

# Cardiff University Pension Fund Implementation Statement – 2021

## 1. Introduction

In June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”). The Regulations require that the Trustees of the Cardiff University Pension Fund (the “Pension Fund”) outline how they have ensured compliance with the policies, on the exercise of rights and undertaking of engagement activities with investment managers, as set out in the Pension Fund’s Statement of Investment Principles (“SIP”) dated September 2020. This was the SIP in place at the Pension Fund’s year-end date, 31 July 2021.

This Statement has been prepared by the Trustees with the assistance of their appointed Investment Consultant (Quantum Advisory). This statement does not cover the additional voluntary contributions of the Scheme, due to the size of the holding.

References herein to the actions, review work or determinations of the Trustees refer to activity that has been carried out either by the Trustees, Investment Sub-Committee or Investment Adviser on behalf of the Trustees.

## 2. Trustees policies regarding stewardship

Over the Pension Fund year, the Trustees:

- Updated the SIP to incorporate: (i) additional information on the Trustees’ policies in line with the requirements of the Regulations; and (ii) a change to the Pension Fund’s investments during the second half of 2020.
- Reviewed the voting and engagement activity of the funds that invest in equities. The Trustees are generally content that the Pension Fund’s investment managers have appropriately carried out their stewardship duties.
- Are of the opinion that they have complied with the relevant policies and procedures as identified in the SIP.

It should be noted that the funds that do not hold equities have not been reviewed as part of this statement, as these have fewer (if any) voting opportunities. Further detail on each of these matters is presented in the pages that follow. The Trustees review the voting activity of the investments managers/funds where there is the opportunity to influence positive practises (namely those that invest in equities). The Pension Fund was invested in equities through the LGIM World Equity Index GBP Hedged Fund, the LGIM Dynamic Diversified Fund (“DDF”), the BNY Mellon Real Return Fund (which is managed by Newton), the M&G Episode Allocation Fund, and the Partners Generations Fund (at the time of the Pension Fund’s year-end). The Trustees have reviewed the managers’ voting policies and processes including most significant votes cast over the period. This information, and the conclusions that Trustees have drawn, are set out in the following pages.

It should be noted that in September 2020, the Pension Fund sold its holding in the Barings Dynamic Asset Allocation Fund (“DAAF”). The Trustees have not reviewed the voting policies and processes, of the DAAF.

### 3. Stewardship and voting policies

#### Trustees' policies

The Trustees have appointed providers to manage the Pension Fund's investments. The Trustees recognise that the size and nature of the Pension Fund's investments means that they are more constrained in the influence they can have on the companies the Pension Fund invests in as this responsibility ultimately lies with the investment managers. The Trustees do, however, acknowledge the need to be responsible stewards and exercise the rights associated with the Pension Fund's investments in a responsible manner. This is accomplished using the following processes:

1. The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.
2. Whilst the Trustees have delegated voting rights to their investment managers, they do review voting behaviour and raise any concerns. A frequent occurrence of disagreement would result in the Trustees terminating the investment manager on the premise that their beliefs are not consistent with those of the Trustees.

#### Manager's voting policies

Information on each of the managers' voting policies is provided in Appendix 1.

### 4. Voting eligibility and activity

As part of preparing this statement, the Trustees reviewed the voting activity of funds where there is an increased ability to influence positive practises (namely those that invest in equities). The following funds have been reviewed:

- LGIM World Equity Index Fund – GBP Hedged
- LGIM Dynamic Diversified Fund (introduced during Q4 2020)
- BNY Mellon Real Return
- M&G Episode Allocation
- Partners Group Generations

The following table sets out the key statistics on voting eligibility and actions over the year to 31 July 2021 for the BNY Mellon Real Return Fund, the M&G Episode Allocation Fund and over the year to 30 June 2021 for the LGIM World Equity Index GBP Hedged Fund, and the Partners Generations Fund<sup>1</sup>.

