

# Irish League of Credit Unions (Northern Ireland) Pension Scheme

## Implementation Statement

For the year ended 28 February 2021

### 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 2020 to 28 February 2021.

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.

Between March 2020 and September 2020, the Scheme’s SIP included policies on:

- How ‘financially material considerations’ including Environmental, Social and Governance (“ESG”) factors are taken into account when taking investment decisions for the Scheme.

The SIP was formally reviewed during the Scheme year and updated in September 2020 to add the following policies:

- 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 were added.
- A policy on the duration of the Scheme’s arrangement with the investment managers was added.

These changes were made to reflect new legislative requirements.

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 assets were managed by Mercer Global Investment Europe (“MGIE” or “Mercer”) over the period from 1 March 2020 to 28 February 2021, with MGIE delegated responsibility for appointing, removing and monitoring underlying investment managers within pooled investment vehicles, who themselves had full discretion to buy and sell investments on behalf of the Scheme. The Scheme was also invested in pooled funds managed by Legal & General Investment Management (“LGIM”), over the period from 1 February 2021 to 28 February 2021.

In the SIP in place at the start of the Scheme year, the Trustees stated the following policies on the exercise of voting rights and engagement activities related to their investments:

- The Trustees have delegated day to day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying investment managers. These investment managers 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.

During the Scheme year to 28 February 2021, the Trustees extended their policies to define different aspects and who they expect investment managers to be engaging with, as shown in the following paragraph.

- 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.

### 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 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, there remained some less liquid assets managed by Mercer for the full Scheme year.

#### Voting by Mercer underlying managers

The pooled fund investments held by the Scheme over the period from 1 March 2020 to 1 February 2021 included the Mercer Passive Global Equity CCF Fund (both hedged and unhedged), Mercer Low Volatility Equity Fund, MGI Emerging Markets Equity Fund and the Mercer Diversified Growth Fund (both hedged and unhedged).

Mercer provided a separate Voting and Engagement report which summarises and comments on the stewardship activities and disclosure of the investment managers appointed within the largest MGIE equity funds for the period 1 January 2020 to 30 December 2020 unless stated otherwise. While this only covers a portion of the Scheme year, it is the most recent Voting and Engagement Report available from Mercer.

The Voting and Engagement Report provides voting statistics, together with brief commentary, based on manager disclosed information and covers votes cast in four parts: a) votes against management; b) votes against proxy adviser policy (where applicable); c) abstentions; and d) no votes. The report also provides summary reporting on engagement activities undertaken by managers to capture the level of disclosure and examples given by the managers of where the manager has exchanged views with companies on a range of strategic issues.

The table below provides a summary of the voting statistics of all segregated equity funds overseen by Mercer over the year to 31 December 2020. As noted, the Scheme was only invested in a proportion of these funds over the period from 1 March 2020 to 1 February 2021 and as such not all votes will be directly applicable to the Scheme's investments over the scheme year. At the time of publishing this report Mercer were not able to provide voting statistics over requested periods, such as the period of the Scheme's investment.

Mercer Global Investment Europe – All Segregated Equity Funds	1 January 2020 – 31 December 2020
Number of meetings underlying managers were eligible to vote at over the year	8,914
Number of resolutions underlying managers were eligible to vote on over the year	173,458
Of the resolutions voted, percentage that underlying managers voted <b>with</b> management.	85%

Of the resolutions voted, percentage that underlying managers voted <b>against</b> management.	15%
Of the resolutions voted, percentage where underlying managers <b>abstained</b> .	1%

### Voting by LGIM

The only pooled fund investment held by the Scheme that carried voting rights over the period from 1 February 2021 to 28 February 2021 was the LGIM All World Equity Index Fund – GBP Currency Hedged (c. £8.3m of Scheme assets as at 28 February 2021).

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 over the year to 31 March 2021. It should be noted that the Scheme invested in the Fund on 1 February 2021. 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 2020 to 31 March 2021, noting that the Scheme did not hold the investment from 1 April 2020 to 1 February 2021.

LGIM All World Equity Index Fund – GBP Currency Hedged	1 April 2020 – 31 March 2021
Number of meetings LGIM was eligible to vote at over the year	6,779
Number of resolutions LGIM was eligible to vote on over the year	70,672
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted <b>with</b> management.	83.3%
Of the resolutions voted, percentage that LGIM voted <b>against</b> management.	16.0%
Of the resolutions voted, percentage where LGIM <b>abstained</b> .	0.8%
Percentage of eligible meetings where LGIM voted at least once against management.	5.6%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.2%

### Proxy Voting

The Trustees did not employ a proxy-voting service during the Scheme year to 28 February 2021.

Mercer does not vote directly on the underlying investments it manages, delegating responsibility to the chosen investment managers for the mandates it recommends. As such, Mercer does not employ a proxy voting advisor. Mercer does monitor the proxy voting advisors used by the underlying investment managers with 87% of these managers using a third party proxy advisor. Of these, 67% use ISS, 15% Broadridge, 14% Glass Lewis and 4% multiple providers.

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 Service’s (‘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’).

### 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 Mercer and LGIM 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 2021.

