

Civil Service Benevolent Fund Pension and Assurance Scheme (“the Scheme”)

Annual Engagement Policy Implementation Statement Year Ending 5 April 2023

Introduction

This statement sets out how, and the extent to which, the Stewardship policy and related policies on environmental, social and governance (“ESG”) factors and climate change set out in the Statement of Investment Principles (“SIP”) produced by the Trustees, have been followed during the year to 5 April 2023.

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, as amended, and the guidance published by the Pensions Regulator.

Review of the SIP

The Trustees keep their policies within the SIP under regular review, subject to full review at least triennially. The SIP was last amended in June 2021 and is available online at <https://foryoubyyou.org.uk/about-us/our-organisation/pension-and-assurance-scheme>.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the plan as set out in the SIP are as follows:

The Trustees’ primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP, includes the Trustees' policy on ESG factors, Stewardship and Climate Change. The ESG policies were last reviewed in June 2021.

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

In November 2022 the Trustees agreed a statement of investment beliefs which included the priorities for the Scheme in relation to Responsible Investment. The statement includes the belief that **climate change** and the expected transition to a low carbon economy represent a long-term financial risk to Scheme outcomes and should be considered by the Trustees as part of their fiduciary duty, whilst recognising that the effective horizon of the Scheme is now quite short, particularly by comparison to the timescale for the impact of climate change and environmental risks.

Engagement

In the relevant year, the Trustees have not engaged with the underlying pooled fund managers on matters pertaining to ESG, stewardship or climate change. However, the Trustees use Mercer's ESG ratings to consider how ESG, climate change and stewardship are integrated within the investment process as part of their monitoring of existing investment managers.

During the year to 5 April 2023, the Scheme's investment performance report was reviewed by the Trustees on a semi-annual basis – this includes manager research ratings (both general and ESG specific) from Mercer, as well as detail on how investment managers are delivering against their specific mandate.

The Trustees are satisfied that the ESG scores are satisfactory in the context of the mandates of the funds.

Further information on the investment managers' approaches to responsible investment, voting and engagement with the investee companies is available at the following websites:

Nordea: <https://www.nordeaassetmanagement.com/responsible-investment>

Columbia Threadneedle: <https://www.columbiathreadneedle.co.uk/en/inst/about-us/responsible-investment/>

LGIM: <https://www.lgim.com/uk/en/capabilities/investment-stewardship/>

Payden: <https://www.payden.com/ESG.aspx>

Taking all the above into consideration, the Trustees are satisfied that Responsible Investment is central to the investment managers' approaches to investing.

Voting Activity

The Scheme has no direct relationship with the underlying companies in which the Scheme is ultimately invested, and therefore does not have voting rights in relation to the Scheme's investments.

The Trustees expect the investment managers to evaluate a number of factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.

Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The Trustees do not have voting rights and therefore do not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights.

The Trustees have not been asked to vote on any specific matters over the Scheme year. Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e. all funds which include equity holdings) in which the Scheme's assets are invested. This includes information on what the investment managers have determined to be significant votes.

The Trustees have no influence on the investment managers' choice of significant votes, but have noted these and are satisfied that they are reasonable and aligned with their own understanding. Among these the Trustees consider the most significant votes to be those that are linked to the Scheme's investment beliefs, with climate change being considered the most important theme.

The information in the Appendix sets out the voting activity over the financial year.

Conclusion

The Trustees are satisfied that their policies on stewardship and on environmental, social and governance ("ESG") factors and climate change set out in the SIP have been followed during the year to 5 April 2023

Appendix – Summary of Voting Activity

Payden – Absolute Return Bond Fund

Due to the Absolute Return Bond Fund not having any underlying equity holdings, they are not eligible to vote at company meetings.

Columbia Threadneedle – Multi Asset Fund

Proxy voter used?	Votes cast			Significant votes (description)
	Votes in total	Votes against management endorsement	Abstentions	
ISS – Voting platform for casting votes and recordkeeping. Glass Lewis & ISS – For research	5,692 (of 5,830 eligible)	8%	2%	Columbia Threadneedle consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where they abstain/withhold from voting) a management-tabled proposal, or where they support a shareholder-tabled proposal not endorsed by management. They report annually on their reasons for applying dissenting votes via their website.

Most Significant Votes:

The Trustees consider the following information provided by the investment manager to be significant as they relate to climate change.

Alphabet Inc.

- A vote 'for' (against management) was cast on 'Report on Physical Risks of Climate Change' on 1 June 2022, citing as their rationale 'Climate change presents ongoing and serious risks to shareholder value. Additional information on the company's strategy and competitive positioning is merited. Companies should respond to the Carbon Disclosure Project and include information on its strategy in a sustainability report'. The outcome of the vote was 'fail'.
- A vote 'for' (against management) was cast on 'Report on Climate Lobbying' on 1 June 2022, citing as their rationale 'Climate change presents ongoing and serious risks to shareholder value. Additional information on the company's strategy and competitive positioning is merited. Companies should respond to the Carbon Disclosure Project and include information on its strategy in a sustainability report.' The outcome of the vote was 'fail'.

Amazon.com, Inc.

- A vote 'against' (in line with management) was cast on 'Report on Retirement Plan Options Aligned with Company Climate Goals' on 25 May 2022, citing as their rationale 'AMZN does offer options to employees that want to invest more responsibly. We will be monitoring this in future as this is a potential risk. However, at this time we voted against this proposal. The outcome of the vote was 'pass'.

