UK Stewardship Code Compliance Report

Year ending 31 March 2021

Superannuation Arrangements of the University of London

Pension Scheme Registry (PSR) number: 10125215

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Introduction

As a pension scheme with long term liabilities, it is in the Superannuation Arrangements of the University of London ("SAUL's") interests to encourage the companies in which we invest to focus on delivering sustainable investor value.

Our approach to Stewardship can be summarised as to responsibly allocate, manage and carry out oversight of the capital which we invest in order to create long-term value for the Scheme's beneficiaries. We expect this will also lead to sustainable benefits for the economy, the environment and society.

This report sets out SAUL's response (for the year to 31 March 2021) to the FRC's 2020 UK Stewardship Code's 12 Principles, which are grouped under four categories:

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This report has been produced by SAUL's Chief Investment Officer ("CIO") and reviewed by SAUL's Chair of the Investment Committee ("IC") on behalf of the Board.

April 2022

1. Purpose and Governance

Principle 1 - Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Background
SAUL Trustee Company ("STC") is Trustee and administrator of SAUL. The Scheme was set up in 1976 to provide pension benefits for non-academic employees of the University of London. It now covers c.50 colleges and institutions that have links with higher education, including most of the colleges of the University of London, Imperial College and the Universities of Essex and Kent.

SAUL currently provides Defined Benefits on a Career Average Revalued Earnings ("CARE") basis.

As at 31 March 2021 SAUL held £4.3bn of assets, providing benefits to over 68,000 members.

Vision
SAUL's vision is to have "*A sustainable and affordable, well-managed Scheme, which is valued by members and employers alike*".

In order to achieve this vision, SAUL incorporates Stewardship considerations into its investment approach.

Funding and Investment Strategy
SAUL's funding objective is to ensure that sufficient funds are available to pay all members' pensions now and in the future. This objective is supported by the investment strategy which aims to achieve an appropriate balance between risk and return over the long-term.

Investment Beliefs
In order to achieve the objective of paying pensions, SAUL holds investment beliefs that influence its thinking on investment. These beliefs are reviewed annually to ensure that they remain relevant by considering changing market dynamics and trends.

Included is the belief that "*a lack of consideration of ESG factors can increase risks and negatively impact the value of SAUL's investments. SAUL views climate change as the most significant risk over the long-term and the portfolio should be positioned in such a way as to be climate change resilient. It is also an area of opportunity.*"

Management of SAUL's Investments

The Trustee Board delegates the meeting of the investment objectives to its IC. The day-to-day management of the Scheme assets is delegated to external investment managers, with their activities overseen by SAUL's Chief Investment Officer ("CIO").

In order to meet the investment objectives, SAUL holds a diversified mix of investments across different asset classes as can be seen in the table below (as at 31 March 2021).

Asset Class	Comments	£m	%
Equity		**£1,820m**	**42.2%**
Public Equity	Global, mainly developed markets	£1,165m	27.0%
Private Equity	Global	£282m	6.5%
Private Infrastructure	UK and Europe	£373m	8.7%
Credit		**£1,182m**	**27.4%**
Public Credit	Global, mainly developed markets	£371m	8.6%
Multi-Class Credit	US and Europe	£438m	10.2%
Direct Lending	Predominantly US	£103m	2.4%
Distressed Debt	US and Europe	£65m	1.5%
Private Credit	Predominantly US and Europe	£204m	4.7%
Government Bonds and Cash		**£1,176m**	**27.3%**
UK	-	£1,081m	25.1%
Cash	Predominantly Sterling, US Dollar and Euro	£95m	2.2%
UK Property	**-**	**£133m**	**3.1%**
Total	**-**	**£4,310m**	**100.0%**

Source: Northern Trust (vales may not sum due to rounding)

Responsible Investment Approach

SAUL's approach to Responsible Investment ("RI") and Stewardship are set out in our SIP and RI policy. In summary, we believe that the integration of stewardship tools within a RI framework is key to ensuring SAUL's objectives are met. SAUL supports and applies the PRI's definition of stewardship:

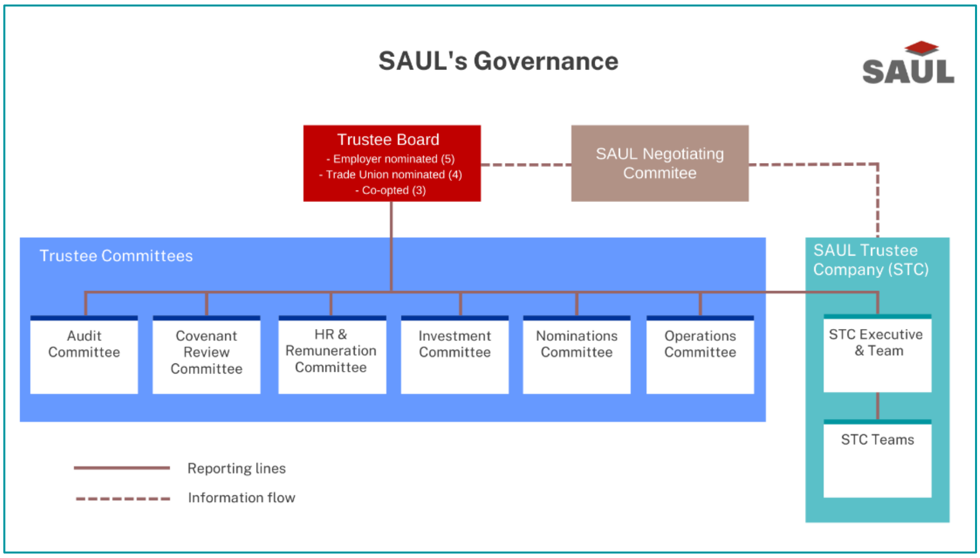
"The use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."

