

# Engagement Policy Implementation Statement (“EPIS”)

## Durham University Pension Scheme (the “Scheme”)

### Scheme Year End – 31 March 2023

The purpose of the EPIS is for us, the Trustee of the Durham University Pension Scheme, to explain what we have done during the year ending 31 March 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”). It includes:

1. How our policies in the SIP about asset stewardship (including both voting and engagement activity) in relation to the Scheme’s investments have been followed during the year; and
2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

#### Our conclusion

**Based on the activity we have undertaken during the year, we believe that the policies set out in the SIP have been implemented effectively.**

In our view, most of the Scheme’s material investment managers were able to disclose adequate evidence of voting and/or engagement activity, that the activities completed by our managers align with our stewardship expectations, and that our voting policy has been implemented effectively in practice. Some investment managers did not provide us with complete information to allow us to review the stewardship activity carried out on our behalf. We acknowledge the limitations on the applicability of stewardship activity for certain asset classes (such as property and illiquid credit) and are reassured that our investment consultant will raise any concerns with the manager data as they arise. In this instance, no significant concerns were raised.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

#### How voting and engagement policies have been followed

The Scheme is invested mostly in pooled funds, and so the responsibility for voting and engagement is delegated to the Scheme’s investment managers, which is in line with our policy. During the reporting period, the Scheme was also invested in a segregated mandate in which the voting rights were delegated to the investment manager (subject to our stewardship policy as set out in the SIP). We reviewed the stewardship activity of the material investment managers carried out over the Scheme year and in our view, most of the investment managers were able to disclose adequate evidence of voting and/or engagement activity.

## Scheme stewardship policy

The below bullet points summarise the Scheme's stewardship policy in force over the year to 31 March 2023. The full SIP can be found here:

<https://www.durham.ac.uk/media/durham-university/professional-services/human-resources-and-organisation-development/resources/Durham-University-Pension-Scheme---Statement-of-Investment-Principles.pdf>

and also includes the Trustee's wider policies in respect of the arrangements with asset managers, wider environmental social and governance considerations and monitoring and investment costs.

- The Trustee recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and to promote corporate responsibility in the underlying companies in which the Scheme's investments reside. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its beneficiaries.
- The Trustee:
  - regularly reviews the continuing suitability of the appointed fund managers and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed fund managers.
  - expects the Scheme's fund managers to use their influence as major institutional investors to exercise the Scheme's rights and duties as a shareholder including voting engagement with underlying investee companies, where relevant and appropriate.
  - will engage with its fund managers as necessary for additional information to ensure that robust active ownership behaviours, reflective of its active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members upon request. Furthermore, the Trustees will ask the Scheme's fund managers to provide details about the ways in which they are undertaking these activities in comparison to their policies and relevant codes of practice. This will be reviewed annually with input from the Trustee's investment adviser.
  - expects the Scheme's appointed fund managers to comply with the United Nations Global Compact and additionally, the Trustee has identified key factors around environmental impact, social impact and corporate governance and will level scrutiny on its fund managers accordingly. The Trustee expects its fund managers to prioritise and actively monitor these risks within their respective investment processes and to provide transparency on engagement and voting actions with respect to the mitigation of these risks as appropriate.
  - expects that if an incumbent fund manager is found to be falling short of the standards the Trustee has set out in their policies, the Trustee will engage with the fund manager and seek a more sustainable position, although it may choose to ultimately replace the fund manager if such a position cannot be reached.
  - will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, a

fund manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure and management of actual or potential conflicts of interest.

## **Scheme stewardship activity over the year**

### **Ongoing Monitoring**

Investment monitoring takes place on a quarterly basis with a monitoring report being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversations with the fund manager, the lead researcher will award an ESG rating which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

### **Manager Appointments**

The Trustee considers ESG credentials of fund managers when considering changes to the Scheme's portfolio and is aiming for consistency over the entire investment strategy over time. For example, the Trustee has introduced a dedicated ESG equity portfolio managed by Cantab alongside a factor-based equity investment managed by LGIM which explicitly excludes investments in controversial sectors and has a reduced carbon footprint compared to a standard market index. Additionally, as part of the illiquid credit manager selection undertaken in January 2021, the managers' ESG credentials were actively considered by the Trustee to ensure they were aligned with the Scheme's policies. For example, one of the key factors for considering an investment into the CVC Credit European Direct Lending SMA was due to the integration of ESG clauses on the senior secured loans to drive borrower behaviour. This is the first manager to explicitly incorporate ESG in this manner in this space.

## Our underlying manager’s voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company’s stock. We believe that good stewardship is in the members’ best interests by promoting best practice and encouraging investee companies to access opportunities, managing risk appropriately, and protecting shareholders’ interests. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme’s investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Scheme’s equity-owning investment managers to responsibly exercise their voting rights.

### Voting statistics

The table below shows the voting statistics for the Scheme’s material funds with voting rights for the year to 31 March 2023.

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
LGIM – Developed Balanced Factor Equity Index Fund	11,712	99.8%	20.2%	0.1%
Cantab – Global (ex UK) equity segregated mandate		<i>Not provided</i>		

Source: Managers

### Use of proxy voting adviser

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive remuneration and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser’s recommendations.

