Arup UK Pension Scheme

Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 March 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 guidance published by the Pensions Regulator.

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. As set out in the SIP, the Trustees' primary objectives are as follows:

- To ensure that sufficient assets are available to pay members' benefits as and when they arise;
- To achieve full funding position on a self-sufficiency funding basis (defined as being gilts plus 0.60% p.a.) on or before the end of 2033 (the end of the recovery period).

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This policy was last reviewed in February 2021, when the Trustees decided to produce a standalone Responsible Investment Beliefs Statement, appended to the SIP, further to strengthening the wording of Section 9 the SIP.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their investment consultant, Mercer Limited, on responsible investment ('RI') which covered ESG factors, stewardship, climate change and ethical investing. Training provided over the year included sessions covering:

- Implementing a sustainable equity allocation, in May 2020;
- The integration of ESG factors in assets other than equities in November 2020; and in March 2021.

As set out in the SIP, the Trustees believe that ESG factors, including climate change, may have a financially material impact on investment risk and return outcomes over the time horizon of the Scheme, including how those factors are taken into account in the selection, retention and realisation of investments. The Trustees believe that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The following section sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

- As part of its quarterly review of investment performance, the Trustee receives reporting from its investment consultant including ratings (both general and specific ESG) for its investment managers. This reporting includes a comparison of manager ESG ratings against their peer group. In the majority of cases, the Scheme's investment managers had better ESG ratings (as determined by the investment consultant) than the average of their respective peer groups.

- The Trustees meet regularly with their investment managers via the Investment Sub-Committee. At these meetings, managers are asked to provide a number of strategy and firm updates, including integration of ESG and climate change into the investment process and voting and engagement activities. As part of this, the Trustees will challenge decisions that appear out of line with the Scheme stated objectives and/or policies. Over the year to 31 Match 2021, the Trustees met with Schroders, Patrizia, LGIM, Nordea, Newton, Wellington and Barings.

- At the end of Q2 2020, the Scheme disinvested from Prisma Fund of Hedge Funds in order to de-risk the Scheme's assets; Prisma was deemed to be poorly ESG rated (as determined by the investment consultant) at the time of the disinvestment. Further to this, during Q3 2020, the Scheme fully transitioned from the Newton Real Return Fund into its sustainable version Newton Sustainable Real Return fund.

- During the second and third quarter of 2020, the Trustees discussed and implemented a switch of the Scheme's equity exposure in order to improve the ESG characteristics of the portfolio. This involved disinvesting the LGIM Synthetic Equity holdings and investing in an ESG focused equity mandate (LGIM Future World Global Equity 50% GBP Hedged portfolio).

- In Q4 2020, the Trustees assessed the potential climate change impact on investment returns, through a climate change scenario analysis undertaken by its investment consultant. This modelling helped the Trustees understand the exposures within the investment portfolio to climate risks to help on informed considerations on further mitigation actions. Following this, the Trustees have committed to reporting under the recommendations of the Task Force for Climate Related Financial Disclosure ('TCFD') and expect to first do so in 2021 in line with the timescales of the Scheme Report and Accounts.

- In Q1 2021, the Trustees engaged with the investment managers in respect of exposures within the Scheme's investments revenue derived from coal-based power generation and coal extraction. As part of this, the Trustees further engaged with investment managers in relation to specific strategy holdings where the percentage of revenue derived from coal was considered significant.

- The Trustees requested that the Scheme's investment managers confirm compliance with the principles of the UK Stewardship Code:

    - LGIM, Newton, Schroders, Barings and Wellington have confirmed that they are currently signatories to the UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council by 31 March 2021, in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

- PATRIZIA and Prisma (Prisma was terminated in June 2020) noted that it is not relevant to the assets they manage and therefore are not signatories of the UK Stewardship Code.
- Nordea is currently not a signatory of the UK Stewardship Code but intends to submit the required reporting to the Financial Reporting Council until 31 October 2021 (second application deadline).

