

Arts Council Retirement Plan (1994) – Draft Implementation Statement for 2019 DB Regulations

Statement of Compliance with the Arts Council Retirement Plan’s (“the Plan”) Stewardship Policy for the year ending 31 March 2023.

Introduction

This is the Trustees’ statement prepared in accordance with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended). This statement sets out how the Trustees have complied with the Plan’s Stewardship Policy during the period from 1 April 2022 to 31 March 2023.

Stewardship policy

The Trustees’ Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Plan’s assets, which includes the Trustees’ approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Plan’s Stewardship Policy can be found within the Statement of Investment Principles (“SIP”). The SIP and the Stewardship Policy are reviewed on an annual basis and were last reviewed in August 2021. No changes were made to the Stewardship Policy during the last year.

You can review the Plan’s SIP and Stewardship Policy at www.artscouncil.org.uk/benefits/arts-council-retirement-plan.

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Plan’s investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues that affect a company’s financial performance.

The Trustees’ own engagement activity is focused on their dialogue with their investment managers, which is undertaken in conjunction with their investment advisers. The Trustees meet regularly with their managers and consider managers’ exercise of their stewardship both during these meetings and through reporting provided by their investment adviser annually.

The Trustees also monitor their compliance with their Stewardship Policy on an annual basis and are satisfied that they have complied with the Plan’s Stewardship Policy over the last year.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, monitor managers’ voting patterns. The Trustees also monitor investment managers’ voting on particular companies or issues that affect more than one company.

The Trustees have invested in equity assets through several different mandates and their investment managers have reported on how votes were cast in each of these mandates as set out in the table overleaf.

	Fund 1	Fund 2	Fund 3	Fund 4
Proportion of Plan assets as at 31 March 2023	20.1%	10.3%	10.7%	9.7%
No. of meetings eligible to vote at during year	1,917	5,067	725	97
No. of resolutions eligible to vote on during year	25,282	54,368	10,197	1,061
% of resolutions voted	99.8%	99.9%	46.8%	97.9%
% of resolutions voted with management	80.8%	80.4%	89.4%	95.8%
% of resolutions voted against management	18.8%	18.6%	10.6%	3.3%
% of resolutions abstained	0.4%	1.0%	0.2%	1.0%
% of meetings with at least one vote against mgmt	72.3%	63.3%	19.7%	22.7%

Funds 1 and 2 are managed by LGIM; Fund 3 is managed by Storebrand, Fund 4 is managed by Baillie Gifford

Figures may not sum due to rounding

The Trustees have engaged with Storebrand on the low number of resolutions voted, with votes cast at only 47% of meetings, this being out of line with the Trustees expectations. Storebrand noted that their approach has historically been to focus voting on an asset weighted basis and to prioritise ESG related resolutions. However, reflecting the Trustees and other clients' requirement for a higher coverage by number of votes they, implemented a new voting system which covers all holding. This new system was implemented in February 2023 and in Q1 Storebrand voted on 80% of votable items.

The resolutions on which the managers appear to have voted against management the most over the Plan year are set out below:

- LGIM voted against management for a variety of reasons, including corporate structure, remuneration and in respect of climate issues.
- Storebrand more commonly voted against management in relation to improved climate and net-zero reporting.
- Baillie Gifford more commonly voted against management for reasons related to executive remuneration.

Significant votes

The Trustees have also asked their investment managers to report on the most significant votes cast within the portfolios they manage on our behalf. Managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote.

Whilst the Trustees have agreed climate change as a primary theme against which manager activity is scrutinised, from the managers' reports, we have identified the following votes as being among those of greater relevance to the Plan and subject to future dialogue with the managers.

Manager	Company/ AGM Date	Subject	Manager's vote and rationale	Outcome of vote
Storebrand	UBS Group 6/4/22	Climate Change – to approve a Climate Action Plan	Against – Storebrand shared concerns with the gaps in the company's climate reporting and lack of science-based target setting	Pass
Baillie Gifford	Nextera Energy 19/5/22	Corporate Governance – shareholder resolution requesting board diversity and qualifications matrix	For – Baillie Gifford believes shareholders would benefit from individualised information on the skills and qualifications of directors, as well as disclosure on climate-related skills and qualifications	Fail
Storebrand	Amazon 25/5/22	Human Rights – report on Protecting the Rights of Freedom of Association and Collective Bargaining	For – Storebrand believes that shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks	Fail
LGIM	Amazon 25/5/22	Board Composition – election of Daniel P. Huttenlocher	Against – LGIM voted against electing this director, as they are a long-standing member of the Leadership Development & Compensation Committee which LGIM believes is accountable for human capital management failings	Pass
Storebrand	Alphabet 1/6/22	Climate Change – Report on Climate Lobbying	For – Storebrand believes that shareholders would benefit from a review of how the company's lobbying positions align with the Paris Agreement, in light of risks to the company caused by climate change	Fail
LGIM	Alphabet 1/6/22	Climate Change – Report on Physical Risks of Climate Change	For – LGIM expects companies to be taking sufficient action on climate change	Fail
Baillie Gifford	Booking Holdings 9/6/22	Executive Remuneration – to approve the executive compensation	Against – Baillie Gifford opposed the executive compensation due to concerns with adjustments made to the plan and the granting of retention awards. Baillie Gifford engaged with the company in advance of the vote to discuss concerns.	Fail

Engagement activity

The Trustees hold regular meetings with their investment managers where stewardship issues are discussed in further detail. Over the last 12 months to 31 March 2023, the Trustees met with three of their six managers.