SAUL's approach to RI is set-out in our SIP which can be found here [**LINK**] and in our RI Policy can be found here [**LINK**].

Principle 2 - Signatories' governance, resources and incentives support stewardship.

SAUL's Governance Structure

SAUL has a robust governance structure to ensure that it meets its long-term objectives of paying the promised benefits to its members. The chart below shows the structure of SAUL.



The Trustee Board is ultimately responsible for setting the strategic funding and investment objectives for the Scheme, and SAUL's RI and Corporate Governance policies. In order to ensure effective governance and oversight, the Board has established various Committees with independent specialists appointed to both the Board and the IC.

Case Study 1:
SAUL recruited a new independent member of its IC over the year to 31 March 2021. As well as asking the candidates to demonstrate their knowledge of UK DB pension funds and investment markets, they were also questioned on their views on how RI should be considered, along with how SAUL should respond to the risks posed by climate change.

The Board and its Committees are supported and advised by an Executive Management Team ("EMT") within STC. This team comprises the:

- Chief Executive Officer;
- CIO;
- Chief Operating Officer;
- Head of Benefits; and
- Head of Technical and Communications.

In total there were 53 employees within STC at 31 March 2021 who help to provide a range of services to members (as well as supporting the Board and its Committees). The teams are administration, business development, communications, data services, executive support, finance, HR IT, investment and technical.

The Board appoints a Scheme Actuary and a Covenant Adviser. The IC has been given delegated responsibility by the Board to appoint a Strategic Investment Consultant and a Corporate Governance Adviser to support it on investment matters and more recently RI considerations.

Business Planning

The Board agrees an annual business plan for SAUL. As part of developing the business plan, the EMT and other members of STC undertake “horizon scanning” to ensure that legislative changes are adequately assessed and planned for.

As well as including business related projects and priorities, plans for SAUL to enhance its approach to RI has been a significant area of focus over the last few years. Targets have been set out to for 2029 and include setting climate change risk management objectives during 2021 (and then beginning to implement these over the coming years as well as disclosing our progress against these objectives annually, beginning with the year to 31 March 2022).

Risk Management

Given more focus on ESG matters from our stakeholders and regulators, SAUL ensures that it has a robust framework in place to ensure it has an appropriate approach to Stewardship. To not take ESG matters into account would be at odds with our long-term investment horizon. It could also create reputational risks and have an impact on the sustainability of SAUL.

In order to ensure that the risks posed by climate change and broader ESG considerations are adequately monitored and assessed, SAUL operates various risk logs and dashboards across its Committees and business operations, with ultimate oversight provided by the Board:

The IC owns the investment risk register which includes assessments of the risk that ESG and climate risk factors are not being appropriately considered. The outputs from the IC’s investment risk register feed into a Strategic Risk Dashboard which is reviewed by the Audit Committee (“AC”) and the Board on a quarterly basis.

Climate change, and the failure to take adequate steps to mitigate the risks posed by it, were added to the Strategic Risk Dashboard following SAUL’s Climate Change Forum held in June 2020. Management of this risk is reviewed quarterly by the AC, IC and the Board with the actions put in place to mitigate or ameliorate the impact of this risk being implemented by the EMT and the CIO.

SAUL’s Resources to Support SAUL’s approach to Stewardship

The IC is tasked with ensuring the Scheme’s investment strategy meets the strategic objectives set by the Board and is responsible for the appointment and oversight of the external investment managers. It also ensures that the Scheme’s stewardship activities are being discharged in accordance with the objectives set-out by the Board. As well as providing insight on investment matters, the composition of the IC is such that it benefits from a range of insights from industry professionals together with Employer appointed and Union appointed Trustees.

The IC established an in-house investment team within STC (the “STC Investment Team”) in 2010. This comprised a CIO and two investment analysts at 31 March 2021. This team works with the Strategic Investment Consultant to provide recommendations to the IC on all investment matters. It is also responsible for day-to-day monitoring of the Scheme’s investment managers, operational matters with the custodian and monitoring of the external providers in terms of ESG integration and Stewardship matters. The STC Investment Team also provides support to the Board and other Committees on other investment related issues as required.

External Resources to Support SAUL’s approach to Stewardship
SAUL has appointed the following External Service Providers:

- The Strategic Investment Consultant (“Redington Limited”) advises on investment strategy and manager selection as well as providing advice regarding ESG and Stewardship matters.
- The Corporate Governance Adviser (Pension & Investment Research Consultants (“PIRC”)) work with SAUL to help set and implement our bespoke Corporate Governance and Shareholder Voting Policy. PIRC also provide voting recommendations based on the policy and arranges for all SAUL’s shareholdings to be voted in line with the policy on a consistent basis. In February 2021 PIRC’s appointment was extended to include helping SAUL engage with companies through their VOICE service.
- The investment managers appointed by SAUL are tasked with incorporating ESG considerations into their investment analysis and are expected to engage with companies in which they invest, providing reporting on this to SAUL.
- SAUL’s external auditor (“PwC”) reviews risk controls and the financial statements, along with any disclosers made on ESG and Stewardship matters (e.g. Implementation Statement).