- The Trustees also requested details of relevant engagement activity for the year from the Scheme's investment managers. The most significant are detailed below:

Investment Managers	Engagement Activities
LGIM (equity)	LGIM can only provide information on a firm wide basis, through their annual Active Ownership Report, as such the below might not be specific to the Scheme's holdings but denotes the type and level of engagement performed by the manager. **Nestlé:** LGIM engaged with Nestlé repeatedly in 2020 on sustainability issues including water scarcity, packaging, recycling and supply chain management. The company has since committed to: 1. net zero emissions; 2. externally verified certifications for water use and raw material sourcing; 3. 100% recyclable/reusable packaging by 2025. **Nintendo:** LGIM have emphasised the need to improve board diversity and independence, improve disclosure, and increase discussion of diversity on board agendas. LGIM also asked for increased workforce flexibility to be offered in the form of maternity leave and the company committed to increase its female workforce from 20% to 25%.
LGIM (credit)	LGIM was able to provide an example of engagement specific to the pooled Buy & Maintain Fund within the past year: **BP (Oil and Gas):** LGIM have been engaging with BP to ascertain the credibility of their plans to manage the energy transition to a low carbon economy. For example, LGIM have engaged with BP via investor calls in addition to meetings with management and investor relations, re-emphasising their desire for commitment and a credible plan with specific steps to reposition the company and make it more resilient to the energy transition. In early August 2020, BP made a number of announcements which underline its shift towards low-carbon energy, at the expense of shrinking long term investment in fossil fuels. This included targeting a reduction in emissions from operations of 30-35% and a 15% reduction in carbon intensity of products by 2030; increasing the renewable share of capex from $500mm/year today to $4B/year by 2025 and $5B/year by 2030; and a $25bn target for completed divestitures by 2025.
Newton (diversified growth fund)	**AMS (Clean Technology):** Newton sought to encourage disclosures related to the incorporation of clean technology solutions into the manufacture of company's sensors. Newton have suggested the company enhances its disclosures in relation to the energy consumption of its products and will continue to engage AMS. **T-Mobile USA (Greenhouse-gas emissions):** Newton sought evidence surrounding progress against its goal to source 100% of energy used from renewable sources.

Investment Managers	Engagement Activities
	Newton also requested information on the frequency of data audits. The company is expected provide responses through its ESG report.
Nordea (diversified growth fund)	***Samsung Electronics:*** The company faces ESG risks in terms of product health and safety, labour rights and corruption. Samsung Electronics has initiated an internal investigation of the allegations. The company will report back to Nordea Asset Management the findings of this investigation. ***Cisco Systems:*** As Cisco appeared as one of several multinationals in a report highlighting the issues of Uyghur repression and forced labour across manufacturing sites in China, Nordea engaged with the company to get a better understanding on how they deal with supply chain. In general, the manager Responsible Investment Team was pleased by the positive outcome of the engagement and it highlighted Cisco's strong commitment to supply chain matters.
Prisma (Hedge fund)	Not applicable – not provided by the investment manager. Manager terminated over the year.
Schroders (Property)	Over the last 12 months, Schroders have engaged with tenants on a significant and ongoing basis through the COVID 19 pandemic. Occupiers' requests for rent concessions have been dealt with on a case-by-case basis with negotiations ranging to suit individual circumstances from monthly rents to rent deferrals, to offering rent free in return improvements in contractual terms.
PATRIZIA (Property)	A recent example of engagement was at an asset where a long term tenant has committed to a much longer term lease in exchange for a comprehensive refurbishment. In an effort to improve the carbon footprint and provide 'additional' renewable energy to the grid, PATRIZIA have agreed to include on roof solar panels to the build and, in return, the tenant would buy the power produced from PATRIZIA at a prevailing market rate. Further to this, PATRIZIA have recently undertaken a comprehensive review of their lease clauses in the sustainable energy area and are in the process of rolling out a new tenant sustainability guide.
Barings (High yield credit)	***Jewelery Retailer (Governance example):*** A recent engagement example is a jewelry retailer. The company paid a dividend out of the group, which was permitted under the loan facilities agreement but this action was viewed as poor corporate governance as the dividend payment was made at a point in time when the company knew there was potential for significant upcoming disruption to business operations from COVID-19. Barings's engagement proved successful with sponsors and management making an irrevocable written commitment to repay the dividend into the business. ***Hearing Aid Manufacturer (Social example):*** The company has a fairly large emerging market manufacturing footprint but does not provide any disclosure around its labour remuneration, rights and working conditions in those geographies. Barings have reached out to management in order to incentivise disclosure around these factors, as well as the proportion of labour based in each geography so they are better able to track this going forward.

Investment Managers	Engagement Activities
Wellington (multi-asset credit)	In its firm-wide ESG report, Wellington noted they conducted engagements with several companies at different levels of issues. The following are examples of the main issues that Wellington targeted with their engagement: Corporate Culture, Board Structure/Composition, Litigation/Regulation Risk, Capital Structure, Other Social, Reputational risk, Shareholder Relations and Executive Compensations.

Voting activity during the Scheme year

The Trustees have delegated their voting rights to the investment managers. As such, the Trustees do not make use of a proxy voting firm but expect the investment managers to report on contentious issues through its quarterly and/or annual reporting as well as provide voting reports on request.

