



the Cheviot **trust**

Implementation
Statement
Money Purchase Section

Report for 2023
July 2024



Introduction

1. This statement sets out how the Scheme’s Statement of Investment Principles (the Statement) dated March 2023¹, has been followed during the Scheme year ending 31 December 2023². It includes details of how the Cheviot Lifeplan (the default option) meets the needs of members and how the ESG (environmental, social and governance) and engagement policies have been implemented and voting behaviour carried out on behalf of the Scheme.

Review of the Statement of Investment Principles

2. The Statement was reviewed during the Scheme year and the key points of that review are detailed in paragraph 4 below. No changes were made during the Scheme year. No investments made in the year were inconsistent with the Statement. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the Statement annually. It agrees any changes in the context of the annual strategic review of the Money Purchase Section, with advice from the investment and legal advisers. Following the review in the scheme year ending 31 December 2022 the Statement was updated in March 2023.
3. The current Statement is available on both the corporate and member focused Cheviot websites.³

Investment objectives

4. The primary objectives of the Trustee for the Money Purchase Section as set out in the Statement are set out below with a description of how they were implemented during 2023.

Objective	Implementation
To provide a default plan, called the Cheviot Lifeplan to provide members with an “adequate” retirement income⁴ in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.	A strategic review of the Cheviot Lifeplan ⁵ is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2023 was completed in May. The Cheviot Lifeplan aims to deliver an income in excess of the Living Wage to at least 75% of members. The Committee concluded that the Lifeplan continued to meet its objectives.
To provide a range of investment options that members can select.	The review of options that members can select was reviewed against the needs of members and no changes were proposed.
To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.	The review of options that members can select was reviewed against the needs of members and no changes were proposed.
To provide investment options for members who wish to invest in line with stock markets.	Four equity only funds are available to members. This includes an ESG equity fund, introduced in January 2023.
To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.	The core options used in the Cheviot Lifeplan are structured to target more stable returns than the market consistent with the timeframe of each option.. The funds are reviewed against stability targets each quarter by the Investment Committee.

¹ The SIP was signed in March 2023

² It has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and guidance published by the Pensions Regulator.

³ www.cheviottrust.com/www.mycheviotpension.com

⁴ Measured by reference to the UK Living Wage, the Pension Commission’s Target Replacement Ratio and the PLSA’s retirement living standards.

⁵ The default option for the purposes of the legislation



Objective	Implementation
<p>To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.</p>	<p>Any incidents of contributions being invested in the wrong options are remedied and reported to the Trustee in a quarterly Governance Report. The Governance Report also includes details of performance against service standards for all core financial transactions.</p>
<p>As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.</p>	<p>All options facilitate daily dealing. Some funds are traded separately to other transactions as the unit prices are available one day after the other options which causes disruption. The Trustee is considering how best to address this going forward.</p>
<p>The implementation of the policies in this statement (SIP) are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.</p>	<p>The options were reviewed as part of the strategic review. The Trustee concluded that all options have clear risk ratings and those within the Cheviot Lifeplan are used to reduce risk in respect of members' tax free cash as members approach their planned retirement date, whilst recognising that most members leave the remainder of their fund invested after accessing the cash.</p> <p>The Committee reviewed the transition into cash as members approached retirement and the returns available for the period of transition. It concluded that the transition should be completed at the member's Target Retirement Date rather than one year before to improve available returns by leaving assets invested for longer.</p> <p>The issue identified that the post-retirement options were not being directly offered to members at retirement is still to be resolved.</p> <p>The implementation of these changes was put on hold, pending a review of the impact of rising inflation on the target returns. Changes to the asset allocation were agreed and implemented during 2023.</p>

Ongoing investment governance

5. Investment governance is delegated to the Investment Committee including the provision of key documents such as this Implementation Statement.
6. The Investment Committee held 6 meetings during 2023. The Investment Committee received detailed information on the performance of the investment strategy quarterly against its long term targets and risk measures and discussed it with the investment advisers.⁶ This information was formally reported to each quarterly Trustee meeting.
7. The primary investment objectives for the growth funds in the Cheviot Lifeplan are to achieve inflation-related returns over a full market cycle of about five years with less fluctuations in value than the market. Returns are also measured against a market benchmark. In general, the inflation related returns were met during 2023 but longer term returns were still behind, as a result of the very high levels of inflation.

⁶ Schroders Solution.



The quarterly reviews of the external investment options offered to members confirmed that they achieved a return consistent with the stated objective.