Case Study 2
Ahead of agreeing to use the new PIRC VOICE service, a member of the STC Investment Team attended a company engagement meeting arranged by PIRC, with Page Group (a UK based recruitment company). The focus of the meeting covered performance of Page Group during the pandemic, how they ensure diversity in the pool of candidates put forward for vacancies and their assessment of and plans for addressing climate change risk. PIRC subsequently presented to SAUL’s Investment Committee, and their appointment was confirmed.

The performance of these External Services Providers is formally reviewed at least every 3 years, with performance of the Strategic Investment Consultant reviewed annually and the investment managers appointments formally reviewed at least every 18 months.

Industry Groups and Initiatives

SAUL periodically reviews membership of other organisations or industry initiatives to help meet our ESG goals, promote best practice and encourage positive change. These also help us to keep up-to-date with relevant newsflow and collaborative engagement opportunities. A list of those organisations/initiatives that SAUL is involved with (at 31 March 2021) is shown in the table below:

Initiative (year joined)	Description
Institutional Investor Group on Climate Change (IIGCC) **(2021)**	The IIGCC is the European membership body and forum for collaboration by institutional investors on the investor implications of climate change.
(United Nations) Principles of Responsible Investment (PRI) **(2013)**	In early 2005, the then United Nations Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment. The six Principles for Responsible Investment were launched in 2006 and are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.
Workforce Disclosure Initiative (WDI) **(2017)**	An investor-backed programme (run by ShareAction) to improve the quality of jobs within listed companies' operations and supply chains.

Incentives

An investment manager's approach to ESG and Stewardship is an integral part of the appointment process, through consideration of relevant policies, examples of how ESG and Stewardship considerations have been integrated within the investment process and copies of example client reporting on ESG and stewardship matters.

SAUL's Strategic Investment Consultant is asked to evaluate a prospective investment manager's approach to the integration of ESG risks within their investment process, their resources dedicated to ESG and Stewardship and the quality of the manager's ongoing ESG reporting. These findings are presented to the CIO and the IC. Investment managers not meeting SAUL's requirements would not be considered for selection.

Investment managers are encouraged to integrate ESG and Stewardship considerations into their investment process and provide quality reporting on this to the STC Investment Team at least annually. Where possible, SAUL sets out its requirements within investment management agreements. Where investment managers do not show appropriate improvement or if performance on ESG and Stewardship matters deteriorates, this would tigger a review of the mandate.

Members of the STC Investment Team have specific objectives linked to monitoring the investment managers approaches and keeping up to date with ESG matters. Performance against these is considered annually.

Training

Given the regulatory backdrop and the need to ensure SAUL's long-term sustainability, training on ESG and Stewardship matters is an important consideration for SAUL.

Over the year to 31 March 2021, the Board and IC received training on the requirements within the new climate change regulations from SAUL's Legal Adviser. The Strategic Investment Consultant also provided an overview of the possible effects of climate change on the Scheme's investment strategy using the Prudential Regulatory Authority Stress Tests.

This training session triggered the Board to establish a Climate Change Working Group ("CCWG") to review how SAUL should respond to the risks posed by climate change. This is covered further under Principle 4 on page 11.

Principle 3 - Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Trustee Conflict Management

SAUL has a robust conflicts of interest policy in relation to the Trustee Directors, independent members appointed to the Investment Committee, and key members of STC staff (e.g. members of the EMT and STC Investment Team).

The Company Secretary maintains a comprehensive register of declared interests and conflicts which is updated on an annual basis and reviewed by both the Audit Committee and the Trustee Board. In addition, all of SAUL's Board and Committee meetings have a standing agenda item at the beginning of each meeting whereby each member is asked if there are any conflicts arising from the agenda items being covered. Regular training sessions are arranged with the Trustee Directors to specifically consider conflicts of interest and how these can arise. In addition, any newly appointed Trustee Directors or independent Investment Committee members will undergo training in relation to conflicts of interest.

A Hospitality and Gifts policy operates across all Trustee Directors, independent members appointed to the Investment and Committee, and key members of STC staff. A Hospitality and Gift Register is maintained centrally by the Company Secretary and considered by the Audit Committee on a quarterly basis.

External Service Providers Conflict Management in Respect of Stewardship
SAUL's relationship with PIRC enables the Trustee to effectively manage any conflicts of interest in relation to PIRC's stewardship work. If a perceived conflict of interest occurs between PIRC and a particular company (for example, if PIRC has advised the proponents of a shareholder resolution with respect to that company), PIRC declares this in its reports to SAUL. To further minimise the possibility of it ever being put in a position in which its voice is compromised, PIRC only works for institutional investors so has no commercial relationship with the companies it analyses.

If PIRC is engaging with a company on SAUL's behalf, it will state any potential conflict at the outset of the meeting and decide with the company whether engagement can proceed. It is always clarified that PIRC is only attending to represent its client's views, and not those of PIRC. PIRC is regulated by the FCA and requires all of its employees to complete a declaration of interests form.

SAUL expects its investment managers and any other applicable service providers to ensure that they have effective policies in place to manage conflicts of interest. These statements on conflicts of interest (and any conflicts declared) are reviewed at least annually by the STC Investment Team, with any issues escalated to the IC for review.

