Mercer

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 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 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.

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. The SIP was last reviewed in March 2023, to reflect a de-risking step taken in January 2023, which comprised terminating the Newton Diversified Growth Fund ('DGF') mandate and using the proceeds to top up the Buy and Maintain Credit fund. In the view of the Trustee the SIP has been followed during the year to 31 March 2023.

As set out in the SIP and Belief Statement, 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, and that these factors should be 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.

In order to establish these beliefs and produce their policy, the Trustees undertook investment training provided by their investment consultant, Mercer Limited, on responsible investment ('RI') issues which covered ESG factors, stewardship, climate change and ethical investing. In order to ensure both the policy and beliefs remain appropriate and up-to-date, the Trustees are continuously provided with training. Over the year, this included sessions covering:

- Taskforce on Climate-related Financial Disclosures ('TCFD') framework. Whilst the Scheme was not required to report in line with the TCFD framework at the time of writing (due to its size), the Trustees agreed to target full compliance as soon as practically possible. Over the year, the Trustees were provided with the following:

    - Training and proposal around the Scheme's Governance procedures in relation to Climate Change;
    - Training on portfolio climate metrics and decarbonisation targets;
    - A draft version of the TCFD Statement with data and metrics;
    - Progress on the Responsible Investment Total Evaluation ('RITE') score, which covered a broad assessment of the Scheme's ESG integration throughout the investment process, and progression compared to Mercer clients.

Further details can be found in the Engagement section of this Statement.

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

Engagement

The Trustees consider the following activities to be relevant in terms of how they followed their engagement policy over the reporting period.

- As part of its quarterly review of investment performance, the Trustees receive reporting from their investment consultant including ratings (both general and specific to ESG factors) for its investment managers. This reporting includes a comparison of manager ESG ratings against their peer group. In the vast 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 over the reporting period.

- 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 the 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 March 2023, the Trustees met with Schroders, LGIM, Nordea, Newton, Wellington and Barings, and discussed their engagement activities as part of the presentations.

- The Trustees produced a carbon footprint and intensity analysis during the reporting period based on the Scheme's asset allocation. This will assist them in engaging with investment managers where the carbon intensity is higher than expected (which is relevant as decarbonisation is a key engagement priority).

- The Trustees produced a draft TCFD Statement which outlines how the Trustees have established and maintained oversight and processes to satisfy that the climate-related risks and opportunities, which are relevant to the Scheme, are appropriately considered by all stakeholders involved in the day-to-day management of the Scheme.

Furthermore, the TCFD statement established which targets the Trustees agreed to adopt in the context of the Scheme's portfolio and TCFD framework, including consideration of the appropriate time horizon and selection of key metrics and specific investment managers to monitor the targets against.

- The Trustees requested that the Scheme's investment managers confirm compliance with the principles of the UK Stewardship Code and all current investment managers have confirmed that they are currently signatories.

- The Trustees also requested details of relevant engagement and voting activity for the year from the Scheme's investment managers.

Monitoring Engagement Activity

Updated guidance was provided by the DWP in June 2022, which required Trustees to define and report on significant votes that are linked to their key stewardship themes / priorities when drafting the Implementation Statement.

The Trustees have the following key stewardship priorities for the Scheme, based on their Responsible Investment beliefs:

- ✓ Votes relating to the topic of climate change
- ✓ Votes relating to board governance topics including diversity and inclusion

To be deemed a "most significant" vote, the vote needs to meet one of the criteria above and also relate to a material holding (i.e. there is a screen in place for size, bearing in mind the potentially significant number of total votes relating to the Trustees' engagement priorities). The Trustees will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry. The Trustees have informed their investment managers of what they consider to be the most significant voting activity that managers are undertaking on their behalf.

During the year, voting and engagement summary reports from the Scheme's investment managers were provided to the Trustees for review to verify that they were aligned with the Trustees' policies. Below are examples of engagement activity undertaken by the Scheme's investment managers and a summary of voting, with disclosure of the most significant votes cast on behalf of the Trustees by the investment managers with voting rights attached.