The table below describes how LGIM uses its proxy voting adviser.

	Description of use of proxy voting adviser (in the manager’s own words)
Legal & General Investment Management (“LGIM”)	“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 we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.”
Cantab	<i>Not provided</i>

Source: Manager

### Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Scheme’s investment managers to provide a selection of what they consider to be the most significant votes in relation to the Scheme’s funds. An example of these significant votes can be found in the Appendix.

#### Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues

Source: UN PRI

#### Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

## Our underlying managers' engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme's material managers. The managers have provided information for the most recent calendar year available. Some of the information provided is at a firm-level i.e. is not necessarily specific to the fund invested in by the Scheme.

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
LGIM – Developed Balanced Factor Equity Index Fund	279	1,224	Environment - Climate change
			Social - Human capital management (e.g. inclusion & diversity, employee terms, safety), Human and labour rights (e.g. supply chain rights, community relations), Public health
			Governance - Board effectiveness - Diversity, Remuneration
			Strategy, Financial and Reporting - Strategy/purpose
Pacific Investment Management Company (“PIMCO”) – Diversified Income Fund	79	1,370	Environment - Climate change, Natural resource use/impact (e.g. water, biodiversity)
			Social - Human and labour rights, Human capital management, Public health
Threadneedle Asset Management (“Threadneedle”) – Property Unit Trust*	<i>Not provided</i>	177	Environment - Climate change, Biodiversity, Energy transition and others
BentallGreenOak (“BGO”) – UK Secured Lending Fund II	2	<i>Not provided</i>	Environment - Climate change, Natural resource use/impact, and Pollution, Waste
			Social - Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying), Human and labour rights, Human capital management
			Governance - Board effectiveness – Diversity, Board effectiveness - Independence or Oversight and Other
BGO – UK Secured Lending Fund III	5	<i>Not provided</i>	Environment - Climate change, Natural resource use/impact, and Pollution, Waste
			Social - Conduct, culture and ethics, Human and labour rights, Public health
			Governance - Board effectiveness – Diversity, Board effectiveness - Independence or Oversight, Leadership - Chair/CEO
Ares Management (“Ares”) – Capital Europe V	<i>Not provided</i>	<i>Not provided</i>	Environment - Climate change
			Social – Human capital management
			Environment - Climate change
M&G Investments (“M&G”) – Illiquid Credit Opportunities Fund*	<i>Not provided</i>	157	Social - Human and labour rights, Human capital management
			Governance - Board effectiveness - Independence or Oversight, Remuneration

Funds	Number of engagements		Themes engaged on at a fund-level
	Fund specific	Firm level	
			Strategy, Financial and Reporting - Strategy/purpose
CVC Credit Partners ("CVC") – Credit European Direct Lending Fund			<i>Not provided**</i>
Cantab – Global (ex UK) equity segregated mandate			<i>Not provided</i>

Source: Managers.

\* Threadneedle and M&G did not provide fund level themes; themes provided are at a firm-level.

\*\*CVC did not provide a number of fund specific or firms engaged with but did confirm it had engaged with all companies held in this fund on ESG issues.

## Data limitations

At the time of writing, the following managers did not provide all the information we requested:

- LGIM provided fund-level engagement information but not in line with the best practice industry standard ICSWG engagement reporting guide.
- Cantab did not provide any voting and engagement data despite multiple data requests.
- Threadneedle and M&G did not provide the fund-level engagement information requested except for specific engagement examples.
- BGO did not provide complete firm-level engagement information. The manager highlighted that it does not track total engagement on a firm level. In addition, BGO noted that all of the small number of engagements that it completed at a fund level were in respect of identical engagement themes.
- Ares noted that it does not currently track engagements at either a firm or fund level, however, it did provide a detailed narrative with respect to its case-by-case engagement policy and provided detailed examples of its engagements.
- CVC was unable to provide the detailed engagement information.

This report does not include commentary on the Scheme's liability driven investments or cash because of the limited materiality of stewardship to these asset classes.

## Appendix – Significant Voting Example

In the table below is an example of a significant vote provided by the Scheme’s remaining equity holding manager, in its own words. We consider a significant vote to be one which the manager considers significant.

Each manager has its own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are as follows:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management’s proposal
- where the investment manager voted against a management recommendation or the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustee considers inappropriate or based on an inappropriate rationale
- a vote that has significant relevance to members of the Scheme

<b>LGIM – Developed Balanced Factor Equity Index Fund</b>	<b>Company name</b>	Eli Lilly and Company
	<b>Date of vote</b>	2-May-2022
	<b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>	~0.9%
	<b>Summary of the resolution</b>	Require Independent Board Chair
	<b>How you voted</b>	LGIM voted in favour of the shareholder resolution (management recommendation: against).
	<b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
	<b>Rationale for the voting decision</b>	Shareholder Resolution - Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.
	<b>Outcome of the vote</b>	Failed
	<b>Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?</b>	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
	<b>On which criteria have you assessed this vote to be "most significant"?</b>	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

Source: Manager