Management of Conflicts
Of the conflicts of interest declared over the year to 31 March 2021 these were appropriately managed. For example, Employer Directors excusing themselves from agenda items relating to their own institutions.

Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Market-wide and Systemic Risks
Market-wide risks are managed through diversification by company, sector, geography and asset class as well as maintaining high levels of interest rate and inflation protection to manage marked-to-market risks associated with the valuation of liabilities.

The IC discusses market developments at its quarterly meetings and these discussions are supported by a market update provided by the Strategic Investment Consultant.

Reacting to the Systemic Risk of COVID-19
At the start of the year, the COVID-19 pandemic brought with it investment and funding challenges.

Our liability hedging programme provided protection in terms of the Scheme's funding level as the value of hedging instruments increased with the increase in the present value of the liabilities. Diversification by stock, sector and geography helped limit the fall in equity asset values.

SAUL was also able to provide capital to help maintain well-functioning markets during the initial turbulence. SAUL committed to a private credit mandate that provided capital to the US securitisation market, which was struggling due to forced selling, investor liquidity concerns and post Global Financial Crisis regulations.

In terms of ESG and stewardship, COVID-19 changed the way that investors engaged with companies, with access to senior company management made easier through the move to virtual meetings. Through our dialogue with investment managers and PIRC, we found that engagement on ESG matters had actually increased over this period and this ease of access had, for example, helped PIRC to engage with food processing companies on reports of poor health and safety practices.

RPI Reform

SAUL's engagement is in the main directed at our underlying portfolio companies, however SAUL also responds to government and regulators on relevant ESG issues when they arise. For example in 2020 SAUL responded to the UK Government consultation on a proposal from the UK Statistics Authority's to reform the Retail Prices Index ("RPI") methodology to align it with the Consumer Prices Index ("CPI") after 2030.

SAUL disagreed with the proposal as the changes would have a detrimental impact on the Scheme's funding position, undoing some of the work we had undertaken to prudently manage inflation risk arising from inflation-linked liabilities by investing in RPI index-linked gilts.

Climate Change Risk Management

In 2020, SAUL took steps to incorporate climate change risk into its investment portfolio by aligning its fixed income investments with Legal & General Investment Management ("LGIM") to their Future World Protection List methodology (£235m or c.5% of the total Scheme assets).

In terms of climate change risk, the Future World Protection List excludes companies generating 30% or more of their revenues from thermal coal mining and extraction. The methodology is also wider in scope, additionally excluding companies that are involved in the manufacture and production of controversial weapons and perennial violators of the United Nations Global Compact ("UNGC"), helping to manage broader ESG risks.

In order to further SAUL's thinking on climate change, the Board bought together our main stakeholders in June 2020 for a Climate Change Forum. The risks posed by climate change were discussed as was the responses that SAUL could take to mitigate any impact on our ability to pay members' pensions far into the future. At that Forum, SAUL's stakeholders agreed that climate change posed a material financial risk and a robust strategy to manage the risks would be needed.

As a result, the Board established a Working Group to consider climate change which held its first meeting in January 2021. The Working Group included Board members from all three constituencies (Employer Nominated, Union Nominated and Independents) with the aim of making formal recommendations to the Board for approval in November 2021.

Over the period January to March 2021, the CCWG held 2 meetings and covered a wide range of topics such as:

- The views of SAUL's main stakeholders (Employers and Unions);
- The targets other pension schemes were setting;
- The new legislative requirements and how they might evolve; and
- Engagement versus divestment.

SAUL joined the Institutional Investors Group on Climate Change ("IIGCC") in December 2020 in order to help the CCWG consider the objectives and targets.

Principle 5 - Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Review of Policies

SAUL has a formal review process for all of its polices and current policies referenced below can be found on our website [**LINK**].

- In line with legislative requirements, SAUL's SIP is reviewed at least every 3 years, or sooner should there be a material change to the investment strategy.
- SAUL's RI Policy is reviewed at least every 3 years, or sooner should there be a material change to SAUL's approach.
- SAUL's Corporate Governance and Shareholder Voting Policy is reviewed at least every 3 years, or sooner should there be a material change to SAUL's approach and having regard to changes that PIRC may make to its voting policy.

Assurance

PwC carries out the annual audit of SAUL's annual report and accounts. The review considers the fairness of the financial statements, and PwC focusses the majority of its time on matters considered "higher-risk" under their own assessment framework. PwC's review of the 31 March 2021 annual report and accounts also reviewed SAUL's first Implementation Statement that was required to be published under the updated Occupational Pension Schemes (Investment) Regulations 2005.

Assessment

An assessment of SAUL's integration of ESG considerations is undertaken by the PRI on an annual basis on the basis of SAUL's PRI submission. SAUL has been a signatory to the PRI since 2013. The most recent Assessment Report (2020) issued by the PRI awarded SAUL:

- An A-rating for Strategy and Governance which was in-line with our PRI peer group.

- An A-rating for Listed Equity - Active Ownership which was above our PRI peer group.
- B-ratings for Manager Selection and Appointment which were behind our PRI peer group.

A copy of SAUL's latest PRI Transparency Report can be found here [**LINK**].