8. Investment performance for the year is available in the Cheviot Pension accounts for 2023 which also include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets are held within the Money Purchase Section. The Investment Committee is satisfied, on advice from the investment advisers, that the nature, disposition, marketability, security, and valuation of the Scheme's assets are in line with the investment objectives and strategy, risk controls and return expectations.
9. Advisers are held to account and their performance assessed and reviewed regularly. Quarterly reports are provided to the full Board on each adviser. The investment adviser was reviewed in detail in late 2023 against detailed objectives. An external advisor provided a review of 2023 performance in June 2024.
10. The investment adviser reviewed the underlying managers during the Scheme year and assessed performance against the key managers each quarter. The investment adviser provided an annual more detailed review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews.⁷ Operational due diligence reviews, along with many areas, included a review of the governance structure, portfolio turnover, conflicts of interest, ESG and stewardship policies.
11. ESG training was provided by the investment advisers part of the annual ESG review of managers. The legal advisers provide quarterly updates explaining new requirements and how they may impact Cheviot members in the future. Sustainability is a standing item on the quarterly Investment Committee agenda.
12. The Committee updated its investment beliefs to reflect the impact of climate change on assets, including physical, transition and social risks and opportunities, the Paris Agreement and issues around engagement and influence. A Climate Change Policy was developed. It included the governance structures, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities, a strategy for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. The investment beliefs were reviewed in February 2023.

Risks

13. All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate, and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option.
14. During the Scheme year, risks were measured and managed as part of regular investment strategic governance, asset allocation reviews and investment strategic reviews. The Investment Committee reviewed the relevant risks each quarter and identified, evaluated, managed, and monitored risks, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting from the investment adviser, risks are measured against risk tolerance and market conditions to check whether the performance of each



investment option remains in line with the agreed risk objectives. The risk and return tolerances were considered as part of the strategic review in May 2023 considering whether the target returns were still achievable.

Transitions

15. Asset allocation changes were implemented by the administration team, in conjunction with the investment platform provider and investment adviser.

Investment Platform provider

16. The Trustee invests the Scheme's assets through an investment platform of pooled funds with Mobius Life. As a result, the Trustee is constrained in its ability to directly influence the underlying investment managers who make the day to day investment decisions or obtain detailed information about ESG and climate change issues
17. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The review was completed in May 2024. The review did not reveal any issues which impacted Cheviot directly. Value for members
18. The Trustee appointed consultants to carry out an annual assessment of the Money Purchase Section's services during 2023. The assessment was reviewed by the Investment Committee in February 2024. The assessment was completed by Schroders Solutions, based on its knowledge of the market and operation of other trustee boards and the framework provided by the Pensions Regulator. The quality of the services was assessed through establishing whether the Money Purchase Section's services were suitable, relevant and provided value to members and whether each of the services had performed effectively. The assessment also identifies, in conjunction with the Committee, areas where future actions could further improve the value provided.
19. The Committee has delegated powers to review the assessment. It concluded that services provided were high quality and provided value for members in the three key areas of governance and management, investment and administration and communications services. These services made a positive contribution to member outcomes.
20. The overall charge was within the range identified by Schroders Solutions but at the high end, given the discounting available by the largest providers in the Master Trust market.

Environmental, social and governance factors

21. When selecting and monitoring an investment the Investment Committee considers financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change. The Investment Committee reviews their ESG policy and any relevant information regularly.
22. During the Scheme year, the Investment Committee has considered the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Investment Committee is also considering those elements of the investment strategy where the fundamental investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
23. Long-term financial performance, including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. This includes alignment with the Trustee's



investment strategy. A long-term approach is taken to setting risk and return targets and when assessing manager performance against those targets. The fee structure for each manager is based on a percentage of assets managed. The manager is therefore incentivised to grow assets in line with the set objectives. Such factors may also be important criteria for considering the replacement of a manager.

24. Once a manager is appointed, the Investment Committee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and uses its investment adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate). Most of the appointed managers take ESG factors into account as part of their investment process.
25. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy. During the ongoing monitoring of managers during the Scheme year ending 31 December 2023, no decisions were taken to disinvest.
26. The Investment Committee did not take account of non-financially material factors when making investment decisions on behalf of members during the Scheme Year but makes two funds available which aim to satisfy certain sets of beliefs (Sharia principles and a particular ethical approach).
27. As part of their annual reporting, the Trustee is required to calculate transaction costs and assess the extent to which they represent good value for members. With regard to the Lifeplan, over a 40-year membership, the cost of switching between funds may amount to approximately 0.35%. This averages 0.01% per annum and is the worst-case cost arising from buying a unit of Cheviot Growth, then transitioning through Moderate, Cautious, Retirement Planning and Cash and eventually cashing in at retirement. These estimates include costs incurred as a result of the buying, selling, lending or borrowing of investments. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds (including the self-select options) and are comfortable the costs are reasonable.