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. **Fortum:** LGIM has a productive and collaborative relationship with Fortum, and throughout their tenure as co-lead within Climate Action ('CA') 100+

Investment Managers	Engagement Activities
	LGIM have overseen some significant commitments from the company. Following the company's exit from Russia, LGIM were delighted to see that Fortum has further increased its climate change ambitions by bringing forward its carbon neutrality target (across Scopes 1, 2 and 3), to 2030; exiting all coal generation by the end of 2027; and, committing to set a 1.5°C aligned Science-Based Target. **Water pollution in the UK:** Following the recent press attention and criticism of UK water companies concerning water pollution, LGIM arranged an engagement call with Macquarie Asset Management, Southern Water's majority shareholder, to share its views on the topic. This builds on LGIM's engagement over recent months, including with management at other companies in the sector such as Thames Water and with the regulator, Ofwat. In the first quarter of 2023, LGIM also signed up to the Ceres investor-led 'Valuing Water Finance Initiative', aimed at engaging water users and polluters to address water risks and protect this essential natural resource.
LGIM (Buy & Maintain Credit)	LGIM was able to provide an example of engagement specific to the QAIF Buy & Maintain Fund within the past year: **Goldman Sachs:** LGIM believes that banks play a prominent role in financing the global transition to net zero. Furthermore, the financial sector is included as one of their "climate critical" sectors under LGIM's Climate Impact Pledge. For that reason, LGIM spoken with Goldman Sachs and pre-declared their voting intentions to support shareholder proposals requesting a time-bound fossil fuel phase-out, and requesting reporting on absolute greenhouse-gas reduction targets. LGIM continues to emphasize that the boards of financial institutions need to closely consider their strategy and risk appetite towards fossil fuels into the near future.
Nordea (Diversified Growth Fund)	***Waste Management (Environment - Climate change):*** The waste management sector is among the largest emitting source of carbon dioxide, but also methane globally. When Nordea initiated the dialogue with WM in 2019 they were interested in climate and environmental data reported according to TCFD. The purpose of the recent follow-up engagement was to receive a status update on WM's emissions initiatives and reporting. Furthermore, to get a deep dive into their methane emissions management and gain insights into the company's forward looking objectives. And lastly, to further encourage the implementation of ESG incentivizing schemes within the company. From Nordea's discussion with the company, it is expected something to be designed by the end of the year, keeping in mind that KPIs of their sustainable business units (e.g., landfill gas to energy) – already part of the compensation – are actually sustainability metrics.
Schroders (Property)	As Schroder invests in direct real estate, engagement is integral and continuous with a range of stakeholders including occupiers, communities, service providers, environment and investors.

Investment Managers	Engagement Activities
	Ruskin Square Croydon: Schroders' development of Two Ruskin Square in Croydon targets delivery of an operational Net Zero Carbon scheme through integration of sustainability from design to operation. Collaboration with Stanhope and LendLease ensures that Schroders are using the latest technologies and materials to construct an efficient scheme, whilst ongoing community engagement provides several benefits to local communities. The aim of these sustainability interventions is to reduce the carbon and energy consumption of the building alongside positive community and biodiversity impact. Critically, Schroders believe this will deliver a best-in-class sustainable building that has lower carbon emissions, consumption and waste production resulting in lower costs for tenants, lower environmental impacts and greater social impact.
Barings (Multi-Asset Credit)	**Petróleos Mexicanos ('PEMEX'):** Barings as part of a Climate Action 100+ led group met with the President of the newly established Sustainability Committee (Lorenzo Meyer) and the Planning Committee in charge for new reporting and target setting around ESG initiatives at PEMEX. Overall the meeting was positive and showed PEMEX's increasing commitment to improving transparency and getting on an improving ESG trajectory, but there remain continued weaknesses especially around employee health and safety. The Sustainability Committee was established in March 2023 and is still figuring out details of exactly how it will function, but they have already started making some recommendations to the board. PEMEX will be conducting monthly "ESG Wednesdays" going forward to improve communications with investors on ESG topics. GHG emissions are down 10% in Jan-May '23 vs '22 and company believes they are on track to meet their short-term targets. Barings intend to follow up with PEMEX management on the engagement topics again in 2H 2023.
Wellington (Absolute Return Bonds)	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: Climate - Transition/Mitigation, Environmental Practices, Culture/Talent/Labor/Health & Safety/Ethics, Long Term Corporate Strategy, General Update/Sales/Margin/Business Trends, Capital/Resource Allocation, Fundamental Credit Quality/Factors, Capital Structure/Refinancing Requirements, Executive Compensation, Governance/Compensation/Succession, Planning.

