Homes & Communities Agency Pension Scheme (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 2019 and the Statutory and Non-Statutory Guidance published by the DWP.

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. The objectives of the Scheme included in the SIP are as follows:

The main objective of the Trustees is to maintain sufficient future security within the Scheme to ensure the assets cover the defined benefits. Within the context of this objective, the Sponsoring Employer (Sponsor) wishes to minimise cash-flow variation between financial years as far as possible to within an acceptable range, and the Trustees wish to protect members' benefits. The investment policy therefore reflects a balance between the following:

- *A requirement to maintain a reasonable level of investment risk to keep the cost of the benefit accrual at an acceptable level*

- *A requirement by the Sponsor to be willing to make contributions to assist in the recovery of the funding level as required;*

- *An acceptance by the Trustees that without a Government guarantee to fund the Scheme, a continued exposure to equity markets implies members bear a significant part of any risk. However, as part of the 2020 actuarial valuation the Trustees have obtained an updated "letter of comfort" from the Department for Levelling Up, Housing and Communities (formerly known as the Ministry of Housing, Communities & Local Government (MHCLG)), which has confirmed that it will make sufficient resources available to the Sponsoring Employer to meet its pension liabilities as they fall due (including payments under the current and future Schedule of Contributions and to satisfy Section 75 debt requirements).*

Review of the SIP

During the year to 31 March 2023, the Trustees reviewed and updated the Scheme's SIP on two separate occasions, in October and December 2022.

In October 2022, the SIP was updated to reflect the termination of the Somerset Emerging Market Equity mandate that occurred in June 2022, with the strategic allocation to LGIM equites increasing as a result.

A further update to the SIP was approved in December 2022 to reflect the decision to de-risk the Scheme by switching 5% from LGIM Equities to the Insight LDI mandate, following improvements in the Scheme's funding level. As a result, the overall asset split for the return seeking/matching portfolios were updated to 70%/30% (from 75%/25%).

The latest SIP can be found online at www.gov.uk/government/publications/homes-communities-agency-pension-scheme-statement-of-investment-principles.

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.

In summary, the Trustees believe that good stewardship, environmental, social and corporate governance ("ESG") issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision-making process.

In order to establish their beliefs, the Trustee's undertook a review of their ESG ratings and beliefs facilitated by their investment consultant. The session facilitated a discussion of the Scheme's investment beliefs with respect to ESG and provided further training on climate related risk metrics. This training was provided in August 2021.

Following this, the Trustees undertook an additional review of their broader investment beliefs, including their ESG beliefs during 2022. As part of this review, the Trustees updated some of their ESG beliefs to reflect updated views and the policies currently in place.

The Trustees agree to take a proactive approach to understanding and managing the ESG risks within the Scheme's portfolio.

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

Engagement

The Trustees recognise that by investing in pooled funds, their investment managers have full discretion when evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme's investments. This includes undertaking engagement activities, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

- In May 2022, the Trustees conducted an annual ESG review of the Scheme's investment managers, including establishing an understanding of manager climate reporting standards.

- In November 2022, the Trustees also reassessed how well the Scheme is currently integrating ESG considerations through the investment consultant's Responsible Investment Total Evaluation ("RITE") review. This considered the Trustees' responsible investment beliefs, policy, process and portfolio against best practice and considered potential interventions to improve responsible investment integration e.g. undertaking Carbon Footprint Analysis and other climate-related metrics and reviewing and considering implementing allocations to strategies that have a greater focus on ESG and Responsible Investing. The output from this evaluation was also compared with the previous years' results to assess how actions taken over the year have impacted the final score for the Scheme.

- Following the RITE review, the Trustees discussed the improvements made in the past year and the actions which could be a focus in 2023. In particular, the Trustees agreed to carry out more detailed carbon footprint modelling to understand the carbon risks within the assets. This work was carried out post the year-end, and will be outlined in more detail in next years' Statement.

- The Trustees have previously agreed that, where possible, for any new mandates implemented in the future, ESG ratings would be considered alongside the standard Mercer rating, and the Scheme would try to avoid mandates with a low ESG rating as rated by Mercer, where practicable.

- The Trustees have reviewed their investment managers' compliance with the principles of the UK Stewardship Code as part of this statement and will continue to do so annually. All the Scheme's investment managers confirmed that they are signatories of the current UK Stewardship Code. The Trustees will continue to engage with all of their managers on the UK Stewardship Code and its relevance. All of the Scheme's investment managers confirmed that they are signatories of UN Principles for Responsible Investment.

- The Scheme's investment performance report is reviewed by the Trustees on a quarterly basis – this includes ratings (both general and specific to ESG) from the investment consultant. All of the managers remained highly rated during the year. The investment performance report includes how each investment manager is delivering against their specific mandates. Where a manager is not performing in line with expectations, the Trustees invite the manager to present to the Trustees in order to understand the performance and outlook for the mandate.

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

- The Scheme's managers provided examples of instances if they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives were driven mainly through regular engagement meetings with the companies that the managers invest in, or by voting on ESG-related resolutions at companies' Annual General Meetings.

- LGIM: over the year, LGIM engaged with companies, regulators and policymakers, to generate sustainable outcomes. They see constructive engagement as the best way to deliver long-term and systemic change.
  - LGIM provided examples of 720 engagements with underlying Companies across Environmental, Social and Governance issues over the year. Of the engagements focused on "environmental" issues, c.90% of which were related to climate change.