2. Investment Approach

Principle 6 - Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Beneficiaries

SAUL currently provides Defined Benefits on a CARE basis. The membership breakdown at 31 March 2021 is shown in the table below:

Member Type	31 March 2021	Average Age
Active	23,152	46
Deferred	34,905	45
Pensioners (including dependents/beneficiaries)	10,657	69
Total	**68,714**	**-**

A further breakdown of SAUL's membership across our sponsoring Employers can be found in the annual report and accounts here [**LINK**].

Given that SAUL remains an open DB Scheme, it has a long-term investment horizon and as a result we believe ESG and Stewardship considerations need to be incorporated in our approach in order to maintain long-term sustainability.

Beneficiary Needs and Communication

Given the nature of the Scheme, SAUL has Union representation from UNISON and Unite on its Board and Committees, and this ensures that the needs of members are considered. SAUL also has a dedicated internal Communications Team who are tasked with updating members on all aspects of the Scheme, encourage and collate member feedback and issue annual surveys to gauge the wants and needs of members. The outputs from the annual member survey and agreed actions are considered by the Board.

Recent updates to Members and other stakeholders have included SAUL joining the IIGCC and SAUL signing the 2021 Global Investor Statement to Governments on the Climate Crisis. Further details can be found here [**LINK**].

Principle 7 - Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Background
SAUL's consideration of ESG and Stewardship matters began in 1999 with the appointment of PIRC for general corporate governance research and advice. This relationship was enhanced over the years with PIRC appointed to help SAUL commission its first Corporate Governance and Shareholder Engagement Policy. This policy was put in place to ensure a coherent approach across the segregated public equity portfolio, and to ensure that voting was consistently applied across all shareholdings. Up until 2019, SAUL had voted in-line with PIRC's voting policy, but we worked with PIRC at that time to commission a bespoke voting policy whereby SAUL seeks to reduce the number of abstain votes.

In 2013 SAUL signed up to the PRI, committing itself to integrate the six principles and to complete an annual assessment. Furthermore, our first RI Policy was commissioned in 2019 to formalise SAUL's approach and also to set out how we assess and monitor the Scheme's investment managers with regard to integration of ESG factors in their investment approach, with a scoring framework declared publicly along with how any issues identified are escalated.

Investment Managers
SAUL incorporates ESG criteria when selecting investment managers which applies across all asset classes. Specific ESG questions are included in the Requests for Information ("RFI"). Furthermore, the Strategic Investment Consultant is asked to evaluate the investment manager's integration of ESG risks within their investment process, highlighting whether the manager has a comparative advantage against their peers. Should the investment manager be asked to attend a selection meeting, they are challenged on their consideration of ESG risks at that meeting and asked to provide examples.

Case Study 3
In July 2020, the IC considered an additional commitment to a private markets fund and met with Kohlberg Kravis Roberts Co ("KKR") to discuss their investment approach along with how they incorporate ESG risks.

KKR set-out their method for integrating ESG risks which included a detailed overview of both pre and post investment due diligence and ongoing monitoring. This included completing their ESG checklist, including highlighting key ESG risks when each new investment was considered at their Investment Committee and the process for identifying and monitoring emerging ESG risks throughout the investment period.

The IC was comfortable with KKR's approach to managing ESG risks but felt that reporting and disclosure could be improved. A condition of KKR's additional commitment, therefore, involved negotiating a clause in the agreement to provide suitable reporting to SAUL on their ESG activities at least annually.

Strategic Investment Consultant

The IC has appointed Redington as the Strategic Investment Consultant. Redington has invested heavily in establishing a Stewardship and ESG team to help clients develop their own polices to help meet their goals. Redington integrate ESG and Stewardship considerations into their manager selection process and ongoing monitoring and we see evidence of this in the papers they provide to us.

Redington is a signatory to the 2020 UK Stewardship Code and a copy of their response can be found here [**LINK**].

Case Study 4

In November 2020, the IC reviewed Redington's annual ESG dashboard for SAUL's public equity and credit portfolios as at 30 September 2020 which covered c.35% of the total Scheme assets. The dashboard included the MSCI ESG Ratings for these mandates, how they have changed over the last 12 months, the carbon intensity and the STC Investment Team's ESG Rating for each mandate.

As part of this review, the STC Investment Team received more detailed dashboards for each mandate. As well as including the overall MSCI ESG score at portfolio level, it included comments from the investment managers on the two lowest rated securities (as scored by MSCI) in their portfolio. The STC Investment Team used this dashboard as part of our formal review meetings with the investment managers.

For example, Minth Group Limited (a Chinese automobile parts manufacturer) had a B-rating from MSCI and was held within SAUL's public equity portfolio. Through its own analysis of the ESG risks the investment manager had confidence in the position, and they viewed the downgrade from BB to B as being due to the Chairman being a former CEO which created leadership concerns for MSCI.

However, the investment manager highlighted that the Chairman (and founder) took on the CEO role on a temporary basis for 9 months until a new CEO could be hired and, as of May 2020, the founder was no longer Chair. Minth also scored particularly poorly on MSCI ratings for "opportunities in clean tech" which was based on revenue breakdown. However, the company had a battery housing business for electric vehicles, which whilst only 1% of sales at the time, in the investment manager's view it had the potential to grow to 20% of sales within the next 5 or so years.

PIRC

PIRC engage with SAUL's portfolio companies on a regular basis using a thematic framework to identify ESG issues. As part of PIRC's appointment, the STC Investment Team reviewed their engagement work which had focussed on outsourcing covering a number of industries. The pandemic had presented uncertainty for outsourced workers in particular because of combined risks of job insecurity, cuts to hours and pay, and delivery of frontline services where COVID-19 transmission has been high. An example is provided below.