Engagement and stewardship

28. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) and the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders has been a PRI signatory since 2015, was the first large global asset manager to have had its Net Zero targets verified by SBTi (the Science Based Target Initiative) and has 50+ dedicated ESG specialists. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.
29. Since the underlying investment funds used in the Money Purchase Section are pooled products (i.e., funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used. This means the Trustee is not able to make clear to managers what the Trustee considers a significant vote in advance of those votes being taken.
30. The Trustee decided to adopt Climate and Governance as their stewardship priorities in the 2023 scheme year. The Trustee has decided to use the selected stewardship priorities to determine what it defines as a "significant vote" for the purposes of reporting voting activity for the Scheme year and to monitor the managers voting and engagement is in line with these priorities.
31. It considers the most significant votes to be those that meet the following three criteria:



- The vote relates to one of the Trustee's chosen stewardship priorities;
 - The vote is deemed significant by the underlying managers (of holdings greater than 2.5%) based on their specific knowledge of the circumstances around each vote; and
 - Where an underlying manager within the Money Purchase Section has a holding in a single stock which makes up at least 0.5% of one blend of the LifePlan strategy.
32. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1⁸. Both equity managers show meaningful engagement practices.
33. The performance of each manager is included in the governance report from the investment advisers as well as commentary on any issues which have arisen.
34. Despite the lack of contractual relationship, working with its investment advisers, the Trustee has reviewed those funds with more than 2.5% of the Money Purchase Section's assets and asked the investment platform provider for information about their voting activity.
35. The platform provider (Mobius Life) did not vote on behalf of the Trustees. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors. This is common practice in the industry. Mobius actively engages with asset managers and is in support of the UK Stewardship code. Mobius contacts each of the asset managers they invest with on an annual basis to ensure they are complying with Mobius' governance requirements at a company level and in their investment approach. The Trustees are satisfied that the level of engagement demonstrated by Mobius is appropriate.
36. The Trustee engaged with Mobius during the Scheme year on climate-reporting issues and discussed the level of information it needed from the managers to enable it to measure the portfolio's progress in relation to climate related targets.

Conclusion

37. The Investment Committee, on behalf of the Trustee under its delegated powers, considers that it has followed the policies set out in the Statement of Investment Principles without any significant deviations, other than in relation to the post-retirement options.⁹

Sir Derek Morris

Sir Derek Morris
Chair, Cheviot Trustees Limited
30 July 2024

⁸ Information based on data available from Mobius.

⁹ See para 4

Appendix 1

Voting and Engagement Summary

The Investment Committee has considered the voting and engagement summary provided by its investment advisers in relation to the engagement and voting activities of the underlying managers of the Section's pooled funds. Both primary equity managers show strong and meaningful engagement practices making use of proxy voting so that they can participate in as close to 100% of votes as possible.

As there are multiple underlying funds used in the Cheviot Lifeplan, the analysis includes allocations which are c.2.5% of assets or higher within any of the Lifeplan's blended funds as at 31 December 2023. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have data to be considered. The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	Legal and General ("LGIM") North America Equity Index	18.6%
	LGIM North America Equity Index (GBP Hedged)	21.7%
	LGIM Europe ex UK Equity Index (GBP Hedged)	6.2%
	LGIM UK Equity Index	5.2%
	LGIM Japan Equity Index – (GBP Hedged)	6.7%
	BlackRock European Equity Index Fund	6.0%
	BlackRock Emerging Market Index Funds	13.8%
	BlackRock ACS World ESG Equity Tracker	3.9%
	BlackRock ACS World ESG Equity Tracker (GBP Hedged)	4.6%

Over the year to 31 December 2023, the platform provider, Mobius Life, did not undertake any voting activity in respect of the pooled funds held on its investment platform as a matter of policy. This is common practice in the industry.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following sections. The Trustee (through its advisers) has included all of the information available in relation to the voting activity, relying on information from the underlying managers on the expanded requirements for this Implementation Statement. The Trustee understands that in future reporting years the information available on the votes is expected to be more detailed, to allow it to meet the vote reporting requirements in full.¹⁰

