

Implementation Statement for the USAA Limited Pension and Life Assurance Scheme

Covering 1 April 2019 to 31 March 2020

1. Background

The Trustee of the USAA Limited Pension and Life Assurance Scheme (“the Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the Scheme’s Statement of Investment Principles (“SIP”) during the previous Scheme year. This statement also includes the details of any reviews of the SIP during the year, any changes that were made and reasons for the changes. This is the first implementation statement produced by the Trustee.

A description of the voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used, also needs to be included within this statement.

This statement should be read in conjunction with the SIP and has been produced in accordance with **The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018** and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

A copy of the most recent SIP can be found online at [USAA SIP](#)

2. Investment Objectives and activity

The objective of the Scheme is to achieve, over the long term, a return on the Scheme’s assets which is sufficient (in conjunction with the Scheme’s existing contributions) to pay all members’ benefits in full.

During the year, progress was reviewed on a quarterly basis as part of the formal quarterly monitoring report. No formal manager selection or strategy decisions were made during the last Scheme year.

The SIP was fully reviewed and updated during the period to incorporate the Trustee’s policy on Environmental, Social and Governance (“ESG”) factors, stewardship and climate change, as required under new regulations.

3. ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustee’s policy on Environmental, Social and Governance (“ESG”) factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change, and the processes followed by the Trustee in relation to voting rights and stewardship.

The Trustee will review these further in the next Scheme year and provide information in the next implementation statement. The Trustee also intends to review the investment managers’ ESG policies including the application of voting rights in the next Scheme year.

4. Voting and Engagement

The Trustee is keen that its managers are signatories to the UK Stewardship Code, which they are.

All of the Trustee's holdings are within pooled funds and the Trustee has delegated to their investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee has not used proxy voting services over the year.

The Scheme is invested in the following funds:

- BMO Global Asset Management ("BMO") UK Equity-Linked UK Gilt Fund
- BMO Overseas Equity-Linked UK Gilt Fund
- BNY Mellon Investment Management Real Return Fund
- Insight Investment ("Insight") Broad Opportunities Fund
- Payden & Rygel Global Limited Absolute Return Bond Fund
- Insight Enhanced Selection – Longer Nominal
- Insight Enhanced Selection – Longer Real

The Trustee was unable to include voting data for some of the pooled funds however they will continue to work with their advisers and investment managers with the aim of providing more information in future statements.

a. Description of investment manager's voting processes

Insight

Insight describe their processes as using a proxy voting provider Minerva to cast their votes. They define significant votes as votes where Minerva departs from their voting policy and guidelines.

BNY Mellon

BNY Mellon describe their voting process as follows:

"Our head of responsible investment (RI) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. We do not maintain a strict proxy voting policy. Instead, we prefer to take into account a company's individual circumstances, our investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, we may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). For the avoidance of doubt, all voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence.

It is also only in these circumstances when we may register an abstention given our stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures we do not provide confusing messages to companies.

Research ahead of voting decisions; regional distinction

We employ a variety of research providers that aid us in the vote decision-making process, including proxy advisors such as ISS. We utilise ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

Voting decisions take into account local market best practice, rules and regulations while also supporting our investment rationale. For example, when voting on the election of directors in Japan, we are unlikely to vote against a board chair should the board not be majority independent given that only recently the corporate governance code has recommended boards appoint independent directors. However, in the UK, where majority independent boards are well established and expected by investors, we are likely to vote against the chair and non-independent directors. This being said, we frequently vote against executive pay at US companies despite it being accepted US market practice of granting significant awards of free shares as we believe executive pay should be aligned with performance."

b. Summary of voting behaviour over the year

A summary of the investment managers' voting behaviour over the period is provided in the tables below:

