

Arts Council Retirement Plan (1994) – 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 2024.

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 2023 to 31 March 2024.

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 February 2024.

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.

Trustees' priority stewardship themes

As part of the February 2024 review of the Plan's SIP, the Trustees identified priority stewardship themes that they will look to address in their ongoing engagements with managers. The purpose of prioritising certain themes is to bring greater focus to the Trustees' manager engagement sessions and to promote consistency within the Trustees' governance and disclosure requirements. The themes are not exhaustive, and the Trustees may also engage with managers on additional topics as appropriate. The themes are expected to be in place for a period of several years given their enduring nature, and will be periodically tested by the Trustees. The Trustees' priority stewardship themes are detailed below.

Environmental theme

Achieving net zero: we will aim to monitor whether our managers and the companies within their portfolios are focused on ensuring companies are on a trajectory to decarbonise their activity. Within this, we will specifically focus on:

- Climate change: Decarbonisation of industry, looking to ensure that those companies with high emissions are taking strategic actions to make changes in line with the goal of reaching zero carbon emissions (SDGs 12 & 13).
- Biodiversity: Addressing deforestation, looking to ensure that those companies affected are taking steps to pursue actions that will reduce deforestation (SDGs 14 & 15).

Social theme

Good employment practices: we will aim to ensure that our managers and the companies within their portfolios are focused on promoting good employment practices. Within this, we will specifically focus on:

- Decent work & employment practices: looking to ensure that those companies involved in manufacturing are protecting labour rights and promoting safe and secure working environments (SDG 8).
- Diversity & Inclusion: ensuring companies are providing equal opportunities and are actively reducing inequalities, promoting inclusion irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status, particularly in the context of emerging markets. Where there are cultural barriers that impact companies in emerging markets, understanding what steps are being taken to achieve fair representation (SDGs 5 & 10).

Governance theme

Good quality disclosures: we will aim to ensure that our managers and the companies within their portfolios provide timely, accurate disclosures, in particular with respect to the provision of financially material ESG data. Where data may be challenging or uneconomic to collect, e.g. private markets, understanding what actions are being taken to ensure ESG risks are being properly managed.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, and monitor managers' voting patterns, particularly in relation to the Trustees' priority stewardship themes. The Trustees also monitor investment managers' voting on particular companies or issues affecting more than one company. Where the Trustees deem it appropriate, they will raise issues of concern in respect of voting activity directly with their managers. 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 below.

	Fund 1	Fund 2	Fund 3	Fund 4
Proportion of Plan assets as at 31 March 2024	21.4%	11.7%	11.7%	6.1%
No. of meetings eligible to vote at during year	1,707	5,134	684	66
No. of resolutions eligible to vote on during year	21,925	52,212	9,942	690
% of resolutions voted	99.8%	99.9%	97.0%	94.1%
% of resolutions voted with management	79.7%	80.3%	91.3%	96.8%
% of resolutions voted against management	20.1%	19.5%	8.7%	2.8%
% of resolutions abstained	0.2%	0.3%	0.0%	0.5%
% of meetings with at least one vote against mgmt	70.8%	63.3%	40.6%	16.7%

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.

Last year, the Trustees engaged with Storebrand on the low number of resolutions voted on (c.47% of those eligible to vote on). Storebrand noted that its approach had historically been to focus voting on an asset-weighted basis and to prioritise ESG-related resolutions. However, reflecting the Trustees' and other investors' requirement for a higher coverage by number of votes, Storebrand has since implemented a new voting system that covers all holdings. This is reflected in the higher number of resolutions voted on in the last year (97%).

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, diversity, climate issues and shareholder proposals.
- Storebrand more commonly voted against management in relation to remuneration and improved climate and net zero reporting.
- Baillie Gifford more commonly voted against management for reasons related to remuneration and the amendment of share capital.

Significant votes

The Trustees have also asked their investment managers to report on the most significant votes cast within the portfolios they manage on behalf of the Plan. 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.