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<sup>1</sup> LGIM only report voting information on a quarterly basis and Partners Group semi-annually. The closest report to the year-end has been used.

| Statistic   | LGIM World Equity Index – GBP Hedged Fund | LGIM Dynamic Diversified Fund | BNY Mellon Real Return Fund | M&G Episode Allocation Fund | Partners Generations Fund <sup>2</sup> |
|---|---|-------------------------------|-----------------------------|-----------------------------|--|
| Number of equity holdings                                 | 2,667                                     | 6,597                         | 87                          | 8                           | 60                                     |
| Meetings eligible to vote at                              | 2,906                                     | 6,070                         | 112                         | 17                          | 76                                     |
| Resolutions eligible to vote on                           | 35,448                                    | 65,734                        | 1,558                       | 232                         | 1,012                                  |
| Eligible resolutions voted on                             | >99%                                      | >99%                          | 99%                         | 70%                         | 98%                                    |
| Votes with management                                     | 81%                                       | 83%                           | 84%                         | 83%                         | 91%                                    |
| Votes against management                                  | 18%                                       | 16%                           | 16%                         | 17%                         | 5%                                     |
| Votes abstained from                                      | <1%                                       | <1%                           | 0%                          | 0%                          | 4%                                     |
| Meetings where at least one vote was against management   | 72%                                       | 60%                           | 44%                         | 70%                         | N/A                                    |
| Votes contrary to the recommendation of the proxy adviser | 13%                                       | 10%                           | 12%                         | 15%                         | 2%                                     |

Source: LGIM, Newton, M&G and Partners Group.

The Trustees are satisfied with the level of voting activity that has been undertaken. The Trustees noted that the proportion of eligible resolutions voted on by M&G was lower than the other managers, and that this was because M&G are prohibited from trading securities if it votes on resolutions linked to those securities. As the M&G Episode Allocation Fund seeks to respond tactically to market opportunities, M&G refrain from voting on such resolutions (i.e. opting to trade instead). The majority of resolutions which M&G have not voted relate to bond investments.

### Significant votes

The Trustees have reviewed the significant votes cast by the investment managers and are generally satisfied with their voting behaviour.

A cross-section of the votes cast by each manager is set out in Appendix 2.

## 5. Managers' conflicts of interest

This section provides information on whether the managers are affected by the following conflicts of interest.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;
2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;
3. The asset management firm's stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;
4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer;
5. Differences between the stewardship policies of managers and their clients.

Having reviewed the available information, the Trustees have not raised any material concerns regarding the managers' conflicts of interest over the period or the policies in place.

The following sections provide the responses received from the managers.

### **LGIM**

LGIM have not directly commented on which of the above conflicts of interest they are affected by.

The Trustees have received a copy of the conflicts of interest policy from LGIM and will request sight of this document and details of any relevant conflicts of interest annually from LGIM.

### **Newton**

Newton have confirmed that it is affected by point 1 and point 4 above, but there are processes in place to manage / mitigate conflicts. Newton has also confirmed that it is not currently aware of any material conflict of interest that would impair its ability to act as the manager to the Real Return Fund.

Newton maintain a list of all companies where there may be a potential material conflict of interest. The list includes all funds managed or owned by Newton or its parent company, BNY Mellon, and also includes companies that are directly linked to their underlying clients, such as corporate pension funds. If any potential material conflict of interest between Newton, the investee company and/or a client is identified, the recommendation of their external voting service provider will take precedence. Newton's quarterly reports detail each instance where they have outsourced the voting activity owing to a potential material conflict of interest.

With regards to point 4, Newton ensures that any voting activity is in the best interests of each individual client as an investor in each single entity.

### **M&G**

M&G was unable to comment on whether the five conflicts of interest, detailed above, impacted the Episode Allocation Fund over the period. However, M&G has confirmed that it is not affected by any material conflict of interest that would impair its ability to act as the manager to the M&G Episode

Allocation Fund. However, M&G did confirm that in one instance it was unable to vote on a resolution due to a conflict of interest relating to an investment within an M&G fund.

