

## **United States Air Force Pension and Life Assurance Scheme (UK) – 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 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 and the guidance published by the Pensions Regulator.

### **Investment Objectives of the Scheme**

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

- To ensure that the Scheme can meet its obligations to members and other beneficiaries.
- To pay due regard to the Sponsoring Employer's position in relation to the size and incidence of the Sponsor's contribution payments.

### **Review of the SIP**

During the year the Trustees reviewed the Scheme's SIP. A revised SIP was in the process of being produced as at the end of the year under review and the SIP will be published on a publically available website once finalised. The SIP has been updated to reflect the following changes that were made to the Scheme's investment strategy over the course of the year under review.

- A reduction in the Scheme's exposure to passive equities managed by State Street Global Advisors ("SSGA") from 35% to 10%, whilst maintaining the same proportional split between UK and overseas equities for diversification purposes.
- An increase in the target allocation to the liability driven investment ("LDI") portfolio managed by Insight Investment ("Insight") from 30% to 55%.
- An increase in the liability hedging target from 80% to 90%, measured on the technical provisions basis. The asset transfers required to increase the Scheme's level of liability hedging to the 90% target had only been partially implemented at the end of the year under review.

The Trustees keep their policies under regular review with the SIP subject to review at least triennially or upon any significant changes to the investment strategy.

## **Policy on ESG, Stewardship and Climate Change**

The Scheme's SIP includes the Trustees' policy on 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.

The Trustees support the aims of the UK Stewardship Code and have encouraged the Scheme's investment managers to report their adherence to the Code. Both SSGA and Insight are signatories to the UK Stewardship Code.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote":

- A significant vote is defined as one that is linked to the Scheme's stewardship priorities/themes.
- A vote could also be significant for other reasons, e.g. due to size of holdings.
- Trustees are to include details on why a vote is considered significant and the rationale for the voting decision.

The Trustees' stewardship priorities are focused on the following areas:

- Climate change
- Board diversity
- Executive remuneration

The Trustees determined these priorities based on their ESG beliefs, taking into account the Sponsoring Employer's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement.

The Trustees consider a vote to be significant if it relates to any of the stewardship priorities outlined above and the holding represents over 2% of the relevant pooled fund's value.

The following sections set out how the Trustees' policy on ESG factors, stewardship (voting and engagement) and climate change were implemented during the year.

## **Engagement**

An investment performance report is reviewed by the Trustees on a quarterly basis. This includes the investment consultant's general and ESG specific ratings for the strategies in which the Scheme invests.

SSGA and Insight are highly rated by the Trustees' investment consultant with regard to the extent to which ESG factors are incorporated into investment decision making. Should any of the investment consultant's ratings be downgraded, the Trustees would review the reasons for the change. The Trustees might also decide to engage with the investment manager to understand if the manager's ESG policies are still aligned with the Trustees' policies. No such review was required over the year under review.

When implementing any new investments or manager appointments, the Trustees will consider how ESG factors are taken into account within the manager's decision making process, with help from the investment consultant. However, no new investments were made over the year.

The Trustees have also reviewed the investment managers' annual stewardship reports. A summary of the managers' engagement activities over the year to 5 April 2023 is provided below.

### SSGA

SSGA held 956 comprehensive engagements with companies across multiple industries, accounting for 49% of SSGA's equity assets under management. SSGA had successful engagements across various themes, including board effectiveness and diversity, company culture, executive compensation, climate risk and human capital management.

For example, SSGA engaged with Skyworks Solutions, Inc. due to concerns regarding the company's executive compensation plan. SSGA engaged multiple times with the Skyworks Compensation Committee Chair to share their concerns and suggested focus areas for improvement as they implemented changes to the plan. As a result of the Compensation Committee's extensive shareholder outreach efforts and resulting changes made to the plan structure, Skyworks received SSGA's support for compensation at the 2022 AGM, with 86% of shares outstanding supporting the new compensation structure. This significant swing in support was facilitated by material improvements, including right-sizing their peer group, increasing the length of long-term incentive vesting periods and a firm written commitment to not over-utilize one-time awards as part of the long-term incentives moving forward.

### Insight

Insight undertook 1,178 engagements, of which the majority included some form of ESG dialogue. Insight aimed to engage in order to achieve the best outcomes for investors by focusing on areas such as risk management and creating a positive environmental and social impact. Insight also sought to engage on relevant and material issues across their funds and geographies, though the specific approach varied across different markets and asset classes.

As a leading LDI provider, Insight conducted several engagements with the UK government's Debt Management Office ("DMO") during 2022. Topics discussed included the DMO's proposals for green gilt issuance, specifically on green gilt post-issuance impact reporting, as well as the potential for sustainability-linked bond ("SLB") issuance. Insight encouraged the DMO to increase the frequency of impact reporting on green gilts from every two years to once a year and explained that uncertainty over institutional investors' fiduciary duty presented challenges for allocations to green gilts.

Insight were not satisfied with the outcome of the engagement in relation to the frequency of impact reporting, which was an element in the downgrade of the UK government's green gilts on Insight's internal scale from their highest dark green rating, indicating a best-in-class green bond, to a light green rating. In Insight's view, these issues represented a weakening in the rationale for green gilts to continue to be considered as market-leading in terms of their potential for impact.