- Oakhill: over the year Oakhill engaged with underlying issuers on various topics such as including carbon footprint and Greenhouse Gas emissions targets, Diversity, Equity and Inclusion initiatives, health and safety and local community relations.
  - For example, Oakhill engaged with Imperial Dade over the year to discuss topics including greenhouse gas disclosure, fleet fuel management, the sustainability of the company's product offerings and facility management. Oakhill offered insights on regulatory, disclosure, and market data trends as means to encourage continued transparency and progress on the company's core ESG initiatives.

- M&G: over the year, M&G engaged with companies on a wide range of ESG issues. They believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. They believe that if a company is run well, and sustainably, it is more likely to be successful in the long run.
  - For example, M&G engaged with Arcelormittal during the year to ask the company to commit to a short term carbon reduction target. Previously M&G engaged with the company to report Scope

3 targets and now they specifically wanted to add short term Scope 1 and 2 targets. Arcelormittal have committed to clear carbon reduction targets by 2023, and to become carbon neutral by 2050.

- o Insight: has confirmed it conducted approximately 1178 engagements at the firm level in 2022 with regards to their holdings in corporate bonds including derivative counterparties on a range of ESG issues likely to impact their clients' long-term economic interests. Their prioritised themes for this year were climate change, water management, and diversity and inclusion. They use a research-led approach to identify poor performers to initiate targeted engagement to encourage positive improvements across each of these themes.
  - For example, Insight engaged with Heathrow airport in Q3 2022 to encourage Heathrow to strengthen and consolidate its net zero strategy (particularly on Scope 3) and encourage Heathrow's participation in the Climate Disclosure Programme.

Significant Votes

DWP released a set of Implementation Statement requirements 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" to be adopted in all Implementation Statements for schemes with years on or after 1 October 2022. 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 the size of holding;
- Trustees are to include details on why a vote is considered significant and rationale for voting decision.

The Trustees define a significant vote as one which aligns with the broader Environmental, Social and Governance themes, narrowed down by size of holding (in particular votes in relation to the top 5 holdings within the equity fund) during the period from 31 March 2022 to 31 March 2023.

Voting Activity

The Trustees have delegated their voting rights to the investment managers.

Investment managers are expected to provide voting summary reporting (where applicable) on a regular basis, at least annually.

The Trustees expect to be more active in challenging the investment managers in relation to voting and engagement in the future. It is expected that, when the investment managers present to the Trustees at future meetings, the Trustees will ask the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter. Over the last 12 months the key voting activity within the equity mandates were as follows.

LGIM – Future World Global Equity and Future World Global Equity – GBP currency hedged

- LGIM voted at 5,067 meetings over the year. There were a total of 54,368 resolutions on which LGIM were eligible to vote.
- LGIM has participated in the vote for 99.9% of these resolutions. In c.80% of these, LGIM voted in support of management, while voting against on c. 19% of the proposals and abstaining from c.1%.
- Of the top five holdings in the Fund, LGIM participated in a substantial number of votes across each of the companies over the year to 31 March 2023. LGIM have shared information on the votes cast at the respective Annual General Meetings for each of these companies. In particular for Apple and NVIDIA, votes were largely concentrated across Governance and Social themes, for Microsoft and Amazon votes spanned across environmental, social and governance themes, and for Taiwan Semi-Conductor votes were concentrated on governance themes. Some examples of the significant votes across each Company are outlined below:

- **Apple: AGM on 10 March 2023:**
    - **(Governance)** – LGIM voted against the re-election of several Board Directors at the AGM in March 2023 on the grounds of independence. These votes were against the management vote. LGIM expect

Directors to have served on the board for no more than 15 years and expect that the board will be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.

  - **(Social):** LGIM voted for a report (against the management vote) on the median gender/racial pay gap. LGIM voted in favor of this proposal as they expect companies to disclose meaningful information on their gender pay gaps, and the initiatives they are applying to close any stated gap.
- **Amazon AGM on 22 May 2022:**
  - **(Governance and Social)** – LGIM voted against management and against the election of Director Daniel P. Huttenlocher due to Human Rights concerns. The vote against was applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings. LGIM pre-declared its vote intention for this resolution, demonstrating its significance.
  - **(Environmental)** – LGIM voted in favor of a proposal (against the management vote) in relation to reports on efforts to reduce plastic use. LGIM voted in favor as they believe that improving the recyclability of products will have a positive impact on climate change and biodiversity.
- **Microsoft AGM on 13 December 2022:**
  - **(Environmental):** LGIM voted against a shareholder proposal (in line with management) to assess and report on the Company's Retirement Funds' Management of Systemic Climate Risk. LGIM confirmed that a vote against this resolution is warranted as the company offers an option to employees that want to invest more responsibly, and the Department of Labor is finalizing rules on how ESG factors should be considered by fiduciaries.
  - **(Social):** LGIM voted against a shareholder proposal (in line with management) to report on Government use of Microsoft Technology. LGIM confirmed that a vote against this proposal was warranted, as the company provides adequate information on its human rights principles, due diligence, and oversight related to government use of its technology.
  - **(Governance):** LGIM voted against management and against the election of Satya Nadella as joint Chair/CEO. LGIM confirmed that a vote against was applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight.

- **NVIDIA Corporation AGM on 2 June 2022:**
    - **(Social and Governance)** – LGIM voted against management and against the election of Director Harvey C. Jones due to Diversity concerns. A vote against is 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. LGIM also voted against from an independence perspective, as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
- **Taiwan Semiconductor AGM on 8 June 2022:**
    - **(Governance)** – LGIM voted against management and against the approval of issuance of restricted stocks. A vote against was applied as LGIM believe that remuneration is to be measured over at least a 3 year performance period to align with long term value creation.