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 bond, property and multi-asset funds. During the period, following the termination of the Newton DGF, only the LGIM equity and Nordea DGF mandates had voting rights attached.

As mentioned above, the Trustees have decided to consider the following areas of focus for the Scheme, whilst also defining the most significant votes as those relating to the top 10 holdings (with a view to focusing on financially material holdings):

- Votes relating to the topic of climate change; and
- Votes relating to board governance topics including diversity and inclusion.

LGIM - Future World Global Equity Index Fund

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 5,067 votable meetings over the year, which LGIM have attended to on behalf of the Trustees. In these meetings, there were a total of 54,368 votable proposals, 99.9% of which LGIM participated in.
- LGIM voted with management on 80.4% of the proposals, against management on 18.6% and abstained on 1.0%.

Most significant votes:

Company / Portion of Holding (%)	Date of vote	How the manager voted	Rationale of Manager vote	Final outcome following the vote	Relevance to the Trustee
NVIDIA Corporation / (1.2%)	02.06.2022	Voted Against – Resolution to elect Director Harvey C. Jones	A vote against was applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. LGIM is targeting the largest companies, as they believe that these should demonstrate leadership on this critical issue. Also, LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	✓	This vote was deemed significant for the Trustee as it falls on the board governance theme.
Meta Platforms, Inc. / (0.8%)	25.05.2022	Voted For – Resolution to require Independent Board Chair	A vote in favor was applied as LGIM expects companies to establish the role of independent Board Chair and hence was supporting of separating the Chair and CEO roles.	✗	This vote was deemed significant for the Trustees as it falls on the board governance theme.
Alphabet Inc. / (0.9%)	01.06.2022	Voted For – Resolution to approve the report on Physical Risks of Climate Change	A vote in favor was applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor the company and market-level progress.	✗	This vote was deemed significant for the Trustees as it falls on the climate change theme.

Nordea - GBP Diversified Return Fund

Nordea Asset Management utilizes a proxy voting service supported by two external vendors (Institutional Shareholder Services and Nordic Investor Services – henceforth, "ISS" and "NIS", which merged in the meantime) to facilitate the proxy voting, execution and to provide analytic input.

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

- There have been 197 votable meetings over the year, which Nordea have attended to on behalf of the Trustees. In these meetings, there were 2,391 votable proposals, 98.8% of which Nordea participated in.
- Nordea voted with management on 84.6% of the proposals, against management on 8.7% and abstained on 1.7% (the remainder votes related to management stay-on-pay, i.e. a non-binding, advisory vote that enables shareholders to express their preference).

Most significant votes:

Company / Portion of Holding (%)	Date of vote	How the manager voted	Rationale of Manager vote	Final outcome following the vote	Relevance to the Trustee
Microsoft Corporation / (3.6%)	13.12.2022	Vote For – Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk	A vote in favor was cast as Nordea believes 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.	✗	This vote was deemed significant for the Trustee as it falls on the climate change theme.
Alphabet / (4.1%)	01.06.2022	Voted For – Report on managing risks related to data collection, privacy and security	A vote in favor was cast at the Alphabet AGM. Nordea supported a number of shareholder proposals, besides Report on managing risks related to data collection, privacy and security, such as Report on physical risks of climate change, Report on climate lobbying and Report on steps to improve racial and gender Board diversity. Management voting recommendations were against on all these proposals but the dominant position of Google, its impact on society and integrity of individuals is very important for Nordea as investors.	✗	This vote was deemed significant for the Trustee as it falls on the broad governance theme.