The Trustees have agreed priority stewardship themes against which manager activity is scrutinised. From the managers' reports, the following votes have been identified as being among those of greater relevance to the Plan and subject to future dialogue with the managers.

Manager	Company/ AGM Date	Subject/ Theme	Manager's vote and rationale	Outcome of vote
Storebrand	Microsoft Corporation 07/12/23	Climate Change – report on climate risk in retirement plan options Priority stewardship theme: Environmental	For – Storebrand believes this report would complement the company's existing commitments regarding climate change and allow shareholders to better evaluate the company's strategies and management of related risks.	Fail
Storebrand	Westpac Banking Corporation 14/12/23	Climate Change – approval of the Climate Change Position Statement and Action Plan Priority stewardship theme: Environmental	For – Storebrand agrees with the targets put in place by the company to achieve its ambition to become a net zero, climate resilient bank.	Pass
LGIM	JP Morgan Chase & Co 16/05/23	Climate Change – Report on climate transition plan describing efforts to align financing activities with emissions targets Priority stewardship theme: Environmental	For – LGIM believes detailed information on how a company intends to achieve their targets can focus the board's attention on the steps and timeframe involved, providing assurance to stakeholders. LGIM believes that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met.	Fail
LGIM	Yum! Brands inc. 18/05/23	Nature – Report on the efforts to reduce plastic use Priority stewardship theme: Environmental	For – LGIM believes solving plastic pollution is critical in the transition to net zero and nature-positive economies.	Fail
Baillie Gifford	Nextera Energy 18/05/23	Diversity & Inclusion – shareholder resolution requesting the company report on median pay gaps across race and gender. Priority stewardship theme: Social	For – Baillie Gifford believes this disclosure would allow shareholders to better assess the internal equity of pay and would allow comparability over time and across organisations.	Fail

LGIM	Apple 28/02/24	Diversity & Inclusion – shareholder resolution requesting a report on the risks of omitting viewpoint and ideological diversity from Equal Employment Opportunity (EEO) policy Priority stewardship theme: Social	Against – LGIM voted against this proposal as the company appears to provide shareholders with sufficient disclosure around its diversity and inclusion efforts and nondiscrimination policies, and including viewpoint and ideology in EEO policies is not a standard industry practice.	Fail
LGIM	Amazon 24/05/23	Employment – Report on median and adjusted gender/racial pay gaps Priority stewardship theme: Social	For – LGIM expects companies to disclose meaningful information on gender pay gap and initiatives it is applying to closing any stated gap.	Fail

Engagement activity

The Trustees hold regular meetings with their investment managers where stewardship issues are discussed in further detail.

Summary of Trustees' engagement with managers

The Trustees met with five of the Plan's six managers in the 12 month period ending 31 March 2024 and covered the following topics:

Manager	Date of meeting	Topics discussed
LGIM	6 June 2023	<ul style="list-style-type: none"> Evolutions to the dynamic ESG factors incorporated into the equity strategies, in keeping with latest industry thinking and data availability. A case study of LGIM's engagement with Japan Post Holdings Co. regarding ESG concerns. LGIM divested in 2018, but reinstated the company in 2021 following the introduction of a thermal coal policy, disclosure of scope 3 emissions, and a net zero commitment of 2050. Overview of LGIM sustainable bond strategies to support the Trustees' ongoing search at the time.
IFM	4 August 2023	<ul style="list-style-type: none"> Overview of new investments in Global Infrastructure Fund (GIF). Recent ESG activity within GIF, particularly focusing on companies transitioning towards Net Zero (updates on Vienna Airport and Manchester Airport Group).

