

Australian High Commission Britain – Locally Engaged Staff Pension Scheme

Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Stewardship policy in the Statement of Investment Principles (“SIP”) produced by the Trustees has been followed during the year to 30 June 2024. 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 guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees’ primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

Investment Strategy

During the course of the financial year, the Trustees were presented with the paper “De-risking Investment Strategy Advice” dated November 2023. The paper identified significant improvements in the funding level since the last strategy review as at April 2023.

The Trustees proceeded with Mercer’s recommendation to reduce the growth allocation from 40% to 20% and increase the matching allocation from 60% to 80%. This resulted in an improvement on the targeted hedge ratios and reduced the expected time to full funding on a Gilts +0.25% basis to Q1 2026.

The Trustees monitor the performance of the investment strategy on a semi-annual basis via performance reports produced by Mercer.

Review of the SIP

The most recent signed SIP is January 2024. The SIP is available online here: <https://uk.embassy.gov.au/lhlh/pension.html>

Engagement

The Scheme is invested solely in pooled investment funds. The Trustee's policy is to delegate responsibility for engaging with and monitoring investee companies as well as exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

Mercer's Manager Research Team ("MMRT") receives regular reporting from the underlying investment managers / funds that includes information on the voting activity undertaken on behalf of the pooled fund. This information is reviewed on a periodic basis to ensure that the actions taken by the investment manager are consistent with its stated policies and that these are in the best long-term interests of the pooled fund investors. If required, MMRT will raise any concerns directly with the investment manager and notify the Trustee if appropriate.

The Trustee, in conjunction with their advisors, will monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers. If the Trustee has any concerns, they will raise them with Mercer verbally or in writing.

In particular, the Trustee will monitor:

- The performance of the investment manager / fund relative to its stated performance objective(s). Whilst performance over all time-periods will be considered, the focus will be on the medium to long-term performance of the investment manager / fund. Where performance has failed to meet expectations and/or the MMRT's views on the future expectations of performance has changed, the underlying investment manager / fund may be replaced with a suitable alternative;
- Performance of the overall strategy relative to the investment objective. Where performance has underperformed the objective, the Trustee must understand the reasons for the underperformance and, where appropriate, make any necessary changes to the strategy;
- It is recognised that the level of investment risk will change from one period to the next due to factors out with their control, e.g. general market movements. The level of risk will be monitored on a regular basis to ensure that the Scheme is not undertaking an excessive level of risk and that these risks are balanced appropriately;
- The ESG and Stewardship policies of the underlying investment manager will be reviewed on a regular basis. As the Scheme invests in pooled funds, the Trustee recognises that its ability to influence the stewardship policies of the underlying investment manager is limited. As such, any changes to the Trustee view on these matters, or a change in the stewardship policies of the investment manager, could potentially result in the investment manager being replaced.

The Trustee also receives regular performance reports from investment managers (this includes ratings, both overall and specific to ESG, from the investment consultant) and meets them on a periodic basis to review and discuss the operation of their portfolios, including past and future policy decisions.

Voting Activity

The Scheme has no direct relationship with the pooled funds it is ultimately invested in, and therefore no voting rights in relation to the Scheme’s investments. The Trustees have therefore effectively delegated its voting rights to the managers of the funds the Scheme’s investments are ultimately invested in.

The Trustees have not been asked to vote on any specific matters over the reporting period.

Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible (i.e., all funds which include equity holdings) in which the Scheme’s assets are ultimately invested.

We note that best practice in developing a statement on voting and engagement activity is evolving and we will take on board industry activity in this area before the production of next year’s statement.

The table on the following page sets out a summary of the key voting activity over the financial year:

Manager / Fund	Proxy voter used?	Votes cast		
		Votes in total	Votes against management endorsement	Abstentions
Baillie Gifford Diversified Growth Fund	“Whilst Baillie Gifford is cognisant of proxy advisers’ voting recommendations, we do not rely upon their recommendations when deciding how to vote on our clients’ shares. All client voting decisions are made in-house. We vote in line with our in-house policy and not with the proxy voting providers’ policies. Baillie Gifford utilises two proxy advisers’ voting research, ISS and Glass Lewis, for information only. We also have specialist proxy advisors in the Chinese and Indian markets to provide us with more nuanced market specific information, ZD Proxy and IAS respectively.”	680 eligible for (c.94.85% cast)	c.3.57% of votes cast	c.1.09% of votes cast

Columbia Threadneedle Multi Asset Fund	ISS – for execution and recommendations only. NIS – for recommendations only.	6,433 eligible for (c.98.48% cast)	c.7.76% of votes cast	c.1.18% of votes cast
Nordea 1 - GBP Diversified Return Fund	ISS – for execution and recommendations only. NIS – for recommendations only.	2,484 eligible for (c.96.34% cast)	c.11.83% of votes cast	c.1.55% of votes cast Abstain (0.59%) + Withhold (0.96%)

Notes: ISS = Institutional Shareholder Services Inc.
IVIS = Institutional Voting Information Service
NIS = Nordic Investor Services

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.
- The Trustees are to include details on why a vote is considered significant and rationale for the voting.

The Trustees have classified “significant votes” as any vote relating to material holdings (top 10 equity holdings in each fund in which the Scheme was invested during the majority of the year), in 3 key stewardship priorities for the Scheme relating to:

- Climate Change: including low-carbon transition and physical damages resilience;
- Human Rights: including modern slavery, pay & safety in the workforce and supply chains; and,
- Diversity, Equity and Inclusion: including inclusive & diverse decision-making.