Case Study 5

PIRC engaged with Cranswick (a UK food processing company) following two notable COVID-19 outbreaks in their operations over the summer, including in a pork factory in Barnsley where 3 workers died. The company reported that cases were believed to be the result of community transmission and that several measures had been taken to protect the workforce, including protective screens, Personal Protective Equipment ("PPE") and one-way systems. PIRC also raised concerns about the routine use of agency staff in the sector. Cranswick confirmed that at peak times, 30% of the workforce were agency workers, including many who would share accommodation.

Looking ahead, Cranswick expressed concerns about staff shortages in 2021/ post-Brexit as a large portion of the workforce were migrant workers from Europe. In response, the company intended to increase automation and ensure pay and conditions were competitive. Cranswick had designated a Non-Executive Director for workforce engagement and had confirmed that they would be completing the Workforce Disclosure Initiative ("WDI") survey again in 2021, which aims to improve labour-related reporting.

PIRC is a signatory to the 2020 UK Stewardship Code and a copy of their response can be found here [**LINK**].

Principle 8 - Signatories monitor and hold to account managers and/or service providers.

Investment Managers

In order to ensure that our investment managers continue to integrate and enhance their approaches to ESG, the STC Investment Team has developed a RI dashboard. This dashboard covers our assessment of whether investment managers:

- Have clear policies on how they integrate RI throughout the investment lifecycle;
- Provide us with evidence of how they incorporate ESG considerations into investment decision making, how they identify the significant ESG risks and how they intend to mitigate these e.g. through engagement for change;
- Encourage companies to adhere to best practice and adopt industry codes for sustainability and disclosure;
- Work with ESG data providers to improve data standards;
- Review and enhance the tools they use to identify ESG risks and implement firm-wide training programmes;
- Produce relevant reporting and analytics to SAUL on a regular basis.

The IC receives a copy of the meeting note from the STC Investment Team after each investment manager meeting. As well as containing a review of the business and mandate performance, the note includes an assessment of the investment managers approach to ESG and stewardship. If any issues are identified, the IC determines whether the resultant risk warrants the termination of a manager mandate and if not, decide what actions should be taken.

In order to monitor engagements undertaken by SAUL's investment managers, the STC Investment Team developed an engagement template which the investment managers are asked to complete on a quarterly basis. For each engagement the template requires information on the engagement objective, what was discussed, whether or not the engagement objective has been completed and if the engagement has changed the investment managers view of the company. This template is reviewed by the STC Investment Team on a quarterly basis, with a selection of engagements also considered by the IC.

Case Study 6

The STC Investment Team conducted a formal review meeting with one of its fixed income managers in September 2022. The meeting materials received made no mention of ESG considerations and the meeting note reviewed by the IC flagged the CIO's concerns.

The CIO subsequently met with the manager's ESG Team and the portfolio managers to discuss their approach to ESG in more detail and for the manager to provide evidence of ESG integration.

Following the meeting, the manager enhanced SAUL's quarterly reporting package to include ESG commentary and the manager's proprietary ESG scores for each of the investments. We were pleased with this outcome, and this led to the IC being comfortable committing additional capital to the mandate.

Strategic Investment Consultant

As required by the FCA, the IC conducts a formal review of the Strategic Investment Consultant on an annual basis. As well as scoring them ourselves, the Strategic Investment Consultant is also asked to self-evaluate their performance against a set of agreed metrics, and these include advice provided to SAUL on ESG and Stewardship matters.

Over the year to 31 March 2021, the Strategic Investment Consultant continued to produce their annual ESG dashboard to supplement the STC Investment Team's monitoring of the investment managers. This dashboard provides ESG scores across all of our public equity and fixed income mandates using the MSCI ESG Scores and MSCI Carbon Metrics data. They also provided advice to our Climate Change Working Group to help formulate SAUL's climate change risk management objectives.

The review of the Strategic Investment Consultant (which is conducted annually to September) raised no issues with regards to the advice they have provided on ESG and Stewardship matters.

PIRC

PIRC's appointment as corporate governance adviser is reviewed at least every three years, with the last review undertaken in February 2021. The STC Investment Team reviews PIRC's implementation of our bespoke voting policy and the support they provide on ESG and Stewardship matters. The STC Investment Team formally reviews the PIRC's VOICE engagement service on an annual basis and the team also holds quarterly calls with PIRC to receive updates on their engagement activities over that period along with future engagement priorities. PIRC will produce an annual engagement report for SAUL at our 31 March year end, with the first report being produced for the year to 31 March 2022.

3. Engagement

Principle 9 - Signatories engage with issuers to maintain or enhance the value of assets.

Investment Managers

SAUL appoints investment managers for all of our investment mandates and part of their remit is to engage with underlying companies in order to build long-term relationships with them and where they have identified ESG issues for escalation, and report back to SAUL on their activities. As mentioned under Principle 8 on page 17, the STC Investment Team developed an engagement template which the investment managers are asked to complete on a quarterly basis and two examples are provided below.

Case Study 7

Montanaro (Pan-European Small Cap Equity) engaged with Thule (a Swedish outdoor products company) over the year to encourage them to sign up to the Carbon Disclosure Project ("CDP"), as Montanaro had become a part of the CDP campaign to encourage companies to sign up to the Science Based Target initiative ("SBTi").

