

Irish League of Credit Unions (Northern Ireland) Pension Scheme

Implementation Statement

For the year ended 28 February 2022

Introduction

This Implementation Statement (the “Statement”) has been prepared by the Trustees (the “Trustees”) of the Irish League of Credit Unions Northern Ireland Pension Scheme (the “Scheme”) to demonstrate how the Trustees have acted on certain policies within the Statement of Investment Principles (“SIP”).

Each year, the Trustees must produce an Implementation Statement that demonstrates how they have followed certain policies within the Scheme’s SIP over the year. This Implementation Statement covers the Scheme year from 1 March 2021 to 28 February 2022.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit (“DB”) investments held by the Scheme.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP policies

This Implementation Statement should be read in conjunction with the Scheme’s SIP covering the year under review, which provides details of the Scheme’s investment policies along with details of the Scheme’s governance structure and objectives.

The SIP was formally reviewed during the Scheme year and updated in September 2021 following changes to the investment strategy and investment managers. The SIP includes policies on the following:

- Stewardship and voting – including details on monitoring and engaging with the companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, capital structure, strategy, risks, corporate governance, ESG and the management of actual or potential conflicts of interest).
- Enhanced policies on monitoring the Scheme’s investment managers, particularly concerning financial arrangements, performance, ESG factors, engagement and the extent to which non-financial matters are taken into account.
- A policy on the duration of the Scheme’s arrangement with the investment managers.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to the Scheme year-end and the extent to which the Trustees believe the policies within the SIP have been followed.

The Scheme was invested in pooled funds managed by Legal & General Investment Management (“LGIM”), over the period from 1 March 2021 to 28 February 2022. The Scheme also held assets managed by Partners Group (UK) Limited (“Partners Group”) over the period from 4 June 2021 to 28 February 2022. In addition, the Scheme was still in the process of disinvesting from its holdings with Mercer Global Investment Europe (“Mercer”) at the start of the period.

In the SIP in place at the start of the Scheme year, the Trustees stated the following policies on ESG considerations relating to their investments:

- *The core operating principles of Credit Unions are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. In line with these operating principles, the Trustees acknowledge that certain ESG factors, including climate change and ethical considerations, are financially material and may therefore influence the risk and return characteristics of the Scheme’s investments and the likelihood that the Scheme’s objectives will be achieved.*

During the Scheme year to 28 February 2022, given the updated investment strategy the Trustees extended their policies to define different aspects of their ESG policy and the expectations of the voting and engagement activities by the investment managers, as outlined below:

- *when choosing investments, the Trustees have considered risks, including Environmental, Social and Governance factors, which they believe to be financially material to the Scheme's investments over the period needed to fund its liabilities.*
- *the Trustees acknowledge that certain ESG factors, including climate change and ethical considerations, are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved.*
- *The Trustees expect the investment managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments. The Trustees believe that such engagement will protect and enhance the long-term value of its investments.*
- *The Investment Managers are responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustees. The Trustees have delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers.*
- *In addition to performance measures, the Trustees will review the engagement activity of the Investment Managers to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustees also monitors the voting activity of the Investment Managers to ensure votes are being used and are aligned to its views on ESG.*
- *If the Trustees believe that the Scheme's Investment Managers are no longer acting in accordance with the Trustees' stated approach and guidelines, as well as the Trustees' policies regarding ESG and engagement with investee organisations, the Trustees will take the following steps:*
 - *engage with the Investment Managers in the first instance, in an attempt to influence their policies on ESG and stewardship; and*
 - *if necessary, look to appoint a replacement investment manager or managers which are more closely aligned with the Trustees' policies and views.*

Description of voting behaviour

The Scheme invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Scheme sits with the investment managers. The Scheme's voting behaviour over the Scheme year is summarised below.

Over the previous Scheme year, the Scheme undertook an investment strategy review which resulted in asset transitions from Mercer to LGIM. While the bulk of these transitions took place on 1 February 2021, there remained some less liquid assets managed by Mercer for part of the Scheme year. These holdings have since been disinvested and given these holdings were a small proportion of total Scheme assets and were only held for part of the Scheme year, the engagement activity has not been shown. Note, these less liquid holdings did not carry any voting rights.

