

## **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 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 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 signed on 23 September 2021 and the SIP was subsequently published on a publically available website. The SIP was updated to reflect the following changes that were made to the Scheme's investment strategy over the course of the year under review.

- The appointment of Insight Investment Management (Insight) as investment manager to the Scheme.
- The introduction of a 15% allocation to Insight's Broad Opportunities Fund (IBOF), a diversified growth fund (DGF), to improve diversification within the Growth Portfolio.
- A corresponding reduction in the Scheme's exposure to passive equities managed by State Street Global Advisors (SSGA) (the Scheme's incumbent investment manager) from 50% to 35%, to reflect the introduction of the DGF allocation. In particular, the Trustees reduced the allocation to UK equities from 18.5% to 3.5% of total assets in order to improve the diversification of the Scheme's equity holdings.
- The introduction of a 30% allocation to a liability driven investment ("LDI") portfolio managed by Insight, replacing the passive gilt funds previously managed by SSGA. The primary objective of the LDI portfolio is to reduce the mismatch between the Scheme's assets and liabilities.

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 has encouraged its investment managers to report their adherence to the Code. Both SSGA and Insight are currently signatories to the current UK Stewardship Code.

The following work was undertaken during the year under review in relation to the Trustees' policy on ESG factors, stewardship and climate change, in particular focusing on how the Trustees' engagement and voting policies were followed and implemented during the year.

### **Engagement**

An investment performance report is reviewed by the Trustees on a quarterly basis. This includes the investment consultants 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. Such factors were taken into account in the Trustees' selection of Insight as investment manager to the Scheme.

The Trustees have also reviewed the investment managers' annual stewardship reports. A summary of the managers' engagement activities over the year to 5 April 2022 is provided below.

#### **SSGA**

SSGA held 878 comprehensive engagements with companies across multiple industries, accounting for 73% 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.

#### **Insight**

Insight undertook 1,006 engagements, of which 82% included some form of ESG dialogue. Insight aimed to engage with issuers 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 with issuers on relevant and material issues across their funds and geographies, though the specific approach varied across different markets and asset classes.

## 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 Stewardship Team. The Stewardship Team is directly overseen by the SSGA Investment Committee (IC), which is responsible for approving the annual stewardship strategy, engagement principles and proxy voting guidelines. The Proxy Review Committee, a dedicated sub-committee of the IC, provides day-to-day oversight of the Stewardship Team, including approving departures from proxy voting guidelines and managing conflicts of interest.

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. The only exception to this policy is the use of an independent third party to vote on State Street stock, to mitigate the conflict of interest with regard to voting on the parent company.

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 2022 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	8,864	5,998	7,864	3,264	10,438
Proposals Voted	8,806	5,998	7,828	3,264	10,438
(% of total votable proposals)	99.35%	100.00%	99.54%	100.00%	100.00%
Votes Against Management	926	500	771	557	780
(% of total votable proposals)	10.52%	8.34%	9.85%	17.06%	7.47%

Source: SSGA

Over the year, SSGA continued to make progress on their core multi-year campaigns of gender diversity and climate change.

As of the end of December 2021, 948 of the 1,548 companies identified as part of SSGA's gender diversity campaign had responded to their call, either by adding a female director or committing to do so. SSGA continue to vote proxies in order to bolster engagement.

SSGA has also 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 2021, SSGA supported 45% of shareholder proposals requesting that companies report on the financial and physical risks of climate change to their business and their

plans to reduce greenhouse gas emissions. SSGA also supported 80% of climate-related lobbying proposals. For example:

- SSGA supported the climate-related lobbying proposals submitted at Delta Air Lines Inc., ExxonMobil Corporation, Norfolk Southern Corporation, Phillips 66 and United Airlines Holdings, Inc., as they believed that additional reporting on lobbying-related practices and policies would help them to better understand the relevant risks.
- In contrast, SSGA was concerned about the poor quality of Sempra Energy's disclosure on lobbying and political participation relative to peers, as well as its public commitment to develop a standardised disclosure template. SSGA therefore voted against the climate-related lobbying proposal submitted at the company's 2021 annual general meeting. SSGA viewed this as an opportunity to help companies in the U.S. energy sector, as well as investors, better assess the alignment of the companies' positions on climate with those of their trade associations.
- At Barclays plc, SSGA engaged with the company to discuss and monitor progress on their climate commitments. In the engagement, SSGA encouraged the company to step up their efforts to address climate change. Following engagements with shareholders and ShareAction in 2021, Barclays announced that they will offer their shareholders a vote on their approach to climate change and committed to take further actions to tackle climate issues.

### 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 2022 that has been carried out on behalf of the Trustees in respect of the Scheme's investment in the IBOF is presented below:

- There have been 12 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 141 votable proposals;
- Insight has participated in all of the votable proposals. In around 99.3% of these votes, Insight voted in support of management, while voting against management in around 0.7% of the proposals.