

# Devonport Royal Dockyard Pension Scheme (the “Scheme”)

## Annual Engagement Policy Implementation Statement for the Scheme year ended 31 March 2023

### Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (“SIP”) produced by the Trustee 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 (as amended) and the guidance published by the Pensions Regulator.

### Investment objectives of the Scheme

The Trustee believes 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:

- To ensure that the Scheme’s benefit obligations can be met.
- That, overall, there is a high level of security of benefits.

While security is paramount, the Trustee recognises that a “least risk” approach to investment strategy would substantially increase the cost of the Scheme (possibly to unacceptable levels). The Trustee has thus decided to pursue a strategy which takes on some investment risk in a controlled fashion.

In setting the investment strategy, the Trustee considers the requirements of the recovery plan, which aims to achieve full funding on the Technical Provisions basis through a combination of contributions and investment returns. In addition, when setting the investment strategy, the Trustee considers the following objectives:

- Aiming for full funding on a gilts +0.5% p.a. basis over the medium-term (2030), whilst recognising that contributions are set with reference to the Technical Provisions rather than this objective.
- Aiming for a long term return which, if achieved, should improve and then maintain the Scheme’s funding level.
- Adopting a strategy, which aims to limit the level of investment risk, and the resulting funding level, deficit and contribution volatilities, to an acceptable level.

The Trustee reviewed the Scheme’s investment strategy over the year ending 31 March 2023 and made a number of changes to the SIP which were approved in July 2022.

## Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The latest version of the SIP is dated July 2022.

In summary, the Trustee believes that ESG factors may have a material impact on investment risk and return outcomes (and so are considered to be financially material), and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee takes a pragmatic approach to ESG issues and considers their materiality in terms of both risk and return.

In order to establish these beliefs and produce this policy, the Trustee has undertaken investment training provided by its investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. The Trustee has requested responses from all of the Scheme's investment managers regarding the actions they are taking to address ESG issues. In the remainder of this statement, manager responses are summarised where they are relevant to the section in question. The Trustee also asks investment managers to provide updates on ESG issues when they present to the Trustee.

The Trustee keeps the policies under regular review, with the SIP subject to review at least annually.

The section below outlines the work undertaken during the year to 31 March 2023 relating to the Trustee's policy on ESG factors, stewardship and climate change.

## Engagement

During the year to 31 March 2023, the Scheme's investment performance reports were reviewed by the Trustee on a quarterly basis – this includes ratings (both general and ESG-specific) from the investment consultant.

Managers are expected to provide a summary of their ESG and stewardship policies and to comment on these issues as part of any meeting with the Trustee; over the year, the Trustee asked its investment managers to summarise their investment approach to managing ESG issues when presenting at meetings.

The Trustee undertook an ESG review for each of the Scheme's fixed income managers based on manager responses on their current approach to ESG integration and stewardship during the year under review. The Trustee also received details of relevant engagement activity for the year from each of the Scheme's investment managers.

## Stewardship

The Trustee has given its investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

Insight, LGIM, M&G, ICG-Longbow, Cambridge Associates, Aviva, CBRE and Mercer Global Investment Europe Limited (MGIE) are signatories of the current UK Stewardship Code 2020 (the "Code").

H2O, King Street and Patrizia (ex-Rockspring) do not consider the Code to be relevant to the assets and asset classes they manage and therefore are not signatories to the Code.

## Voting Activity

The Trustee has delegated its voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustee, which does not own underlying assets directly). As a result, the Trustee does not use the direct services of a proxy voter, although some investment managers employ the services of proxy voters in exercising their voting rights on behalf of the Trustee.

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

Over the period of this report, Insight managed the Scheme's dedicated equity market exposure. For reasons of efficiency and cost effectiveness this was achieved via the use of synthetic equity contracts as opposed to actually investing and holding shares. As a result of this, the Scheme achieved exposure to capital gains and dividends but was not entitled to vote on management resolutions

Over the Scheme year, only MGIE undertook voting activity on behalf of the Trustee. A summary of the voting activity, including any significant votes, is shown below.

## Significant Votes

The Trustee defines a significant vote as one that is linked to the Scheme's stewardship priorities/themes as outlined below:

- Climate change (environmental)
- Human rights, including modern slavery (social)
- Executive remuneration: any vote against a remuneration report where executives are awarded bonuses despite missing targets (governance)
- Diversity: any vote against chair when the board is not sufficiently diverse (governance)
- Materiality: any votes on holdings more than 5% of the relevant fund's holdings

As part of this monitoring, the Trustees will engage with the Scheme's investment managers where appropriate to understand the activity undertaken in relation to these topics.

### **Mercer Global Investments Europe Limited (MGIE) – Multi-Asset Credit (MAC) Fund**

Due to the "fund of funds" structure of the MAC Fund, no votes are cast on behalf of the Trustee directly with respect to underlying investments. Instead, any voting rights that do apply with respect to the underlying investments are attached to the MAC Fund and those voting rights are, ultimately, delegated to the third party underlying investment managers appointed by MGIE. MGIE oversees the sub-investment managers' voting and engagement processes and produces a report on an annual basis.

The voting activity undertaken by the sub-investment managers over the year to 31 March 2023 for the MAC Fund is summarised in the table below.

Over the Scheme year, there have been no significant votes in the Mercer MAC strategy.

<b>Number of meetings in which the manager was eligible to vote</b>	<b>Number of resolutions in which the manager was eligible to vote</b>	<b>% of resolutions in which the manager voted</b>	<b>% of votes with management / against management / abstained</b>	<b>% of votes contrary to the recommendation of the proxy adviser</b>
N/A	11	100%	91% / 9% <sup>1</sup> / 0%	N/A

<sup>1</sup>The proposal that was voted "against" related to a proposed amendment to the terms and provisions of a company's preference shares which included a change to the methodology for calculating the rate of dividends payable.

Source: MGIE.