The majority of voting activity will arise in public equity funds. However, voting opportunities may arise in other asset classes such as certain bonds, property and multi-asset funds. During the period, voting information relating only to public equity was applicable. Over the Scheme year, the Trustees have not actively challenged the managers on their voting activity. The key voting activity on behalf of the Trustees over this time period was as follows:

LGIM - Future World Global Equity Index Fund

The Scheme invested in the LGIM Future World Global Equity Index portfolio on 1 October 2020, following the full redemption of the LGIM Synthetic Equities portfolio. The LGIM Synthetic Equities portfolio did not hold voting rights since it consistent of derivative exposures. LGIM provide annual voting information disclosures in relation to the Future World mandate and therefore the information below is in respect of the one year period ending 31 March 2021, rather than specifically since the inception of the Scheme’s holding.

LGIM’s Investment Stewardship team uses Institutional Shareholder Services (“ISS”) ‘ProxyExchange’ 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 their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

Key votes undertaken over the prior year are summarised as below:

- There have been 4,502 votable meetings over the year, which LGIM have attended to on behalf of the Trustees. In these meetings, there were a total of 49,856 votable proposals, 99.98% of which LGIM participated in.
- LGIM voted with management on 84.1% of the proposals, against management on 15.4% and abstaining on 0.5%.

Significant votes examples:

- *International Consolidated Airlines Group*: A vote “against” was cast on the approval of a Remuneration Report. The COVID-19 crisis and its consequences on international transport have negatively impacted this airline company's financial performance and business model. At the end of March 2020, LGIM addressed a private letter to the company to state their support during the pandemic. They also encouraged the board to demonstrate restraint and discretion with its executive remuneration.

- *The Procter & Gamble Company ('P&G'):* A vote "for" was cast regarding a report on effort to eliminate deforestation. P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. Following a round of extensive engagement on the issue, LGIM decided to support the resolution.

Newton - Sustainable Real Return Fund

Newton utilises ISS for the purpose of administering proxy voting (notification and lodgement of votes), as well as its research reports on individual company meetings; however, all voting decisions are made by Newton. Their Head of Responsible Investment is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. They do not maintain a strict proxy voting policy, instead, they prefer to take into account a company's individual circumstances, their investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Key votes undertaken over the prior year are summarised as below:

- There have been 100 votable meetings over the year, which Newton have attended to on behalf of the Trustees. In these meetings, there were 1,383 votable proposals, 100% of which Newton participated in.
- Newton voted with management on 85.4% of the proposals, against management on 14.6% and abstaining on 0.0%.

Significant votes examples:

- *Microsoft Corporation*: A vote "against" was cast on the election of Director, Advisory Vote to Ratify Named Executive Officers' Compensation and Ratify Deloitte & Touche LLP as Auditors. They have considered that despite improvements to executive remuneration practices over recent years there was still concern that approximately half of long-term pay awards vest irrespective of performance and on the company's external auditor they considered that its independence was jeopardised considering the long term relationship with this company.
- *Zurich Insurance Group AG*: A vote "against" was cast on the decision of transacting to another business. They have considered there was no comfort in making this decision since there was no information provided ahead of the meeting.

Nordea - GBP Diversified Return Fund

Nordea has a bespoke voting policy, which was developed in-house based on their own principles. As they have decided to massively scale up their voting to cover a majority of all voting activities, for 2021 they have decided to contract ISS to vote on some of their minor holdings as per their policy. Nordea's Corporate Governance unit oversees all voting activity.

Key votes undertaken over the prior year are summarised as below:

- There have been 270 votable meetings over the year, which Nordea have attended to on behalf of the Trustees. In these meetings, there were 3,344 votable proposals, 44.9% of which Nordea participated in.
- Nordea voted with management on 89.5% of the proposals, against management on 9.9% and abstaining on 0.6%.

Significant votes examples:

- *NIKE*: A vote “against” was cast on an Advisory Vote to ratify named executive officers’ compensation. Nordea believed that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a large part of the incentive program performance targets was still lacking.
- *Oracle*: A vote “for” was cast on a Report on Gender Pay Gap (shareholder proposal). Oracle is lagging other large IT companies when it comes to reporting on gender pay gap.
- *Cisco*: A vote “for” was cast on the requirement of an independent Board Chairman (shareholder proposal). Their opinion is that it is in the best interest of shareholders to separate the CEO and Chair of Board (COB) functions and therefore they supported the shareholder proposal as well as voted against Charles H. Robbins as COB.