Summary of Trustees' engagement with managers

The Trustees met with three of the Plan's six managers in the 12 month period ending 31 March 2023 and covered the following topics:

Manager	Date of meeting	Topics discussed
Federated Hermes	7 June 2022	<ul style="list-style-type: none"> • Performance following the pandemic, including rent collection, bad debt and ongoing relationships with tenants • Net zero commitment for the portfolio, energy reduction commitments and embodied carbon targets alongside detailed asset audit • EPC ratings within the portfolio • Measuring scope 3 emissions including occupier engagement
Storebrand	1 November 2022	<ul style="list-style-type: none"> • Changes to the screening mechanisms applied to the portfolio which impacted on investments in Amazon and Tesla • Engagement with Amazon and Tesla • Selection of alternative assessment benchmarks and indicators to assess impact on climate • Managing deforestation risk within portfolio holdings
Baillie Gifford	14 February 2023	<ul style="list-style-type: none"> • Investment themes: inflation, energy revolution, technology, Ukraine • Commitment to Net Zero • Engagement with companies in China and the application of governance standards • Sustainable Multi-Asset investing

Summary of manager engagement activity

The Trustees receive annual reporting on each manager's engagement activity. The following table summarises the key engagement activity for the 12 month period ending 31 March 2023.

Fund	Number of engagements	Topics engaged on
LGIM Future World Fund	432	Environmental (145), Social (101), Governance (159), Other (27) Climate change followed by executive remunerations were the topics most commonly engaged on.
LGIM Future World Fund GEI	720	Environmental (256), Social (179), Governance (251), Other (34) Climate change followed by executive remunerations were the topics most commonly engaged on.
LGIM AAA-AA-A Bonds Over 15 Yr	64	Environmental (30), Social (10), Governance (18), Other (6)
Storebrand Asset Management*	779	Environmental (397, with a particular focus on Climate Action), Social (242), Governance (140)
Baillie Gifford DGF	38	Annual General Meeting or Extraordinary General Meeting proposals (2), Environmental/Social (17), Corporate Governance (19)
IFM (Infrastructure)	n/a	IFM have operational control of most portfolio assets. Engagements covered topics including energy, emissions management, biodiversity, water and waste management, safety, labour relations and diversity.
Federated Hermes Property Unit Trust	n/a	Federated Hermes pursue an active engagement strategy. They have direct contact with occupiers at 61% of total assets (by value) within the fund, facilitating a strong level of engagement with respect to climate change, climate resilience, and health and wellbeing. Other assets are held under FRI leases and hence have lower levels of direct engagement.

A single LGIM engagement could cover multiple topics, and may apply to several funds.

*Storebrand engagement figures relate to their global engagement across Storebrand Asset Management

Use of a proxy adviser

LGIM and Storebrand have made use of the services of Institutional Shareholder Services (“ISS”), a proxy voting advisor, over the Plan year. Baillie Gifford do not make use of a proxy adviser. The Trustees have also sought to compare the extent of LGIM’s and Storebrand’s alignment with their proxy advisor, ISS, in order to judge the independence of their voting processes. Below is a summary of the voting activity of LGIM and Storebrand relative to the proxy advisor.

Manager	No. meetings eligible to vote at	Of which they voted against ISS recommendation (%)
LGIM Future World	1,917	13.4%
LGIM Future World GEI	5,067	10.5%
Storebrand Global ESG Plus	725	0.4%

From the above we note that LGIM votes on a majority of occasions with the proxy advisor, but maintains further independence on voting against resolutions.

Baillie Gifford are cognisant of proxy advisers' voting recommendations. However, as a manager they do not delegate or outsource any of their stewardship activities or rely upon their recommendations when deciding how to vote on shares held by the Plan. All voting decisions are made in-house, and Baillie Gifford vote in line with their in-house policy, rather than the policies of any proxy adviser.

Review of policies

The Trustees review their managers' Responsible Investment policies on an annual basis. The review considers managers' broader approach to responsible investment issues and any change in approach by the managers over the year. The Trustees also consider changes to their managers' voting policies.

The Trustees and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the managers' voting policies, remain suitable for the Plan.