

# Licensed Trade Charity 1967 Pension & Life Assurance Scheme

## Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated September 2020 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period 1 April 2021 to 31 March 2022.

### Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Diversified Growth Funds	Baillie Gifford Diversified Growth Fund	46.0%
	Invesco Global Targeted Return Fund	
	Baillie Gifford Managed Fund	10.0%
Property	Schroders Property Fund	14.0%
Liability Driven Investments (LDI)	Abrdn Liability Aware Absolute Return Real Fund	
	Abrdn Liability Aware Real Profile Fund	30.0%
	Abrdn Liability Aware Nominal Profile Fund	
<b>Total</b>		<b>100.0%</b>

### Strategy Review

A strategy review took place in September 2021 to review the investment allocations, focussing on two aspects; improving the Liability matching portfolio and refreshing the Growth portfolio composition.

At the 29 September 2021 Trustee meeting, the Trustees agreed to a revised allocation to Liability Driven Investments ("LDI") to target 100% of the liability exposure to interest rates and inflation. To avoid concentration risk in any single growth exposure, the Trustees agreed not to further increase the allocation to the Liability Aware Absolute Return Real Fund beyond the current allocation, instead achieving the additional hedging through an allocation to two non-enhanced LDI funds. Both of these funds provide liability hedging exposure but without the additional growth overlay.

### Scheme Governance

The Trustees are responsible for making investment decisions, and seeks advice from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP.

There were no changes to the objectives put in place for Broadstone which were last reviewed in December 2021. The Trustees are due to formally review these objectives by December 2022, or earlier.

## Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in September 2020. The Statement of Investment Principles was also updated in September 2019, for new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

## Policy on financially material considerations

***Trustees' Policy: The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect the Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis, the Trustees (delegating to the Investment Consultants where appropriate) assess the ESG integration capability of the investment managers.***

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out below, and in particular with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the investment managers and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers given they are investing in pooled funds.

A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Diversified Growth Funds	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustees also expect its investment manager, to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
Property	Active	The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities. However, the Trustees expect the investment manager to have regard to ESG issues when properties are being sold and purchased within the portfolio, together with any opportunities to re-develop existing properties with ESG issues in mind.
Liability Driven Investments	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

### Policy for taking into account non-financially material considerations

**Trustees' Policy:** *Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

### Policy on the exercise of voting rights and engagement activities

**Trustees' Policy:** *The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which benefits are paid, it must act as a responsible asset owner. The Trustees expect its Investment Managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this timeframe. On an ongoing basis, the Trustees (delegating to the Investment Consultants where appropriate) assess the stewardship and engagement activity of the Investment Managers.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the

Trustees do not have the administrative mechanism to cast votes on the underlying holdings, given the pooled nature of the Scheme’s investments.

The Trustees have employed Broadstone to assist them in monitoring the voting and engagement activity of their investment managers. The Trustees, with the assistance of Broadstone, concluded that the voting and engagement activity of their investment managers is in line with their policy on voting and engagement.

Within the current investment arrangements, the Diversified Growth Funds (with Baillie Gifford and Invesco) contain equity holdings, and therefore have voting rights attached to these underlying equities.

The investment managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third proxy voters used are confirmed in the table below.

The Trustees have delegated engagement activities to their investment managers, and each investment manager reports to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings.

A summary of the votes made by the investment managers on behalf of the Trustees (where the investment owns equities) is provided in the table below from 1 April 2021 to 31 March 2022, based on the latest information available from each investment manager.

Manager	Pooled or Segregated ?	Third Party Proxy Voter	Manager Uses own voting policy	Resolutions Voted On	Resolutions Voted:		
					For	Against	Abstained
<b>Baillie Gifford</b>	Pooled	ISS/Glass Lewis	Yes	17,476	94%	3%	3%
<b>Invesco</b>	Pooled	ISS/Glass Lewis	Yes	65,115	87%	12%	1%

The votes above are at the company level, rather than being scheme or fund specific. The Trustees will work with their investment managers to obtain this information in future years.

The notable engagement activities of the investment managers over the last 12 months is provided below:

- **Baillie Gifford** has been engaging with Vale, one of the world's largest producers of iron ore, since 2019. The challenge with Vale from an ESG perspective is that it has a long history of not acting as a leader, particularly on the environmental side, with fatal consequences for local communities. Vale is also considered non-compliant with Principle 7 of the UN Global Compact: businesses should support a precautionary approach to environmental challenges. Whilst Vale's record of health and safety breaches impacting its workers and communities makes for difficult reading, there appears to have been a shift in attitude over the past two years. There has been a change to the board and executive management team and the company has made improvements to reporting and general preparedness levels, particularly in the key human rights and environmental areas. Baillie Gifford's engagement has been

successful in securing sufficient independence and industry experience on the board, as well as establishing that the board and management are aware of their internal divestment rules and timetable should no further progress be made.

- **Invesco** as had an ongoing engagement with Origin’s management team over the past 3 years on the topic of indigenous relations. Following these engagements, Invesco decided to support the shareholder proposal requesting that Origin disclose more information as to which Native Title holders have consented to operations on their land as well as the nature of the agreements. In addition, Invesco supported both climate shareholder proposals, which requested that Origin both increase their lobbying disclosure, as well as commit to aligning their capital expenditures in accordance with the Paris Agreement. None of the shareholder proposals received a majority, though the climate shareholder proposals received substantial support from shareholders (36% and 44%). The proposals related to indigenous communities received weak support from shareholders, with the highest proposal receiving 10% in favour. At the follow up meeting, the company wanted to better understand the reasoning behind Invesco’s voting decisions and what they could do differently. The company appreciated the feedback and indicated they would take it on board. Invesco will continue to monitor any development on these topics ahead of the 2022 AGM.

The Trustees are comfortable with the investment managers’ approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

Signatories to the UNPRI (United Nations Principles for Responsible Investment) will receive an overall ‘score’ which represents how well ESG metrics are incorporated into managers’ investment processes. Investment managers will submit a transparency report on their processes across different categories which is then assessed by the UNPRI and graded in a formal report. Scores are presented in performance bands ranging from ‘A+’ to ‘E’. The latest UNPRI scores of the investment managers are outlined in the table below.

Manager	UNPRI Score
<b>Baillie Gifford</b>	A+
<b>Invesco</b>	A+
<b>Schroders</b>	A+
<b>Abrdn</b>	A+

The Trustees also consider the investment managers’ policies on stewardship and engagement when selecting and reviewing investment managers.

### **Monitoring of Investment Arrangements**

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports on a quarterly basis from Broadstone to ensure the investment objectives set out in their SIP are being met.

**On behalf of the Trustees of the Licensed Trade Charity 1967 Pension & Life Assurance Scheme**