### **Voting Activity**

The Trustees have delegated their voting rights to the investment managers. Outside of those exercised by the investment managers on behalf of the Trustees, no other engagement activities were undertaken and the Trustees do not use the direct services of a proxy voter.

## SSGA

All voting and engagement activities are centralised within SSGA's Asset Stewardship Team. The Asset Stewardship Team is directly overseen by the SSGA's ESG Committee, which was established in 2022 and is responsible for reviewing SSGA's stewardship strategy, engagement priorities and proxy voting guidelines, as well as for monitoring the delivery of voting objectives. In addition, the ESG Committee provides oversight of the Asset Stewardship team, reviews departures from SSGA's proxy voting guidelines and conflicts of interest involving proxy voting.

SSGA use a proxy voting advisor, Institutional Shareholder Services (ISS) to assist them with managing the voting process at shareholder meetings. All final voting decisions are based on SSGA's proxy voting policies and in-house operational guidelines.

SSGA are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustees' policy.

The key voting data over the 12 months to 31 March 2023 that has been carried out on behalf of the Trustees is presented below:

SSGA Fund	Europe (Ex-UK) Equity	Japan Equity	North America Equity	Asia Pacific (Ex-Japan) Equity	UK Equity
Votable Proposals	8,966	6,134	8,190	3,242	10,122
Proposals Voted	8,877	6,134	8,140	3,242	10,122
(% of total votable proposals)	99.0%	100.0%	99.4%	100.0%	100.0%
Votes Against Management	961	423	784	506	690
(% of total votable proposals)	10.8%	6.9%	9.6%	15.6%	6.8%

Source: SSGA

The table below shows the votes that the Trustees consider to be significant, based on the definition outlined earlier in this statement. As evidenced below, SSGA has been actively involved in climate proposal voting, having seen a significant increase in the number of climate-related shareholder proposals submitted at investee companies over the course of the year. In 2022, SSGA supported 44% of these proposals.

SSGA Fund	UK Equity	North America Equity	Asia Pacific (Ex-Japan) Equity
Company	Royal Dutch Shell Plc	Microsoft Corporation	Commonwealth Bank of Australia
Date of vote	24 May 2022	13 December 2022	12 October 2022
% of Fund	7.6%	2.7%	2.3%
Trustee priority	Climate change	Climate change	Climate change
Proposal summary	Request to set and publish targets for Green-house Gas (GHG) Emissions in line with a 1.5°C scenario	Request to assess and report on the company's retirement funds' management of systemic climate risk	Request to approve Climate Risk Safe-guarding

<b>How SSGA voted</b>	Against	Against	Against
<b>Rationale for vote</b>	The market has not reached consensus on common standards on 1.5°C-aligned target setting for the oil and gas sector, as requested by this proposal. As such, SSGA deemed this proposal did not merit support as the company's disclosure and/or practices pertaining to GHG emissions were still reasonable.	SSGA deemed that the company's climate-related disclosure generally aligned with SSGA's guidance and with market practice. SSGA voted against this proposal as they found it overly prescriptive and SSGA are typically not supportive of proposals that request a specific change in operations, strategy, or related activities, or the phase out of business lines or products.	SSGA engaged with the company in September 2022 and discussed this proposal. The company has adopted 2030 portfolio GHG targets for four priority sectors (thermal coal mining, upstream oil extraction, upstream gas extraction and power generation) and updated the reference scenarios for these targets to use the International Energy Agency Net Zero Emissions by 2050 scenario. The company outlined plans to expand its interim targets to include additional sectors in 2023, strengthen climate risk assessment and enhance risk considerations in lending decisions and engage customers in carbon intensive sectors on transition readiness. SSGA voted against the proposal given the company's climate disclosure already largely aligned with their expectations and market practice in the industry.
<b>Final outcome</b>	Rejected	Rejected	Withdrawn

Source: SSGA

## Insight

All voting and engagement activities are centralised within Insight's Responsible Investment Group ("RIG"), which is directly overseen by the Insight Responsible Oversight Committee ("IROC"). The IROC acts as the principal governance group with oversight and accountability for responsible investment across all of Insight's investment and operational activities.

The RIG undertakes stewardship work focusing on sustainability issues, including regular reviews of engagement data, setting stewardship priorities and ongoing stewardship activities. The RIG reviews stewardship activity at least every quarter.

The Proxy Voting Group, a dedicated subcommittee of the RIG, is responsible for overseeing voting decisions for Insight's global proxy voting activities. The Group is the primary governance body for setting voting policies and guidelines, applying voting decisions and managing conflicts of interest.

Insight use a proxy voting advisor, Minerva Analytics for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Voting rights are monitored internally and reviewed quarterly by the Proxy Voting Group.

The key voting data over the 12 months to 31 March 2023 that has been carried out on behalf of the Trustees in respect of the Scheme's investment in the Insight Broad Opportunities Fund is presented below:

- There have been 11 votable meetings over the year, of which Insight has voted in each on behalf of the Trustees. In these meetings, there were a total of 152 votable proposals;
- Insight has participated in all of the votable proposals and voted in support of management.

There were no votes in relation to the Insight holdings that met the Trustees' definition of what constitutes a significant votes over the year.