### **Partners Group**

With regards to Partners Group's listed exposure, to the best of their knowledge, they are not affected by points 1, 3, 4 and 5. With regards to point 2, the Fund is also invested in shares of Partners Group. These holdings are through the Fund's listed private equity investments, whereby the associated benchmark has a notable exposure to Partners Group shares. This is an exceptional case and for this exposure the Fund endeavours to maintain a close to neutral weighting (i.e. no significant active over/underweights to the allocation) to minimise any perceived conflicts of interest. The exposure was c.0.3% of the overall Fund (as of 30 June 2021), which is deemed to be relatively small.

## Appendix 1 – Manager voting policies

The following pages provide details of the most significant votes cast (as defined by each fund manager) over the 12-month period to 30 June 2020 for the relevant funds. The Trustee has reviewed the most significant votes cast by each investment manager over the reporting period and is generally satisfied.

### **LGIM's voting policies and processes**

LGIM's Investment Stewardship team make all voting decisions, in accordance with LGIM's Corporate Governance & Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of IVIS to supplement the research reports that are received from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any voting decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

### **BNY Mellon's voting policies and processes**

Newton's head of responsible investment ("RI") 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, Newton 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. Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, they may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). For the avoidance of doubt, all voting decisions are made by Newton. It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (ISS) will take precedence. It is also only in these circumstances when they may register an abstention given their stance of either voting in favour or against any proposed resolutions.

Newton employ a variety of research providers that aid in the vote decision-making process, including proxy advisors such as ISS. They utilise ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

### **M&G's voting policies and processes**

M&G's Corporate Finance and Stewardship team support their investment teams on various issues that can affect the investments over the long term. The team coordinates M&G's Stewardship activities, and engages with companies on a number of issues from corporate governance to environmental sustainability. The team also undertakes M&G's voting responsibilities.

M&G use the ISS voting platform, and have built a custom voting service that reflects their public voting policy. Routine and non-controversial resolutions (according to M&G's voting policy) are voted in line with the board recommendation automatically through the ISS platform. M&G use research firms ISS and the Investment Association, and the voting information service IVIS, for UK companies, to highlight any contentious issues that they are not aware of from previous consultations with investee companies. For more contentious issues, the relevant fund managers will be involved, alongside the stewardship team, in the decision making process.

### **Partners Group voting policies and process**

Where Partners Group's client accounts contain listed equity securities in dedicated programs/allocation buckets ("Liquid Private Markets investments") and Partners Group has discretion to vote on a proxy stemming from such securities (a "Proxy Request"), Partners Group will make a decision on such Proxy Requests to protect and promote the economic value of the securities held in such client accounts.

Proxy Requests related to Liquid Private Markets investments may be administered by third party service providers (currently, Glass Lewis). These service providers will follow Partners Group's Proxy Voting Directive in all instances. Should a voting recommendation by a service provider be against the recommendation by the respective company's management, Partners Group will vote manually on those proposals.

In certain circumstances, Partners Group receives Proxy Requests for publicly traded securities. When such Proxy Requests arise, the recipient, typically the respective investment team or Partners Group Guernsey serving as administrator, will forward it to be reviewed and evaluated by Transactions Services together with the relevant investment team and/or the relevant Investment Committee. Partners Group have a group form which seeks to ensure that all Proxy Requests, included in the broader term 'corporate actions', are reviewed and processed in a timely manner.

## Appendix 2 – Most significant votes cast

The tables below set out a cross section of significant votes undertaken by the investment managers of the funds held by the Pension Fund. Information on further significant votes undertaken by the Pension Fund’s investment managers have been reviewed by the Trustees.

### LGIM

In determining significant votes, LGIM’s Investment Stewardship team consider the criteria provided by the Pensions & Lifetime Savings Association (“PLSA”) consultation. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement; and
  - Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

LGIM have not disclosed the size of the holdings as a proportion of the fund sizes.

