit Fund, there are only a small number of equity holdings that can be reported on.

Example Summary of Significant Votes 1 July 2020 to 30 June 2021

Fund	Shareholder Proposal (“SHP”)	Issuer	Vote Decision
Mercer Global Listed Infrastructure	Shareholder Proposal Regarding Presentation of Climate Transition Plan	Aena S.M.E. S.A.	Mixed
	Shareholder Proposal Regarding Amending the Byelaws Concerning the Presentation of Climate Transition Reporting	Aena S.M.E. S.A.	Mixed
Mercer Global Small Cap Equity	Shareholder Proposal Regarding TCFD Reporting	Toyo Seikan Group Holdings Ltd.	Against
	Shareholder Proposal Regarding Phase Out of Oil and Gas	Beach Energy Limited	For
	Shareholder Proposal Regarding Board Diversity Report	Badger Meter Inc.	For
	Shareholder Proposal Regarding Human Rights Reporting	Tesla Inc	Against
Mercer Low Volatility Equity	Shareholder Proposal Regarding Formation of a Human Rights Risk Oversight Committee	American Tower Corp.	Against
	Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement	Exxon Mobil Corp. Exelon Corp.	For Against
	Shareholder Proposal Regarding Child Labor Linked to Electric Vehicles	Alphabet Inc	Mixed*
	Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board	Facebook Inc	Against
Mercer Sustainable Global Equity	Shareholder Proposal Regarding Deforestation Report	Procter & Gamble Co.	For
	Shareholder Proposal Regarding Report on Plastic Packaging	Amazon.com Inc.	Abstain
	Shareholder Proposal Regarding Racial Equity Audit Shareholder Proposal Regarding Human Rights Reporting	Amazon.com Inc. Tesla Inc	Abstain For

Mercer Emerging Market Equity**	Shareholder Proposal Regarding Report on Non-Management Employee Representation on the Board	Microsoft Corporation	Against
	Capital Reduction (Shareholder Proposal)	Busan City Gas	Against
	Shareholder Proposal Regarding Pension Scheme	HSBC Holdings plc	Against
Mercer Eurozone Equity	Shareholder Proposal Regarding GHG Reduction Targets	BP plc	Against
	Shareholder Proposal Regarding Pension Scheme	HSBC Holdings plc	Against
UK Equity Fund	Shareholder Proposal Regarding Industry Association COVID-19 Advocacy Activities	BHP Group Plc	Against
	Shareholder Proposal Regarding Cultural Heritage Protection	BHP Group Plc	Against
	Management Proposals Regarding Election of Directors	Just Eat Takeaway.com N.V.	Against
Mercer Passive Global REITS UCITS CCF**	Shareholder Proposal Regarding the Election of Leon Bressler	Unibail-Rodamco- Westfield	For
	Shareholder Proposal Regarding Election of Gary Weiss	Cromwell Property Group	Against
	Shareholder Proposal Regarding Election of Joseph Gersh	Cromwell Property Group	For
Mercer Multi-Asset Credit Fund	Shareholder Proposal Regarding Proxy Access Bylaw Amendment	Nisource Inc. (Holding Co.)	For
	Management Proposals Regarding Election of Directors	PG&E Corporation	Abstain
	Management Proposal Regarding Advisory Vote on Executive Compensation	PG&E Corporation	Abstain

Please note that due to the nature of the Mercer Multi-Asset Credit fund,
there are only a small number of equity holdings that can be reported on.

**One manager voted for, one manager voted against*

*** In instances where significant shareholder proposals were not available over the period, management proposals were selected considering holding size and proposal matter.*