Voting by LGIM

The LGIM All World Equity Index Fund – GBP Currency Hedged (c. £10.1m of Scheme assets as at 28 February 2022) was the main pooled fund investment held by the Scheme that carried voting rights over the period from 1 March 2021 to 28 February 2022. The LGIM Buy and Maintain Credit Fund was eligible to vote at one meeting over the year to 31 March 2022 and therefore the voting statistics for this Fund are also shown below.

The table below shows LGIM's voting summary covering the Scheme's investment in the LGIM All World Equity Index Fund – GBP Currency Hedged Fund as well as the LGIM Buy and Maintain Credit Fund over the year to 31 March 2022. LGIM is developing its reporting but is currently only able to provide voting statistics for 12-month periods to standard quarter-ends, rather than the actual periods invested. Therefore, we have included voting information covering the most relevant 12-month period from 1 April 2021 to 31 March 2022. The Scheme invested in the LGIM All World Equity Index Fund – GBP Currency Hedged Fund and the LGIM Buy and Maintain Credit Fund on 1 February 2021 and was therefore invested for the entire period of which the voting data is provided.

LGIM All World Equity Index Fund – GBP Currency Hedged	1 April 2021 – 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	6,519
Number of resolutions LGIM was eligible to vote on over the year	64,607
Of the eligible resolutions, percentage that LGIM voted on.	99.8%
Of the resolutions voted, percentage that LGIM voted with management.	80.7%
Of the resolutions voted, percentage that LGIM voted against management.	18.1%
Of the resolutions voted, percentage where LGIM abstained .	1.3%
Percentage of eligible meetings where LGIM voted at least once against management.	60.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	9.6%

Note: Totals may not sum due to rounding.

LGIM Buy and Maintain Credit Fund	1 April 2021 – 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	1
Number of resolutions LGIM was eligible to vote on over the year	2
Of the eligible resolutions, percentage that LGIM voted on.	100.0%
Of the resolutions voted, percentage that LGIM voted with management.	100.0%
Of the resolutions voted, percentage that LGIM voted against management.	0.0%
Of the resolutions voted, percentage where LGIM abstained .	0.0%
Percentage of eligible meetings where LGIM voted at least once against management.	0.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.0%

Note: Totals may not sum due to rounding.

Voting by Partners

The Scheme invested in the Partners Group Generations Fund in June 2021 which usually has exposure to listed equity of less than 10%. As with LGIM, Partners Group is developing its reporting but given the Fund's exposure to private markets and the long-term nature of the engagement projects, voting statistics are only currently provided for 12-month periods, rather than the actual periods invested. We have therefore included voting information covering the 12-month period from 1 January 2021 to 31 December 2021.

Partners Group Generation Fund	1 January 2021 – 31 December 2021
Number of meetings Partners Group was eligible to vote at over the year	68
Number of resolutions Partners Group was eligible to vote on over the year	931

Of the eligible resolutions, percentage that Partners Group voted on.	100%
Of the resolutions voted, percentage that Partners Group voted with management.	94%
Of the resolutions voted, percentage that Partners Group voted against management.	4%
Of the resolutions voted, percentage where Partners Group abstained .	2%
Percentage of eligible meetings where Partners Group voted at least once against management.	31%
Percentage of voted resolutions where Partners Group voted contrary to the recommendation of their proxy adviser.	1%

Note: Totals may not sum due to rounding.

Proxy voting

The Trustees did not employ a proxy-voting service during the Scheme year to 28 February 2022.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Services' ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS'). To ensure LGIM's proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

Partners Group use Glass Lewis as their proxy voting service who have been instructed to vote in line with Partners Group's Proxy Voting Directive. In the instance Glass Lewis's, Partners Group's and the voting directive recommendations differ, Partners Group will vote manually on proposals.

How voting and engagement policies have been followed

The Trustees intend to review a summary of the voting and engagement activity taken on their behalf on a regular basis. The information published by LGIM and Partners Group on their voting policies has provided the Trustees with comfort that the Scheme's voting and engagement policies have been followed during the Scheme year to 28 February 2022.