	Summary Info
Manager name	Insight Investment
Fund name	Broad Opportunities Fund
Approximate value of trustee's assets	c.£3.9m as at 31 March 2020
Number of meetings eligible to vote	11
Number of resolutions eligible to vote	129
% of resolutions voted	100.00%
% of resolutions voted with management	100.00%
% of resolutions voted against management	0.00%
% of resolutions abstained	0.00%
% of resolutions withheld	0.00%

	Summary Info
Manager name	BNY Mellon
Fund name	Real Return Fund
Approximate value of trustee's assets	c.£4.0m as at 31 March 2020
Number of equity holdings in the fund	79
Number of meetings eligible to vote	70
Number of resolutions eligible to vote	953
% of resolutions voted	97.20%
% of resolutions voted with management	90.00%
% of resolutions voted against management	10.00%
% of resolutions abstained	0.00%
% of resolutions withheld	0.00%
% of meetings with at least one vote against managements	30.00%
% of resolutions voted contrary to the proxy adviser recommendation	9.20%

c. Most significant votes over the year

The Trustee was unable to include most significant voting data for some of the pooled funds however they will continue to work with their advisers and investment managers with the aim of providing more information in future statements.

Insight Investment

Insight define significant votes as where a vote departs from their voting policy and guidelines. Insight indicated that there were no votes that departed from their voting policy and guidelines during the period.

BNY Mellon

BNY Mellon define their process for determining the “most significant” votes as follows:

“We regard material issues as all votes against management, including where we support shareholder resolutions that the company’s management are recommending voting against. As active managers, we invest in companies that we believe will support the long term performance objectives of our clients. By doing so, we are making a positive statement about the business, the management of risks and the quality of management. Voting against management, therefore, is a strong statement that we think there are areas for improvement. As such, by not supporting management, we think that this is material, which is different to a passive investor where there is no automatic assumption of a positive intent in ownership. As such, we report publicly our rationale for each instance where we have voted against the recommendation of the underlying company’s management. At the fund level, we consider each instance of voting against management to be significant but if required to prioritise these instances, we take an objective approach that includes the fund’s weighting in each security. This reflects our investment process and ensures the prioritised list includes those instances that could be most impactful to the long term value to the fund as well as those that may have an immediate impact to the fund.”

IN RELATION TO THE FUND NAMED ABOVE, WHICH 10 VOTES (AT A MINIMUM) DURING THE REPORTING PERIOD DO YOU CONSIDER TO BE MOST SIGNIFICANT FOR THE SCHEME?

VOTE 1

Company name	Associated British Foods Plc
Date of vote	06-Dec-19
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.67
Summary of the resolution	Approve Remuneration Report
How you voted	AGAINST
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes
Rationale for the voting decision	We voted against the remuneration report owing to long-held concerns about the exclusion of the sugar division's performance from the calculation of management's long-term incentive award. However, following extensive engagement with the chair of the remuneration committee, we were able to support the revised remuneration policy owing to a change in the structure of the scheme. We were pleased to see that the sugar business can now affect the entirety of the long-term pay award rather than just a portion of it, and we believe the new structure aligns well with the company's overall business strategy.
Outcome of the vote	3.3% vote AGAINST.
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	This vote supported and was in line with our previous voting and engagement activities that have ultimately resulted in the executive pay structure going forward being better aligned with the company's activities and the shareholder experience. We hope to be able to support the remuneration report at future AGMs.
On which criteria have you assessed this vote to be "most significant"?	The vote and change in remuneration structure is considered significant given our multi-year efforts that have resulted in an improved alignment between executive pay arrangements and company performance.

VOTE 2

Bayer AG

26-Apr-19

0.63

Approve Discharge of Management Board for Fiscal 2018

AGAINST

No - engaged after the vote.

We voted against a resolution to discharge the management board for 2018. This was because we viewed that management had misjudged the legal and reputational risks of the Monsanto acquisition, and underestimated the legal costs of one of Monsanto's most important products, Roundup, which is being tried in court as carcinogenic. Voting against the discharge of management does not have legal implications. Instead, it sends a message to management that investors hold them accountable for the ongoing negative developments related to the Monsanto acquisition.