Where applicable, examples of such significant votes are summarised in the table below.

Manager	Company	Date	Why it is significant	Size of holding (% of Fund)	Summary of resolution	Vote cast	If against management was intention communicated?	Rationale for voting decision	Outcome	Next steps
Baillie Gifford Diversified Growth Fund	Nextera Energy, Inc.	23rd May 2024	It regards climate change which is one of the metrics agreed by the Trustees as to what defines a significant vote.	0.98%	Shareholder Resolution - Climate	For	No	“We supported the resolution on climate lobbying as we believe that clear and transparent support for Paris-aligned goals through lobbying is one-way shareholders look to demonstrate consistency with their climate targets.”	Fail	“We reached out to the Company to explain why we decided to support the resolution. While we welcomed the real zero target set, we believe that the lobbying reporting could be improved with identification of misalignment between the company's lobbying activities and its Net Zero goal.”
Columbia Threadneedle Multi-Asset Fund	Amazon.com, Inc.	May 22nd 2024	It regards diversity and inclusion which is one of the metrics agreed by the Trustees as to what defines a significant vote.	1.20%	Report on Median and Adjusted Gender/Racial Pay Gaps	For	No	The proposed enhanced disclosure would help the board and shareholders better assess existing and potential future risks related to human capital management.	Fail	Active stewardship (engagement and voting) continues to form an integral part of our research and investment process.

Amazon.com, Inc.	May 22nd 2024	It regards diversity and inclusion which is one of the metrics agreed by the Trustees as to what defines a significant vote.	1.20%	Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining	For	No	Shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks, particularly regarding freedom of association and collective bargaining rights.	Fail
Eli Lilly and Company	May 6th 2024	It regards diversity and inclusion which is one of the metrics agreed by the Trustees as to what defines a significant vote.	0.80%	Report on Effectiveness of Diversity, Equity, and Inclusion Efforts	For	No	The company should disclose its demographic workforce data as per the EEO-1 requirement. This will help to increase transparency and aid shareholders in assessing the effectiveness of the company's stated efforts to address related human capital material risks	Fail

and opportunities.

Nordea 1 - GBP Diversified Return Fund	Alphabet Inc.	June 7th 2024	It regards climate change which is one of the metrics agreed by the Trustees as to what defines a significant vote.	4.60%	Report on Climate Risk in Retirement Plan Options	For	No	Nordea voted for the shareholder proposal because an independent human rights assessment on the impacts would help shareholders better evaluate the company's management of risks related to the human rights impacts of its targeted advertising policies and practices.	Fail
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Alphabet Inc.	June 7th 2024	It regards human rights which is one of the main metrics agreed by the Trustees as to what defines a significant vote.	4.60%	Publish Human Rights Risk Assessment on the AI-Driven Targeted Ad Policies	For	No		While the company offers an option to employees that want to invest more responsibly, it is unclear how well employees understand the retirement plans available to them. The information requested in the report would not only complement and enhance the company's existing commitments regarding climate change, but also allow shareholders to better evaluate the company's strategies and management of related risks.	Fail	Nordea assess and vote on all ES shareholder proposals on a case-by-case basis. Outcomes and next steps depend on whether Nordea has an engagement with the company; if a proposal raises a concern; if the vote is related to a specific theme Nordea is focusing on; and if Nordea filed or co-filed the shareholder proposal. Actions Nordea can take is for example reaching out to the company before or after the AGM via email or letter; meet with the company before or after the AGM; raise questions during the AGM. If Nordea is co-filing at a US company they can also file a Notice of Exempt Solicitation with the SEC to express their views and inform other shareholders on specific issues that are subject to an upcoming vote. The majority of the ES shareholder proposals are
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Microsoft Corporation	December 7th 2023	It regards climate change which is one of the metrics agreed by the Trustees as to what defines a significant vote.	4.10%	Report on Climate Risk in Retirement Plan Options	For	No	While the company offers an option to employees that want to invest more responsibly, it is unclear how well employees understand the retirement plans available to them. The information requested in the report would not only complement and enhance the company's existing commitments regarding climate change, but also allow shareholders to better evaluate the company's strategies and management of related risks.	Fail	filed at US companies; are non-binding and do not pass but may inform a company about certain issues that shareholders are concerned about. This proxy season only 6% of the ES proposals passed. In some cases, if a company and a proponent reach an agreement, a shareholder proposal can be withdrawn before the AGM.
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Microsoft Corporation	December 7th 2023	It regards human rights which is one of the main metrics agreed by the Trustees as to what defines a significant vote.	4.10%	Report on Risks of Operating in Countries with Significant Human Rights Concerns	For	No	Nordea voted for the shareholder proposal since increased disclosure regarding how the company is managing human rights-related risks in high-risk countries helps investors in their assessment of the company.	Fail
Starbucks Corporation	March 13th 2024	It regards human rights which is one of the main metrics agreed by the Trustees as to what defines a significant vote.	1.60%	Report on Congruency of Company's Privacy and Human Rights Policies with its Actions	Against	No	Nordea voted against this shareholder proposal as the company recently completed a human rights impact assessment and appears to provide shareholders with sufficient disclosure related to its management of human rights related risks.	Fail

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NIS = Nordic Investor Services