Equity managers

Summary for LGIM

LGIM's Investment Stewardship team uses Institutional Shareholder Service's "ProxyExchange" electronic voting platform to electronically vote client's shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

During 2023, LGIM engaged with 2,050 companies globally, voted on 148,794 resolutions worldwide and opposed 52% of all management-proposed, pay-related proposals due to governance concerns. It continued and increased their progressive stance on income inequality, diversity and board independence. The voting behaviour is shown in the chart below and demonstrates LGIM's policy of active engagement and willingness to vote against management if it is considered necessary. LGIM provided meaningful examples of their engagement policy. The Trustee, on the advice of its advisors, determined that the voting behaviour of LGIM was aligned with the Scheme's stewardship priorities.

¹⁰ The appointment of VLK Investment Management in early 2024 will facilitate better reporting of engagement in 2024.



LGIM Passive Funds

31/12/2022 – 31/12/2023	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Europe (ex-UK) Equity Index - GBP Currency Hedged	567	9,955	100%	80%	19%	0%
Japan Equity Index - GBP Currency Hedged	513	6,098	100%	88%	12%	0%
North America Equity Index	648	8,760	100%	66%	34%	0%
UK Equity Index	680	10,517	100%	94%	6%	0%

Most Significant Votes

Governance: Microsoft Corporation:

In December 2023, LGIM voted against the resolution to elect director Satya Nadella because LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. LGIM considers this vote to be significant as it is an escalation of their vote policy on the topic of the combination of the board chair and CEO. LGIM will continue to engage with their investee companies and, publicly advocate their position on this issue and monitor company and market-level progress.

Governance: NVIDIA Corporation:

In June 2023, LGIM voted against the resolution to elect director Stephen C. Neal because LGIM expects a company to have at least one-third women on the board and LGIM also expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, tenure, and background.

LGIM considers this vote significant as it views gender diversity as a financially material issue for their clients. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

Governance: Alphabet Inc.:

In June 2023, LGIM voted in favour of a resolution which would approve a recapitalisation plan for all stock to have one-vote per share. The rationale for this vote was that LGIM expects companies to apply a one-share-one-vote standard.

LGIM considers this vote significant as this shareholder resolution received a relatively high level of support. LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.

Governance: Meta Platforms, Inc.:

In May 2023, LGIM withheld on a resolution to Elect Director Mark Zuckerberg.

There were several reasons for this decision. Firstly, LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. Secondly, LGIM supports the equitable structure of one-share-one-vote and therefore withheld votes to elect Mark Zuckerberg, who is the owner of super voting shares.

LGIM considers this vote significant as it is relating to its voting policy on the topic of the combination of the board chair and CEO, and also as it is relevant to its voting policy on the topic of one-share-one vote and equality of voting rights. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

Summary for BlackRock

BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply their proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

Over 2023, BlackRock Investment Stewardship held more than 3,700 engagements with over 2,500 unique companies across 50 markets. Of these engagements, 2,562 were related to 'Strategy, purpose and financial resilience', 2,205 were related to 'Board quality and effectiveness', 1,495 were related to 'Incentives aligned



Appendix 1

with financial value creation', 1,402 were related to 'Climate and natural capital' and 1353 were related to 'Company impacts on people'. Throughout the year, BlackRock Investment Stewardship voted at 18,000+ shareholder meetings on more than 170,000 management and shareholder proposals. Blackrock Investment Stewardship supported management on approximately 88% of proposals. The statistics for BlackRock demonstrate its level of engagement and voting policies, including voting against management were considered appropriate. BlackRock provided meaningful and helpful examples of votes and examples of engagement, focused on Climate and Governance. However, they have not provided any examples which match the Trustee's criteria for significant votes outlined above.

The Trustee, on the advice of its advisers, determined that the voting behaviour of BlackRock was aligned with the Scheme's stewardship priorities.

BlackRock Passive Funds

31/12/2022 – 31/12/2023	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	3,216	27,925	98%	87%	12%	1%
European Equity Index Fund	457	8,581	94%	89%	10%	1%
ACS World ESG Equity Tracker	476	7,383	97%	97%	2%	0%

Appendix 2

Links to the voting and engagement policies for the Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
BlackRock	Investment Stewardship BlackRock
LGIM	Investment stewardship & governance LGIM Institutional