The Meat and Livestock Commission Pension Scheme

**Annual Engagement Policy Implementation Statement to 31 March 2022**

1. **Introduction**

This Engagement Policy Implementation Statement (‘the Statement’) sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (‘SIP’) produced by the Trustee has been followed during the year to 31 March 2022. 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law, along with guidance published by the Pensions Regulator

Section 2 of this Statement provides detail of the actions taken by the Trustee to meet the Scheme’s engagement policies set out in the SIP over the year. Section 3 describes the voting behaviour on behalf of the Trustee along with the relevant statistics over the year.

The Trustee has appointed Mercer Limited (Mercer) to act as the Scheme’s discretionary investment manager. Pursuant to that appointment, Scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE) and Mercer Alternative AG.

1. **Policy on ESG, Stewardship and Climate Change**

The Scheme’s SIP includes the Trustee‘s policy on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. This policy sets out the Trustee‘s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.

As noted in the SIP, the Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme’s assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds 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.

The following work was undertaken during the year relating to the Trustee‘s policy on ESG factors, stewardship and climate change, and sets out how the Trustee‘s engagement and voting policies were followed and implemented during the year by Mercer.

**Policy Updates**

* The Trustee considers how ESG, climate change and stewardship are integrated within the investment processes of Mercer, and MGIE’s, investment processes and those of the underlying asset managers. Mercer, and MGIE, have provided reporting to the Trustee on a regular basis.
* The Mercer [Sustainability Policy](https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Sustainability-Policy-March2021.pdf) is reviewed regularly In March 2021 there was an update in relation to Sustainable Finance Disclosure Regulation (“SFDR”) implementation.
* In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [**Engagement Policy**](https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Engagement%20Policy%20-%20MGIE%20and%20MGIM.pdf) to specifically address the requirements of the directive.

**Climate Change Reporting and Carbon Footprinting**

* Mercer undertake climate scenario modeling and stress testing on the Mercer multi sector funds used by the Scheme on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 30 June 2021.  The results of the climate scenario modelling and carbon footprinting are within the TCFD compliant [**Climate Change Management Report**](https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer%20Delegated%20Solutions%20Europe%20-%20TCFD%20Statement%20-%20DB.pdf)**.** The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2˚C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change. Additionally, Mercer have recently announced that net zero carbon output will be targeted for the Scheme’s investments by 2050, consistent with a 1.5˚C scenario.
* Carbon Footprint analysis of all equity funds is completed on a six monthly basis. From 31 December 2019 the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give the Mercer and MGIE investment teams additional information to drive engagement with managers.

The headline Weighted Average Carbon Intensity (“WACI”) metric for all equity funds is reporting in the Quarterly Investment Reports whilst an in-depth analysis of top 5 carbon emitters, the top 5 contributors to the WACI, and the trends over time is completed on an annual basis. The latest in-depth analysis is as at 30 June 2021 and also used by the Mercer and MGIE investment team to drive engagement with managers.

**ESG Rating Review**

* ESG ratings assigned by Mercer (and its affiliates’) global manager research team, are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. The Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer’s global investment manager database.
* As at 31 December 2021 the in the Annual ESG review provided by Mercer, the Trustees noted that 88% of Mercer Funds now have an ESG rating equal to or above their asset class universe. This compares to 97% at the end of 2020 but it should be noted that the scope of the review expanded in 2021 to include all liquid multi-client Mercer Funds. For the Scheme, only the active Global High Yield Bond Fund and the Diversified Alternatives Strategies Fund were behind the broad universe.

**Update to Exclusions**

* As an overarching principle, Mercer and MGIE, as the Trustee’s discretionary investment manager, prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
* Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainable themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.
* In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

**Sustainably themed investments**

* An allocation to the Sustainable Equities Funds is directly made by the Scheme, with the strategic allocation to Sustainable Equities within the Growth Portfolio was 8.5% at 31 March 2022.
* A detailed standalone report sustainability monitoring report is produced for the Active Sustainable Global Equity Fund on a semi-annual basis, including a more granular breakdown of the fund against ESG metrics, for example the UN Sustainability Development Goals, and is reviewed by the Trustee.

# **Diversity**

* From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader Mercer Investment Solutions International policy on Diversity, Equity and Inclusion, sitting alongside Mercer’s established Diversity Charter.
* Mercer Investment Solutions has made a commitment to target at least 30% of all Key Decision Makers (‘KDM’s) across our Mercer funds being non-male by 2030. This commitment will apply to both the KDM within our own portfolio management team and the sub-investment manager teams. We consider broader forms of diversity in our decision-making, but the current target explicitly applies to gender diversity. As at 30 September 2021, 33% of the KDM’s within Mercer Investment Solutions team are non-male, and our long term target is 50%. Within the Fixed Income universe the average fund has 8% non-male KDM’s and within the average EMEA Active Equity universe the average is 12%. Figures relating to Mercer Fixed Income and Active Equity Funds are currently slightly ahead at 9% and 13%.

# **Voting Activity**

The Trustee’s investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE.  MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustee does not use the direct services of a proxy voter.