55.5% vote AGAINST.

The outcome of the vote provided a clear message to the company that shareholders are willing to hold management responsible, publicly. We will continue to engage with the company as the issue and actions evolve.

We deemed the vote as significant owing to the legal, reputational and media controversies surrounding the company's acquisition of Monsanto.

VOTE 3

Cisco Systems, Inc.

10-Dec-19

0.73

Advisory Vote to Ratify Named Executive Officers' Compensation, Elect Board Directors (members of the compensation committee), Ratify PricewaterhouseCoopers LLP as Auditors and Shareholder Proposal to Require Independent Board Chairman.

AGAINST management proposals and FOR the shareholder proposal

Yes

We voted against the remuneration report and members of the remuneration committee owing to insufficient performance conditions attached to management's long-term incentive award, and given a lack of clarity on the measures which are used to calculate the annual bonus. In addition, we also voted against the external auditor owing to an excessively long tenure which brings its independence and objectivity into question.

Finally, for a second consecutive year, we supported a shareholder resolution requiring that the CEO and chair roles be separated.

5.3% vote AGAINST pay, 4.6% AGAINST the auditor, 28.7% FOR the appointment of an independent chair.

While the voting outcomes were not significant, we expect to continue recognising our fundamental governance concerns through our voting and engagement activities.

In addition to being votes against the recommendations of management, we felt these were significant votes given they highlight several of the common governance concerns we have with US-based companies.

VOTE 4

Eversource Energy

02-May-19

1.00

Advisory Vote to Ratify Named Executive Officers' Compensation and Elect Directors

AGAINST

Yes

We voted against executives' compensation arrangements and the long-standing members of the compensation committee owing to the predominant use of long-term pay awards that vest subject only to time served.

12.0% vote AGAINST pay.

The outcome of the vote is likely to generate discussion within the company and be the subject for shareholder outreach. We only expect to change our voting decisions should improvements be made to the executive pay arrangements.

We expect more shareholders will increase their scrutiny of pay versus performance and reflect this in their voting decisions; as such, shareholder dissent may increase and result in unnecessary media attention that can foster both financial and reputational issues.

VOTE 5

Linde plc

26-Jul-19

0.83

Advisory Vote to Ratify Named Executive Officers' Compensation and Elect Directors

AGAINST

No

We voted against the advisory vote on the executives' compensation and also against the remuneration committee members. We had a variety of concerns:

- The continued granting of long-term pay awards that vest purely based on time served.
- The CEO received \$185,808 for his personal use of the company's aircraft.
- The vesting of outstanding share awards is accelerated in the event of a change in control.
- Finally, the CEO received additional years of service credits beyond time-served at the company for the purposes calculating his pension provisions.

8.0% vote AGAINST pay.

We believe better alignment of executive pay with performance is a fundamental imperative that investors should encourage. We will continue to do this via our stewardship activities.

We expect more shareholders will increase their scrutiny of pay versus performance and reflect this in their voting decisions; as such, shareholder dissent may increase and result in unnecessary media attention that can foster both financial and reputational issues.

VOTE 6

Microsoft Corporation

04-Dec-19

1.17

Advisory Vote to Ratify Named Executive Officers' Compensation, Elect Board Directors (members of the compensation committee), Ratify PricewaterhouseCoopers LLP as Auditors and Shareholder Proposal to report on Gender Pay Gap.

AGAINST management proposals and FOR the shareholder proposal

Yes

Despite improvements to executive remuneration practices over recent years, the company failed to justify a 40% increase in total compensation for the CEO, which included a significant increase in basic salary. In addition, we remained concerned that approximately half of long-term pay awards vest irrespective of performance. We voted against the executive compensation arrangements and against the three members of the compensation committee.

We also voted against the re-appointment of the company's external auditor given it had served in this role for 36 consecutive years.

A shareholder resolution proposed that the company report on its gender pay gap. In contrast to the recommendation of management, we supported this resolution in view of the insights a company can benefit from by undertaking such an exercise.

