

Engagement Policy Implementation Statement for the year ended 31 December 2022

Introduction

This implementation statement has been prepared by the Royal College of Physicians (1973) Staff Pension Scheme (the 'Scheme'). The Scheme provides benefits calculated on a defined benefit (DB) basis for members.

This statement sets out how, and the extent to which, in the opinion of the Trustees, the policies (set out in the Statement of Investment Principles (the 'SIP')) on the exercise of rights (including voting rights) attaching to the investments and engagement activities have been followed during the year ending 31 December 2022. This statement also describes the voting behaviour by, or on behalf of, the Trustees including the most significant votes cast during the year, and whether a proxy voter has been used.

Trustees' overall assessment

In the opinion of the Trustees, the policies as set out in the SIP have been followed during the year ending 31 December 2022.

Review of the SIP

The Trustees' policies have been developed over time by the Trustees in conjunction with their investment consultant and are reviewed and updated periodically and at least every three years.

Policy in relation to the kinds of investments to be held

The Trustees have given full regard to their investment powers as set out in the Trust Deed and Rules and have considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes. The Trustees consider all of the stated classes of investment to be suitable in the circumstances of the Scheme.

All investments made during the year have been in line with their investment powers.

Investment strategy and objectives

Investment strategy

The investment strategy for the Scheme is based on an analysis of its liability profile, the required investment return and the returns expected from the various asset classes over the long-term. The Trustees review this investment strategy and the asset allocation as part of each triennial actuarial valuation. The Trustees may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

Further to a review of the investment strategy in June 2021 as part of the 1 January 2021 actuarial valuation, the Trustees carried out an updated investment strategy review in December 2022 given the significant changes to the market conditions.

As part of this review exercise in 2022, the Trustees:

- Considered Value at Risk analysis for the Scheme's strategy
- Undertook hedging analysis to better understand the extent and fit of the liability hedging arrangements used
- Considered different asset classes which they may wish to include within the investment strategy, with a particular focus on reducing leverage within the LDI portfolio and increase the Scheme's interest rate & inflation hedging using physical gilts

Policy in relation to the balance between various kinds of investments and the realisation of investments

The appointed investment managers hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market, each manager will maintain a diversified portfolio of securities.

The Trustees require the investment managers to be able to realise the Scheme's investment in a reasonable timescale by reference to the market conditions existing at the time the disposal is required. Other than making disinvestments from the cash fund to pay benefits and to increase hedging targets, the Trustees have not made any changes to the mix of investments.

During the year, the Trustees considered the return expected from their assets as part of their investment strategy review and compared this against the assumptions set out in the published valuation report.

Policy in relation to the expected return on investments

The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach / maintain a fully funded status under the agreed assumptions.

Risk capacity and risk appetite

Policy in relation to risks

Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following risks:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's Sponsoring Employer to meet its obligations.

The key strategic risks were assessed during the year as part of the investment strategy review.

The Trustees monitor manager risks through the quarterly performance monitoring reports and cost disclosure documents provided by and discussed with the investment consultant.

Four monitoring reports were received during the year. These did not highlight any significant concerns over the level of risk being run within the Scheme.

Stewardship in relation to the Scheme assets

Policies in relation to investment manager arrangements

The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustees have very limited to no influence over the objectives of these funds or the fees they charge (although fee discounts can be negotiated in certain circumstances).

The Trustees receive information on any trading costs incurred as part of asset transfer work within the Scheme, as and when these occur. The exercise is only undertaken if the expected benefits outweigh the expected costs.

There were a number of asset transfer exercises carried out during the year – namely the investment in real and nominal LDI funds to increase the Scheme's liability hedging in August 2022, ESG focused equity funds switches which was completed in October 2022 and disinvestments of overweight positions in the Janus Henderson Multi-Asset Credit Fund and the M&G Alpha Opportunities Fund which were completed in January and February 2023 respectively.

A new investment strategy was agreed by the Trustees in December 2022 and the implementation of it will be carried out in 2023.

The investment managers invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustees have paid their investment managers a fee which is a fixed percentage of assets under management.

The investment consultant has provided regular information on their views of the investment managers.

Investment manager monitoring and changes

During the year the Trustees received four reports from the investment consultant examining the performance of the pooled funds used. The Trustees also received reports directly from the platform provider.

There have been no changes to the Scheme's existing investment manager arrangements.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Stewardship of investments

The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial and non-financial performance of underlying investments (including environmental, social and governance (ESG) factors, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

In December 2022, the Trustees received training on LDI investments including its risks and objectives in the Scheme's investment strategy.

Stewardship - monitoring and engagement

The Trustees recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustees have not set out their own stewardship priorities but follow that of the investment managers.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

The Trustees also delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

As all of the investments are held in pooled vehicles, the Trustees do not envisage being directly involved with peer-to-peer engagement in investee companies.

Investment manager engagement policies

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

Links to each investment manager's engagement policy or suitable alternative is shown in the appendix.

These policies are publicly available on each of the investment manager's websites.