The MGIE [Engagement Policy](https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Engagement%20Policy%20-%20MGIE%20and%20MGIM.pdf) outlines this framework.

Set out below is a summary of voting activity for the year to 31 March 2022 relating to the relevant Mercer Funds.

* **Voting:** As part of the monitoring of managers’ approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer’s custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

“Unvoted” reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

“Other” reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

“Mixed” refers to occasions were underlying managers have voted differently for the same proposal. Vote decisions of this nature are monitored and fed into the wider engagement process with manager.

* **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact (“BMI”) Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals (“SHP”) relating to these priority areas and taking into account the size of holding across funds

**Voting Activity Summary 1 April 2021 to 31 March 2022**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund Name** | **Total Proposals** | **Vote Decision** | | | | | **For/Against Mgmt** | |
| **For** | **Against** | **Abstain** | **Do not vote** | **Others\*** | **For** | **Against** |
| Mercer Global Listed Infrastructure Fund | **351** | 89% | 7% | 3% | 0% | 1% | 90% | 10% |
| Mercer Global Small Cap Equity Fund | **9601** | 92% | 6% | 1% | 0% | 2% | 92% | 8% |
| Mercer Low Volatility Equity Fund | **7874** | 93% | 5% | 0% | 0% | 1% | 93% | 7% |
| Mercer Multi-Asset Credit Fund | **27** | 67% | 0% | 33% | 0% | 0% | 62% | 38% |
| Mercer Passive Global REITS UCITS CCF | **3108** | 82% | 14% | 0% | 0% | 4% | 82% | 18% |
| Mercer Sustainable Global Equity Fund | **5052** | 85% | 13% | 1% | 0% | 1% | 86% | 14% |
| MGI Emerging Markets Equity Fund | **12819** | 83% | 13% | 4% | 0% | 0% | 85% | 15% |
| MGI Eurozone Equity Fund | **4410** | 84% | 13% | 3% | 0% | 0% | 85% | 15% |
| MGI UK Equity Fund | **1066** | 99% | 1% | 0% | 0% | 0% | 99% | 1% |

*\*Proxy advisor not used by at least one underlying manager of the fund.*

**Example Summary of Significant Votes 1 April 2021 to 31 March 2022**

Sample of the most significant votes

|  |  |  |  |
| --- | --- | --- | --- |
| **Fund** | **Shareholder Proposal (“SHP”)** | **Issuer** | **Vote Decision** |
| **Mercer Global Listed Infrastructure Fund** | Management Proposal Regarding Advisory Vote on Climate Action Plan (2021-2030) | Aena S.M.E. S.A. | Against |
| Management Proposal Regarding Amendments to Articles (Sustainability and Climate Action Committee) | Aena S.M.E. S.A. | For |
| Management Proposal Regarding Advisory Vote on Environmental Transition Plan | Vinci | For |
|  |  |  |  |
| **Mercer Global Small Cap Equity Fund** | Management Proposal Regarding Share Issuance Authority | ASR Nederland NV | For |
| Management Proposal Regarding Election of Directors | Brunswick Corp. | For |
| Management Proposal Regarding Election of Directors | West Fraser Timber Co. | For |
|  |  |  |  |
| **Mercer Low Volatility Equity Fund** | Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board | Alphabet Inc | Mixed\* |
| Shareholder Proposal Regarding Linking Executive Pay to Sustainability and Diversity | Alphabet Inc | Mixed\* |
| Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report | Microsoft Corp | Against |
|  | *\*This mixed decision was the result of 1 manager voting “against”, and 3 managers voting “for” the proposal.* | | |
| **Mercer Multi-Asset Credit Fund** | Shareholder Proposal Regarding Proxy Access Bylaw Amendment | Nisource Inc. (Holding Co) | For |
| Management Proposal Regarding Election of Directors | Nisource Inc. (Holding Co) | For |

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| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | | **Mercer Sustainable Global Equity Fund** | Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report | Microsoft Corporation | Mixed\* | | Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board | Alphabet Inc | For | | Shareholder Proposal Regarding Linking Executive Pay to Sustainability and Diversity | Alphabet Inc | For | |  | *\*This mixed decision was the result of 2 managers voting “against”, and 1 manager voting “for” the proposal.* |  |  | | **MGI Emerging Markets Equity Fund** | Management Proposal Regarding Election of Directors | Taiwan Semiconductor Manufactoring | For | | Management Proposal Regarding Election of Directors | Infosys Ltd | For | | Management Proposal Regarding Election of Directors | Samsung Electronics | For | |  |  |  |  | | **MGI Eurozone Equity Fund** | Management Proposal Regarding Greenshoe | LMVH M.H.V SE | Against | | Management Proposal Regarding Election of Directors | Siemens AG | For | |  |  |  | |  |  |  |  | | **MGI UK Equity Fund** | Management Proposal Regarding Approval of Climate Transition Action Plan | BHP Group plc | Against | | Shareholder Proposal Regarding Disclosure Concerning Coal, Oil and Gas Assets | BHP Group plc | Against | | Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement | BHP Group plc | For | |  |  |  |

*\*\* In instances where significant shareholder proposals were not available over the period, management proposals were selected considering holding size and proposal matter*