23.3% vote AGAINST pay, 3.5% vote AGAINST the auditor, 29.6% vote FOR gender pay gap.

We considered the vote outcome on the pay resolutions to be material and of a level where the company is expected to address concerns to avoid further dissent in future years. We have been encouraged by the company's improvements and momentum. Debate surrounding long tenured auditors is not well developed in the US but we expect this to change.

We expect more shareholders will increase their scrutiny of pay versus performance and reflect this in their voting decisions; as such, shareholder dissent may increase and result in unnecessary media attention that can foster both financial and reputational issues.

VOTE 7

Suzuki Motor Corp.

27-Jun-19

0.93

Elect Directors.

AGAINST

No - engaged after the vote.

We voted against the board chair and company president owing to concerns surrounding the company's approach to quality control. We considered that the board chair and president should be held accountable as they had served on the board for 55 and 16 years respectively.

Not available

While the vote outcome is unknown, even a relatively small level of shareholder dissent in Japan is taken seriously by companies. As such, we expect improvements going forward.

In addition to voting against management and the shareholding being a sizable position within the fund, we felt that the reputational and operational issues underlying the vote decision qualified it as being significant.

VOTE 8

Thales SA

15-May-19

0.78

Renew Appointment of Mazars as Auditor.

AGAINST

No

We voted against reappointing the auditor as the firm had been in the role since 1983. We believe it is healthy for a company to tender its audit contract regularly, with a maximum tenure limit of 25 years.

5.3% vote AGAINST.

Given the debate surrounding audit tenure is well established in Europe, we were surprised with the low level of shareholder dissent. However, this will remain a key criteria that will determine our future vote decisions on this matter.

We considered this to be a significant vote given it demonstrates the implementation of our overarching voting policy surrounding the necessity for audit quality.

VOTE 9

Unilever NV

01-May-19

0.91

Approve Remuneration Report and Elect Directors.

AGAINST

Yes

The company made some positive improvements to its remuneration policy but failed to address certain core concerns. First, the award of long-term incentives is reliant on the award of annual bonuses; if no annual bonuses are awarded, executives do not receive a long-term incentive. This either provides for potential resignation windows or forces bonuses to be awarded in years when they may not be merited. Secondly, variable pay awards continue to be determined as a multiple of fixed pay (salary, pension and benefits). Our concern is that the inclusion of pensions and benefits as determinants for the size of variable pay awards adds unnecessary complexity and flexibility. We voted against the remuneration report and members of the remuneration committee, with the exception of one member who had only served for a year.

4.4% vote AGAINST.

The vote outcome was such that the company is unlikely to instigate further consultation with shareholders on this matter. We will continue to monitor the company's pay structure and exercise our stewardship responsibilities in line with our beliefs and expectations.

We considered this a significant vote given the attention the subject received from investors and that certain elements of the pay structure is not in line with established UK best practice.

VOTE 10

Vivendi SA

15-Apr-19

0.88

Approve Special Auditors' Report Regarding Related-Party Transactions, Advisory Vote to Ratify Named Executive Officers' Compensation, Approve Remuneration Policy and Authorize Directed Share Repurchase Program.

AGAINST

Yes

Owing to a conflict of interest, we voted in line with the recommendations of our third-party proxy research provider. Consequently, we voted against the auditor's report on related-party transactions, the compensation and remuneration policies of members of the management and supervisory board, and the authorisation of a share buyback programme.

30.4% vote AGAINST related party transactions, 26.2% average vote AGAINST eight executive pay proposals, 27.4% average vote AGAINST three pay policies, 32.2% vote AGAINST share repurchase.

While the vote outcome is considered material, especially given the share ownership structure, this level of dissent has been levied historically with little improvements made to abate concerns. We will continue to engage with company and reflect this in our voting decisions.

The vote was considered significant owing to the share ownership structure and the long-standing governance concerns with company.