Manager	Date of meeting	Topics discussed
IFM (contd)		<ul style="list-style-type: none"> • Provision of up-to-date ESG data across the GIF portfolio. • Investment strategy update for the newly-established Net Zero Infrastructure Fund, to which the Trustees made a commitment to in October 2023.
Quinbrook (QB)	6 October 2023	<ul style="list-style-type: none"> • Overview of the QB Net Zero Power Fund's (NZPF) main projects and fundraising targets. • Third party review of ESG reporting, which concluded that QB is following best practice. • Engagement with First Nations people impacted by infrastructure projects, including offering jobs and apprenticeships, sharing infrastructure and knowledge.
Federated Hermes (FH)	6 October 2023	<ul style="list-style-type: none"> • Elevated void rate and cash allocation. • Sector allocation and current positioning, including update on "alternative" assets (e.g. student accommodation). • ESG integration and plan to improve data coverage for scope 4 emissions. • Timescale for rolling out Net Zero transition plans across portfolio assets, and plans for monitoring impact on biodiversity.
Storebrand	30 January 2024	<ul style="list-style-type: none"> • Evolution of the methodology for assessing and applying the fund's ESG tilts. • Carbon intensity and how scope 3 emissions impact the fund's climate metrics in comparison to the index. • Recent developments with respect to Storebrand's participation in industry initiatives, including Nature Action 100+, The Taskforce on Nature-related Financial Disclosures, and the Finance Sector Deforestation Action initiative. • Progress towards 2025 interim Net Zero objective, and plans to have a deforestation-free portfolio by 2025.

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 2024.

Fund	Number of engagements	Topics engaged on
LGIM Future World Fund	472	Environmental (202), Social (92), Governance (148), Other (30) Climate change and remunerations were the topics most commonly engaged on.
LGIM Future World Fund GEI	795	Environmental (404), Social (137), Governance (222), Other (32) Remunerations, climate change and deforestation were the topics most commonly engaged on.
LGIM AAA-AA-A Bonds Over 15 Yr	24	Environmental (9), Social (2), Governance (7), Other (6) Climate change and corporate strategy were the topics most commonly engaged on.
LGIM Cash	12	Environmental (8), Governance (3), Other (1) Climate change was the topic most commonly engaged on.
Storebrand Global ESG Plus	280	Environmental (118), Social (123), Governance (39) Climate, biodiversity and ecosystems, and supply chain resilience were the topics most commonly engaged on.
Baillie Gifford DGF	41	Environmental (22), Social (6), Governance (23) Engagements may not sum to the total, as they cover multiple topics.
IFM Global Infrastructure Fund & Net Zero Infrastructure Fund	n/a	IFM has operational control of most portfolio assets. Engagements covered topics including climate change, modern slavery, diversity and inclusion, remuneration, board structures and corporate governance.
Quinbrook Net Zero Infrastructure Fund	n/a	Quinbrook takes primary control of investments and therefore holds the position of chair of each portfolio company, as well as a majority of voting members/directors of each board. This allows them to drive ESG-aligned strategies, voting, decision making and implementation. Following investment, Quinbrook takes steps to assure its portfolio companies implement an ESG policy that aligns with Quinbrook's own policy and values, which commonly requires training and ongoing assessments. Examples of Quinbrook's policies include health and safety oversight, carbon emissions assessment and decarbonisation implementation.

Federated Hermes Property Unit Trust	n/a	Federated Hermes pursues an active engagement strategy. It has direct contact with occupiers at 74% of total assets (by value) within the fund, facilitating a strong level of engagement. Other assets are typically held under FRI leases and hence have lower levels of direct engagement. Engagement themes have focused on climate transition risk, particularly with regards to legislation, decarbonisation and energy efficiency. FH employed a specialist consultant to appraise each asset to determine the pathway and actions needed to align assets with a reduction pathway.
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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 does not make use of a proxy adviser. The Trustees have sought to compare the extent of LGIM’s and Storebrand’s alignment with their proxy advisor, ISS, in order to assess the independence of their voting processes. The following table provides 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	1,707	15.4%
LGIM Future World GEI	5,134	11.1%
Storebrand Global ESG Plus	684	0.1%

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 is cognisant of proxy advisers’ voting recommendations. However, as a manager it does not delegate or outsource any of its stewardship activities or rely upon recommendations when deciding how to vote on shares held by the Plan. All voting decisions are made in-house, and Baillie Gifford votes in line with its 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 their advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the managers’ voting policies, remain suitable for the Plan.