Montanaro were pleased when Thule announced that it would be committing to a reduction in its greenhouse gas emissions after signing up to the SBTi. The business would be monitored by external auditors as it pledged to reduce its environmental impact within the company and externally with suppliers. Montanaro were also pleased to hear that ESG indicators are now included as part of the assessment for the awarding of variable pay.

Case Study 8

Partners Group Holding AG ("Partners Group") manages SAUL's private equity investments and over the year they engaged with Ammega, which is the global leader in mission critical industrial power transmission and lightweight process and conveyor belting.

Ammega operates in 51 countries and had over 50,000 customers globally in more than 50 resilient and growing end markets including food, pharma, and logistics/e-commerce. The company had c.5,600 employees and operated 24 manufacturing sites and a worldwide distribution and servicing network across 150 countries.

During the acquisition process in 2018, Partners Group conducted ESG due diligence and found that Ammega did not have a unified health & safety ("H&S") system across the entire organisation. Based on this finding, Partners Group committed to improving Ammega's H&S system during ownership. The Partners Group ESG & Sustainability Team worked with Ammega's Operations team and its Health, Safety and Environment (HSE) Director to conduct a review of the company's H&S culture and performance on key H&S metrics. Based on this, Ammega defined a five-year H&S vision with an ambitious goal to reach zero harm by 2025.

Since Partners Group's involvement, Ammega has made significant progress on improving H&S. The Lost Time Injury Frequency Rate ("LTIFR") improved from 3.21 in 2018 to 1.20 as of November 2020 thereby outperforming the 2020 target of 1.79, and within the top quartile of their peer group.

PIRC

Given that PIRC was appointed in February 2021 (towards the end of the reporting period) for engagement services, we will provide examples of their engagement activities on behalf of SAUL for the year ended 31 March 2022.

Principle 10 - Signatories, where necessary, participate in collaborative engagement to influence issuers.

SAUL

SAUL recognises that, given resource constraints, there are limits to the influence that we can achieve on our own and so SAUL focusses mainly on collaborative engagements with other interested parties through our affiliations to various industry initiatives, and will continue to review the merits of these on a case-by-case basis. The STC Investment Team monitors collaborative engagements through regular PRI notifications and from PIRC directly.

Over the year to 31 March 2021 SAUL did not take part in any collaborative engagements.

Investment Managers

As part of our review and monitoring of investment managers, we are keen to see them engage collaboratively with other investors and respond to relevant industry consultations. SAUL monitors collaborative engagements through its quarterly monitoring template completed by the investment managers as well as annual Stewardship reports and PRI transparency and assessment reports produced by the investment managers.

PIRC

As well as engaging with companies on behalf of SAUL, PIRC is also a member of various industry groups and collaborates through these on engagements (e.g. PLSA (Pensions & Lifetime Savings Assocaiton), Council of Institutional Investors and the Workforce Disclosure Initiative).

These groups also help PIRC have sight of ESG issues in the marketplace and helps them to tailor their own engagements more effectively.

Principle 11 - Signatories, where necessary, escalate stewardship activities to influence issuers.

SAUL

As we have set out in this report, our approach to escalation of stewardship depends on the nature of the asset class but will include collaborative engagement with companies and issuers directly or through our investment managers and PIRC, along with continuing to vote against management where we have concerns or companies are not following best practice. These could include abstaining or voting against management, or collaborative engagement with companies - through PIRC or directly.

Investment Managers

As highlighted under Principle 8 on page 17, SAUL has a robust process for monitoring the investment managers and this includes identifying items that need escalation. Should an investment manager not meet our requirements with regard to stewardship, we may withhold additional investments until the issues have been rectified (see Case Study 6 on page 18) or if the issue persists their mandate may be terminated.

PIRC

Principles 2 and 12 on pages 6 and 23 respectively set out how PIRC works with us to engage collaboratively with companies and vote in line with SAUL's voting policy. As part of their appointment, we asked them to focus their engagements over the year to 31 March 2022 on climate change risk and working conditions. We will continue to work with PIRC to help us engage on issues relevant to SAUL.

4. Exercising Rights and Responsibilities

Principle 12 - Signatories actively exercise their rights and responsibilities.

Public Equities

Implementation of SAUL's voting policy is delegated to PIRC across all of our segregated public equity investments. If there are any voting issues that are not covered by SAUL's policy, PIRC will inform SAUL of these issues and make proposals regarding any action to be taken. There were no votes that were not covered by SAUL's policy over the year to 31 March 2021.

In addition, SAUL encourages its managers to highlight any significant upcoming votes in which it is likely that PIRC would recommend voting in a different manner to the way in which the investment manager intends to vote. In these circumstances, the CIO and the Chair of the IC consider the views of both PIRC and the investment manager before determining how the vote will be cast. Over the year to 31 March 2021 no changes were made to the votes recommended by PIRC.

PIRC provides individual company reports to the STC Investment Team ahead of each company meeting. These set out the rationale for the voting recommendations under each agenda item. PIRC also set out whether their report was sent to the company for comment and if any changes have been made to the PIRC voting recommendation as a result of any feedback received from the company. A sample of these reports are reviewed by the STC Investment Team to ensure compliance with SAUL's voting guidelines. There were no issues identified over the year to 31 March 2021.