Microsoft Corporation

- A vote 'against' (in line with management) was cast to 'Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk' on 13 December 2022, citing as their rationale 'The company offers an option to employees that want to invest more responsibly, and the Department of Labor is finalizing rules on how ESG factors should be considered by fiduciaries. An independent fiduciary selects investment options following strict framework.' The outcome of the vote was 'pass'.

United Parcel Service, Inc

- A vote 'against' (in line with management) was cast to 'Report on Balancing Climate Measures and Financial Returns' on 5 May 2022, citing as their rationale 'This proposal was deemed to be too broad in scope and not a standard practice within the industry.' The outcome of the vote was 'pass'.
- A vote 'for' (against management) was cast to 'Report on Corporate Climate Lobbying Aligned with Paris Agreement' on 5 May 2022, citing as their rationale 'Climate change presents ongoing and serious risks to shareholder value. Additional information on the company's strategy and competitive positioning is merited. Companies should respond to the Carbon Disclosure Project and include information on its strategy in a sustainability report.' The outcome of the vote was 'fail'.

Nordea – Diversified Return Fund

Proxy voter used?	Votes cast			Significant votes (description)
	Votes in total	Votes against management endorsement	Abstentions	
ISS – Voting platform for casting votes and recordkeeping. Glass Lewis & ISS – For research	2,363 (of 2,391 eligible)	9%	2%	Nordea define significant votes are those that are severely against their principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason. From there, they benchmark the proposals versus their policy.

Most Significant Votes:

The Trustees consider the following provided by the investment manager to be significant as they relate to climate change:

Microsoft Corporation

- A vote 'for' was cast to 'Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk' on 13 December 2022, citing as their rationale 'We believe that while the company may not be responsible for its employees' investment decisions, the information requested in the report would not only complement and enhance Microsoft's existing commitments regarding climate change, but also allow shareholders to better evaluate the company's strategies and management of related risks.' The outcome of the vote was 'against'.

Monster Beverage

- A vote 'for' was cast on 'Report on GHG emission reduction targets aligned with the Paris Agreement goal.' on 14 June 2022, citing as their rationale 'We think that additional information on the company's efforts to reduce its carbon footprint and align its operations with Paris Agreement goals would allow investors to better understand how the company is managing its transition to a low carbon economy and climate change related risks.' The outcome of the vote was 'against'.

LGIM – Future World Global Equity Index Fund & GBP Hedged Share Class

Proxy voter used?	Votes cast			Significant votes (description)
	Votes in total	Votes against management endorsement	Abstentions	
<p>LGIM’s Investment Stewardship team uses ISS’s ‘Proxy Exchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with LGIM’s view on ESG, they have put in place a custom voting policy with specific voting instructions.</p>	54,363 (of 54,363 eligible)	19%	1%	<p>In determining significant votes, LGIM takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:</p> <ul style="list-style-type: none"> • High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny; • Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote; • Sanction vote as a result of a direct or collaborative engagement; • Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

Most Significant Votes:

The Trustees consider the following provided by the investment manager to be significant as they relate to climate change and the largest holdings of the fund (defined as more than 5% of holdings by value):

Alphabet Inc.

- A vote 'for' was cast to 'Report on physical risks of climate change' on 1 June 2022. Citing their rationale as 'a vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.'

Rio Tinto Plc

- A vote 'against' was cast to 'Approve Climate Action Plan' on 8 May 2022. As their rationale, 'LGIM recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while we acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, we remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.'

Royal Dutch Shell Plc

- A vote 'against' was cast to 'Approve the Shell Energy Transition Progress Update' on 24 May 2022. Citing their rationale, 'A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, we remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.'

UBS Group AG

- A vote 'against' was cast to 'Approve Climate Action Plan' on 6 April 2022. Citing their rationale and outcome, 'A vote against this proposal is applied following internal discussion. While we positively note the company's progress over the last year, as well as its recent commitment to net zero by 2050 across its portfolio, we have concerns with the strength and coverage of the Climate Action Plan's Scope 3 targets and would ask the company to seek external validation of its targets against credible 1.5°C scenarios. Gaining approval and verification by SBTi (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.'

The Travelers Companies, Inc.

- A vote 'against' was cast to 'Approve Climate Impact Pledge' on 25 May 2022, citing their rationale 'a vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management.'

TotalEnergies SE

- A vote 'against' was cast to 'Approve Company's Sustainability and Climate Transition Plan' on 25 May 2022, citing 'A vote against is applied. We recognize the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening its disclosure. However, we remain concerned of the company's planned upstream production growth in the short term, and the absence of further details on how such plans are consistent with the 1.5C trajectory.'

BP Plc

- A vote 'for' was cast to 'Approve Net Zero - From Ambition to Action Report' on 12 May 2022, citing 'A vote for is applied, though not without reservations. While we note the inherent challenges in the decarbonization efforts of the Oil & Gas sector, LGIM expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. It is our view that the company has taken significant steps to progress towards a net zero pathway, as demonstrated by its most recent strategic update where key outstanding elements were strengthened. Nevertheless, we remain committed to continuing our constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambition and approach to exploration.'

Barclays Plc

- A vote 'against' was cast to 'Approve Barclays' Climate Strategy, Targets and Progress 2022' on 4 May 2022, citing 'While we positively note the Company's use of absolute emissions targets for its exposure in the Energy sector, as well as the inclusion of capital markets financed emissions within its methodology, we have concerns that the ranges used for interim emissions reduction targets and the exclusion of US clients from the 2030 thermal coal exit falls short of the actions needed for long-term 1.5C temperature alignment. A vote Against is therefore applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C.'