The latest available information provided by the investment managers (with mandates that contain equities) is as follows:

Engagement	LGIM Ethical Global Equity Index Fund - GBP Hedged	LGIM Ethical Global Equity Index Fund	M&G Alpha Opportunities Fund	Janus Henderson Multi-Asset Credit
Period	01/01/2022-31/12/2022	01/01/2022-31/12/2022	01/01/2022-31/12/2022	01/01/2022-31/12/2022
Number of companies engaged with over the year	246	246	7	47
Number of engagements over the year	403	403	8	67
Top two engagement topics	Remuneration Climate Change	Remuneration Climate Change	Climate Change Human and labour rights	Climate Change Conduct/ culture and ethics; and human and labour rights
Most significant company engagement over the year	n/a*	n/a*	n/a*	n/a*

* The investment manager did not provide the information when requested.

Exercising rights and responsibilities

The Trustees recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose annually a general description of their voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

The Trustees have been provided with details of what each investment manager considers to be the most significant votes. The Trustees have not influenced the manager's definitions of significant votes, but have reviewed these and are satisfied that they are all reasonable and appropriate.

The Trustees have selected the three votes affecting the largest asset holdings for inclusion in this statement. The Trustees did not communicate with the manager in advance about the votes [it/they] considered to be the most significant.

Investment managers may use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustees do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour. The Trustees consider the proportion of votes cast and the proportion of votes against management to be an important (but not the only) consideration of investor behaviour.

The Royal College of Physicians (1973) Staff Pension Scheme

The latest available information provided by the investment managers (with mandates that contain equities) is as follows:

Voting behaviour	LGIM Ethical Global Equity Index Fund - GBP Hedged	LGIM Ethical Global Equity Index Fund
Period	01/01/2022-31/12/2022	01/01/2022-31/12/2022
Number of meetings eligible to vote at	1,141	1,141
Number of resolutions eligible to vote on	16.528	16.528
Proportion of votes cast	99.72 %	99.72 %
Proportion of votes for management	81.97 %	81.97 %
Proportion of votes against management	17.82 %	17.82 %
Proportion of resolutions abstained from voting on	0.21%	0.21 %

Trustees' engagement

The Trustees have undertaken a review of each investment manager's engagement policy including their policies in relation to financially material considerations.

The Trustees may also consider reports provided by other external ratings providers.

Where an investment manager has received a relatively low rating from the investment consultant or from other external rating providers, the Trustees may consider whether to engage with the investment manager.

The Trustees have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustees recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

Appendix

Links to the engagement policies for each of the investment managers can be found here:

Investment manager	Engagement policy
Legal & General Investment Management	https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf
Threadneedle Columbia	https://docs.columbiathreadneedle.com/documents/Responsible%20Investment%20-%20Engagement%20policy%20and%20approach.pdf?inline=true
M&G Investments	https://www.mandg.com/~/_media/Files/M/MandG-Plc/documents/mandg-investments-policies/mg-investments-engagement-policy-may-2022.pdf
Janus Henderson	https://cdn.janushenderson.com/webdocs/JHI_ESG_InvestmentPolicy_April2023.pdf

Information on the most significant votes LGIM participated in in respect of the funds used during the year ending 31 December 2022 is shown on the page below (these stocks are held in both funds). The Trustees have not influenced the manager's definitions of significant votes, but have reviewed these and are satisfied that they are all reasonable and appropriate.

The Royal College of Physicians (1973) Staff Pension Scheme

LGIM	Vote 1	Vote 2	Vote 3
Company name	Apple Inc.	Alphabet Inc.	NVIDIA Corporation
Date of Vote	2022-03-04	2022-06-01	2022-06-02
Approximate size of LGIM Ethical Global Equity Index Fund – GBP Hedged fund's holding as at the date of the vote (as % of portfolio)	7.0 %	2.0 %	1.3 %
Approximate size of LGIM Ethical Global Equity Index Fund fund's holding as at the date of the vote (as % of portfolio)	6.9 %	2.0 %	1.3 %
Summary of the resolution	Resolution 9 - Report on Civil Rights Audit	Resolution 7 - Report on Physical Risks of Climate Change	Resolution 1g - Elect Director Harvey C. Jones
How the fund manager voted	For	For	Against
Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.		
Rationale for the voting decision	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as LGIM consider these issues to be a material risk to companies.	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	Diversity: 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 are targeting the largest companies as they believe that these should demonstrate leadership on this critical issue. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
Outcome of the vote	53.6 % of shareholders supported the resolution.	17.7 % of shareholders supported the resolution.	83.8 % of shareholders supported the resolution.
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.		
Criteria on which the vote is assessed to be "most significant"	LGIM views gender diversity as a financially material issue for LGIM's clients, with implications for the assets LGIM manage on their clients' behalf.	LGIM considers this vote significant as it is an escalation of LGIM's climate-related engagement activity and LGIM's public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM views diversity as a financially material issue for LGIM's clients, with implications for the assets LGIM manage on their clients' behalf.