PIRC continues to improve these reports and they now include more details on a company's general ESG compliance and climate change information as well as aligning some of PIRC's best practice standards to the UN Sustainable Development Goals.

Oversight of PIRC's voting activity is reviewed on quarterly basis by the STC Investment Team and IC. There were no issues identified over the year to 31 March 2021.

SAUL participates in a stock lending programme with its Global Custodian. In order to exercise its vote at all company meetings at which SAUL invests, a proportion of shares are excluded from the stock lending programme. At times SAUL may recall all of the stock on loan for a company in which it invests should there be a voting issue of particular significance however there were no such instances over the year to 31 March 2021.

Over the year to 31 March 2021, SAUL voted on 4,364 resolutions at 359 meetings in relation to 342 companies of which it held public equity securities. Further details can be found in our Implementation Statement on pages 73 - 82 of the Annual Report and Accounts which can be found here [**LINK**].

Case Study 9

At the ExxonMobil AGM in May 2020, a shareholder resolution was proposed where, beginning in 2020, ExxonMobil should publish an annual report of the incurred costs and associated significant and actual benefits that have accrued to shareholders, the public health and the environment, including the global climate, from the company's environment-related activities that are voluntary and that exceed U.S. and foreign compliance and regulatory requirements. The resolution was intended to help shareholders monitor and evaluate whether the company's voluntary activities and expenditures advertised as protecting the public health and environment are producing actual and meaningful benefits to shareholders, the public health and the environment, including global climate.

PIRC considered the resolution and concluded that, while increased disclosure would normally be in shareholders' interests, the proposed report was based on flawed methodology. Furthermore, the proponent was seeking a report exclusively focused on short-term costs and benefits for the company, not including the long-term benefits (also economic) of a lower carbon emission strategy. It was considered that shareholders should instead be focused on long-term value creation.

More importantly, PIRC concluded that overlooking the potential long-term costs of ignoring climate change was not considered to be in shareholders' best interests. PIRC therefore recommended opposing this resolution in line with SAUL's voting policy.

Pooled Fund Holdings

Over the year to 31 March 2021, SAUL did not invest in any pooled funds that held public equities. Should SAUL invest in pooled funds in the future, the IC would review the investment manager's approach to voting - noting those situations where a manager may vote differently from SAUL's voting policy.

Private Markets Investments

SAUL's private market investments cover a range of investment opportunities (private equity, private infrastructure, private credit etc.) and are generally accessed through investment in illiquid fund structures such as Limited Partnerships. Given the nature of these investments, direct engagement with the underlying companies sits with the General Partner of the Limited Partnership.

As a large investor, and in order to ensure that SAUL can influence appropriate disclosure and reporting of ESG considerations, we look to achieve a seat on the Advisory Committee of each Limited Partnership in which we invest.

In terms of voting, the private markets funds hold annual general meetings whereby clients can vote on the annual report and accounts and appointment of auditors. Should a vote be required, SAUL applies the principles set out in our Corporate Governance and Shareholder Engagement Policy.

Over the year to March 2021, SAUL voted at 8 meetings of our private market investments with our main oppose votes being the re-appointment of auditors - as many of these funds have engaged the same audit firm for over 10 years.

Class Actions
In order to monitor potential class actions on our investments, SAUL has appointed two firms (Robbins, Gellar, Rudman and Dowd LLP and Grant Eisenhofer LLP) to monitor and notify the STC Investment Team of any cases in which a claim may exist on a quarterly basis. In order to assess this these firms are provided with trading history on a quarterly basis from our Custodian.

The reporting that these firms provide also acts as a check on the activities of the Custodian who submit claims in the US on behalf of SAUL. Over the year to 31 March 2021, SAUL received c.£4k of proceeds from historic class action settlements.

Litigation
In order to safeguard SAUL's assets, the prospect of litigation is an important tool but is viewed as a last resort in most cases. Using the monitoring services described above, SAUL will consider whether or not to participate directly in litigation on a case-by-case basis. Over the year to 31 March 2021 SAUL did not act as lead plaintiff in any litigation cases.

Review and Future Plans

The year to 31 March 2021 saw an increased focus from the STC Investment Team ensuring that SAUL's investment managers took ESG and stewardship risks into account, using our rating methodology to highlight areas for improvement. The review meetings we held were encouraging, with most of our investment managers embracing our requirements for increased disclosure and helping us to meeting future requirements regarding climate change risk management.

We also learned the limitations of using the scores of external ESG data providers, as many managers commented that the some of the information used was either incorrect or out of date and in some cases the qualitative judgements applied had been misleading.

We also began our journey on SAUL's approach to climate change risk management in the year to 31 March 2021, with climate change risk objectives agreed in November 2021. We will set these out in next year's report.

The table below summarises our focus for key areas of improvement over the coming years.

Future Enhancements to SAUL's ESG and Stewardship Approach
• Setting and implementing our climate change risk management objectives and ensuring that our bespoke voting policy aligns with these objectives.
• Reinforce our commitment to climate change risk management by joining Climate Action 100+ and the Paris Aligned Investment Initiative.
• Communicating our climate change commitments with all stakeholders.
• Formalising our broader ESG requirements through agreements with investment managers.
• Producing SAUL's first climate change risk management report for the year ended 31 March 2022.
• Review of our approach to rating the ESG integration of our investment managers.