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.

Due to Mercer managing underlying investment managers rather than directly engaging with investee companies, the engagement that was carried out on behalf of the Scheme was by the underlying investment managers. Mercer monitors the voting and engagement of the investment managers and uses a list of engagement priorities to lead discussions with underlying investment managers, split across governance and strategy, environmental sustainability and social sustainability.

For 2021, within governance and strategy priorities include aligned remuneration and incentives, decision maker diversity and transparent ESG disclosure. Within environmental sustainability, priority topics include climate change, low carbon transition, pollution, natural resource degradation and biodiversity. Within social sustainability priorities include human rights, modern slavery, worker rights and addictive products. Over the Scheme year, Mercer carried out engagement for each of these topics with underlying investment managers.

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
<b>Performance of debt or equity issuer</b>	✓	Mercer and LGIM's and 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.
<b>Strategy</b>	✓	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.  Mercer's engagement priorities for 2021 include aligned remuneration and incentives of senior executives, as well as inclusive, diverse decision-making.
<b>Risks</b>	✓	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.
<b>Social and Environmental impact</b>	✓	LGIM has written to over 500 companies with poor climate scores relative to their size and for those that don't meet minimum standards during the 2021 AGM season, LGIM will look to sanction through voting. If these minimum standards are not met over time, LGIM may look to divest until progress is shown. Over 2020, LGIM announced that it had reinstated investments in Subaru following evidence of progress against emission targets and climate exposure.  Mercer's priority themes for engagement include climate change, diversity and modern slavery, and implement these either directly or via the external managers it employs.
<b>Corporate Governance</b>	✓	LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. Over the year LGIM voted against 411 companies that combined the roles.  Over 2021, LGIM has stated they will oppose Directors in Germany from being elected for longer than 4 years to hold Directors to more accountability than in the past.

		<p>Mercer uses voting to encourage gender diversity in line with the principles of the '30% Club', which advocates at least 30% representation of women on all boards globally.</p>
<b>Conflicts of Interest</b>	✓	<p>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.</p>
<b>Capital Structure</b>	✓	<p>LGIM have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance.</p> <p>For example, LGIM have a policy that newly issued shares should not expose minority shareholders to excessive dilution.</p>

## Significant Votes

LGIM have provided examples of what they believe to be the most significant votes cast on the Trustees behalf during the period.

Two of the most significant votes cast by LGIM related to the remuneration of executive at Imperial Brands and a shareholder lead request for a human rights due diligence report at Tyson Foods. LGIM voted against the remuneration report and remuneration policy at Imperial Brands following the appointment of a new CEO during 2020, with a higher base salary than their predecessor. LGIM stated that it has specific remuneration guidelines for UK listed companies and that the higher base salary would have a ripple effect on other incentives. LGIM also noted that the incoming CEO did not have the experience to warrant the base salary and prior to the AGM had engaged with the company to express concerns. The result of the vote was an overall approval of 59.7% for the remuneration report and 95.3% for the remuneration policy, with LGIM continuing to engage with the company on remuneration.

LGIM also for the proposal for Tyson Foods to produce a report on the human rights due diligence process, following some shareholders views that the pandemic had highlighted potential deficiencies in how the company was following human rights policies. The company had been noted to have had strict attendance policies during the pandemic, insufficient Covid-19 testing and lack of social distancing, with over 10,000 positive cases and 35 worker deaths and the company potentially opening itself up to undue human rights and labour rights violation risks. The resolution failed to gain sufficient votes at the AGM for the report to be produced. LGIM voted for the resolution given the belief that human rights issues present material risk to companies.

Within Mercer's Voting and Engagement Report for 2020, it provided an overview summary of the most significant votes cast by the underlying managers it monitors. Of the ten examples included, four related to environmental proposals, two governance, two social and two compensation. While the investee company details were anonymised, Mercer disclosed how each of the relevant underlying managers voted. For the proposals where all managers voted the same way the issues covered were a report on single-use shopping bags where four managers voted in favour and also a median gender and racial pay equity report for which two managers voted for the resolution. Mercer also did not provide the overall outcome of these significant votes.

## 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. £4.8m of Scheme assets as at 28 February 2021). 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 and engagements via email 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 2021, LGIM undertook 974 engagements with 874 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 427 on environmental topics;
- 241 on social topics;
- 470 on governance issues; and
- 279 on other topics including finance and strategy.

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 remainder of the Scheme's assets (c. £4.6m of assets as at 28 March 2021) are 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.

In addition, Mercer provided details of the engagement carried out by underlying investment managers. Over 2020, Mercer have provided details from 92 managers, with these managers carrying out 12,106 engagements in total. Mercer has provided the following summary:

- 3,401 engagements on environmental topics;
- 2,728 on social topics;
- 4,103 on governance issues; and
- 1,874 on other topics including finance and strategy.

### **How Voting and Engagement Policies Have Been Followed**

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. For the Scheme's next Implementation Statement, the information is likely to be easier to obtain and 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.

### **September 2021**

For and on behalf of the Trustees of the Irish League of Credit Unions (NI) Pension Scheme