As set out in the SIP, the Trustees expect the investment managers to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustees' investments.

Details of specific voting and engagement topics covered by LGIM are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	✓	LGIM and Partners Group's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	The Trustees believe that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustees also believe that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration. LGIM have clear voting policies covering each of these topics and have acted on them throughout the Scheme year on behalf of the Trustees.

Risks	✓	LGIM have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls. As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors.
Social and environmental impact	✓	LGIM has engaged with companies that have poor climate scores relative to their size and for those that don't meet minimum standards and if these minimum standards are not met over time, LGIM may look to divest until progress is shown.
Corporate governance	✓	LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. LGIM has reinforced their position on leadership structures across our stewardship activities such as via individual corporate engagements and director conferences.
Conflicts of interest	✓	Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with company performance.
Capital structure	✓	LGIM have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance. For example, LGIM have a policy that newly issued shares should not expose minority shareholders to excessive dilution.

Significant votes

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. LGIM have provided examples of what they believe to be the most significant votes cast on the Trustees behalf during the period.

A large number of the most significant votes cast by LGIM related to the election of directors with the majority of instances being against such resolutions. LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair noting the belief that the two roles are substantially different and require distinct skills and experiences. Since 2015 LGIM has supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 LGIM has adopted the view of voting against all combined board chair/CEO roles.

A significant vote was also placed in favour of a Report on Civil Rights Audit for Apple Inc. LGIM noted diversity as being a key factor in this decision as LGIM supports proposals related to diversity and inclusion policies as given these issues are considered to be a material risk to companies.

Note that there were no significant votes made for the LGIM Buy and Maintain Credit Fund.

Several of the significant votes cast by Partners Group involved environmental topics such as climate change. For example, the ESG efforts by Techem Metering GmbH included the completion of a climate change engagement with an external advisor where a detailed greenhouse gas inventory was established including Scope 1, Scope 2 as well as material Scope 3 emissions. Initial carbon reduction opportunities were identified, and this analysis forms the basis for the development of Techem's carbon neutrality target. After successfully completing a detailed materiality assessment, Techem published its first Corporate Sustainability Report in June 2021, which highlights key ESG achievements and lays out a detailed sustainability roadmap for the company. In the roadmap, the company commits to the development of a carbon neutrality target by 2022 and to increase the number of women in management from 17% in 2020 to 35% in 2025.

Engagement with investee companies

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the Scheme's fixed income investments held within the LGIM Buy and Maintain Credit (c. £7.6m of Scheme assets as at 28 February 2022). However, the Trustees expect the investment managers to engage on its behalf to aim to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with the investee companies via direct messages and meetings with management, which comprised 103 engagements over the first quarter of 2022, and engagements via email, which comprised 55 engagements over the first quarter of 2022, to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company's practices.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account client feedback.

While engagements are not yet available at a fund level, they are published at a firm level each quarter. LGIM is working to be able to provide engagement information at a fund specific level.

Over the 12 months to 31 March 2022, LGIM undertook 696 engagements with 593 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 340 on environmental topics;
- 271 on social topics;
- 332 on governance issues; and
- 20 on other topics including finance and strategy.

The top five engagement topics included climate change, remuneration, board composition, energy and climate impact pledges.

The Trustees will monitor LGIM's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

The Scheme has an asset allocation of c. £4.6m as at 28 March 2022 invested in leveraged nominal and index-linked government bonds through LGIM to reduce risk by hedging the exposure to interest rate and inflation inherent in the Scheme's liabilities. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

Extent to which the Trustees' policies have been followed during the year

Having reviewed the actions taken by the investment managers over the Scheme year, the Trustees believe that the policies on stewardship and engagement have been implemented appropriately over the year and in line with their views. The Trustees will continue to monitor the actions taken on their behalf each year. As voting and engagement information is still improving, the Scheme's next Implementation Statement is anticipated to be more specific to the Scheme's actual investments.

Overall, if the investment managers deviate substantially from the Trustees' stated policies, the Trustees will initially engage and discuss this with each investment manager, and if the Trustees still believe the difference between their policies and the investment manager's actions are material, the Trustees will consider terminating and replacing the mandate if necessary.