### LGIM World Equity Index – GBP Hedged Fund

| Company Name  | McDonalds   | Citrix Systems, Inc.   |
|---|---|--|
| <b>Date of Vote</b>   | 20 May 2021   | 04 June 2021   |
| <b>Summary of the resolution</b>  | Resolution 5 Report on Antibiotics and Public Health Costs  | Resolution 1.b Elect Director Nanci E. Caldwell  |
| <b>How the firm voted</b>   | LGIM voted in favour of the shareholder resolution (against management).  | Against the resolution   |
| <b>Outcome of the vote</b>  | 11.3% of shareholders supported the resolution  | 93.3% of shareholders supported the resolution   |
| <b>On which criteria have LGIM assessed this vote to be "most significant"?</b> | LGIM consider this vote to be significant as LGIM took the rare step of publicly pre-declaring it before the shareholder meeting. Publicly pre-declaring their vote intention is an important tool for their engagement activities. LGIM decide to pre-declare their vote intention for a number of reasons, including as part of their escalation strategy, where they consider the vote to be contentious, or as part of a specific engagement programme. | LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage. |

Source: Investment Manager.

### LGIM Dynamic Diversified Fund

| Company Name  | Aston Martin Lagonda Global Holdings Plc   | Medtronic   |
|---|--|---|
| Date of Vote  | 25 May 2021  | 11 December 2020  |
| Summary of the resolution   | Re-elect Lawrence Stroll as Director   | Advisory Vote to Ratify Named Executive Officers' Compensation  |
| How the firm voted  | Against the resolution   | Against the resolution  |
| Outcome of the vote   | 83.3% of shareholders supported the resolution   | 91.7% of shareholders supported the resolution  |
| On which criteria have you assessed this vote to be "most significant"? | LGIM views gender diversity as a financially material issue for their clients, with implications for the assets they manage. | LGIM believe it is contrary to best practice in general and their pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment. |

Source: Investment Manager.

### BNY Mellon Real Return Fund

The most significant votes for Newton are those that have been against management of the companies held. Newton have stated that these have the potential for the greatest impact, as areas for improvement can be highlighted and there is no automatic positive intent of ownership.

| Company Name  | AstraZeneca  | Citigroup Inc   |
|---|--|---|
| Date of Vote  | 11-May-2021  | 27 April-21   |
| Summary of the resolution   | Remuneration Policy  | Amend Proxy Access Right  |
| How the firm voted  | Against  | Voted for the Resolution  |
| Outcome of the vote   | 39.8% against – approve remuneration policy  | 32.1% voted for the resolution  |
| On which criteria have you assessed this vote to be "most significant"? | Newton believe investor scrutiny of pay arrangements is increasing. The significance of the high vote against is important to note given that a majority of pay proposals from companies rarely see such high levels of dissent. | This vote demonstrates the increased tendency of shareholders to vote in support of such proposals. In addition the actual level of support, at 32.1%, is considered significant. |

### M&G Episode Allocation Fund

| Company Name  | Bank of America Corporation   | Methanex Corporation   |
|---|---|--|
| Date of Vote  | 20/04/2021  | 29/04/2021   |
| Summary of the resolution   | Request on Racial Equity Audit  | Elect Directors  |
| How the firm voted  | For   | Withhold   |
| Outcome of the vote   | Fail  | Pass   |
| On which criteria have M&G assessed this vote to be "most significant"? | Social – in M&G’s view the audit will enable the company and shareholders to better identify key areas to focus on going forward. | Shareholder rights and governance - M&G Withheld support due to concerns over corporate governance and strategy. |

### Partners Group Generations Fund

In determining the most significant votes, Partners Group consider the size of the holding relative to the fund itself.

| Company Name  | Ferrovial  | Techem   |
|---|--|--|
| Date of Vote  | April 2020   | N/A <sup>1</sup>   |
| Summary of the resolution   | Remuneration proposal  | Governance proposal  |
| How the firm voted  | Against the proposal   | For the proposal   |
| Outcome of the vote   | The vote passed  | N/A <sup>1</sup>   |
| On which criteria have you assessed this vote to be "most significant"? | Partners Group deemed the vote significant given the overall size of the position within the Fund. | Partners Group deemed the vote significant given the overall size of the position within the Fund. |

Source: Investment Manager. <sup>1</sup>Please note, the firm maintains a controlling level of private investment in the company and as such the resolution was not proposed at a single formal meeting of investors.