



the Cheviot **trust**

Implementation  
Statement  
Money Purchase Section

July 2022



## Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) dated September 2021, has been followed during the Scheme year ending 31 December 2021<sup>1</sup>. 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. 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. The Statement will be updated when the changes agreed as part of the strategic review are implemented (expected to be mid 2022). A consultation exercise with employers will be completed before the Statement is signed.
3. The current Statement is available on the both the corporate and member focused Cheviot websites.<sup>2</sup>

## 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 2021.

Objective	Implementation
<b>To provide a default plan, called the Cheviot Lifeplan to provide members with an "adequate" retirement income<sup>3</sup> 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.</b>	A strategic review of the Cheviot Lifeplan <sup>4</sup> is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2021 was completed in May and included a detailed analysis of the likely retirement outcomes against three measures: the UK Living Wage, the Pension Commission's Target Replacement Ratio and the PLSA's retirement living standards. The Committee concluded that the Lifeplan continued to meet its objectives.
<b>To provide a range of investment options that members can select.</b>	The review of options that members can select was reviewed against the needs of members
<b>To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.</b>	Following the review of options, the Committee agreed to introduce an ESG equity fund when a suitable fund was available on the investment platform. We expect this option to be available in mid-2022.
<b>To provide investment options for members who wish to invest in line with stock markets.</b>	Three equity only funds are available to members. A fourth, the ESG equity fund, will be introduced in 2022.

<sup>1</sup> 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.

<sup>2</sup> [www.cheviottrust.com/www.mycheviotpension.com](http://www.cheviottrust.com/www.mycheviotpension.com)

<sup>3</sup> Measured by reference to the UK Living Wage, the Pension Commission's Target Replacement Ratio and the PLSA's retirement living standards.

<sup>4</sup> The default option for the purposes of the legislation



Objective	Implementation
<p><b>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.</b></p>	<p>The core options used in the Cheviot Lifeplan are structured to target more stable returns than the market. The funds are reviewed against stability targets each quarter by the Investment Committee.</p>
<p><b>To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.</b></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><b>As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.</b></p>	<p>All options are able to deal daily. The Islamic fund is traded separately to other transactions as the unit prices are available one day after the other options which causes disruption. A very small number of members participate in this option.</p>
<p><b>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.</b></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 post retirement options were also reviewed in light of member behaviour. The Committee concluded that the cash allowance should be reduced from 10% to 5%, reflecting member behaviour and to encourage a prudent level of drawdown.</p> <p>These changes will be implemented after the strategic review in May 2022 which will be focusing on the implications of the current high level of inflation on the current investment targets.</p>

### Ongoing investment governance

- Investment governance is delegated to the Investment Committee including the provision of key documents such as this Implementation Statement.



6. The Investment Committee held eight meetings during 2021. 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.<sup>5</sup> 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. The secondary investment objective is to provide these returns with less fluctuation in value than the market. Both these objectives were met during 2021. The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the investment advisers. The quarterly reviews of the other investment options confirmed that they achieved a return consistent with the stated objective.
8. Investment performance for the year is available in the Cheviot Pension accounts 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 early 2021 against detailed objectives. An external advisor provided a review of performance in April 2022.
10. The investment adviser reviewed the underlying managers during the Scheme year and made a brief performance assessment 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. 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. Several Committee meetings during 2021 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).
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 strategic for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. Both the investment beliefs and the Policy were discussed and agreed by the Trustee in September 2021.

## 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,

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<sup>5</sup> Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.



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 2021 considering whether the target returns were still achievable.
15. The Committee held an additional meeting in 2021 to enable it to consider the issues of Climate Change and TCFD in detail. As part of this session, it received training on the risk and opportunities associated with climate change and identified several specific risks which were incorporated into the risk register. These additional risks were rated red (the highest level of risk) given the uncertainty of the situation, the current likelihood of a failed transition and the resultant financial impact.

### Transitions

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

### Investment Platform provider

17. 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.
18. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The next review will be completed in the first half of 2022. The last review did not reveal any issues which impacted Cheviot directly. The Investment Committee remain comfortable that the policies on the exercise of rights in relation to the investments and engagement activities have been followed but will review this when the next due diligence report is available.

### Value for members

19. The Trustee appointed consultants to carry out an annual assessment of the Money Purchase Section's services during 2021. The assessment was reviewed by the Investment Committee in February 2022. 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.
20. 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.



21. 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. The Trustee continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021.

### Environmental, social and governance factors

22. 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.
23. 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.
24. 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. Ultimately, the assets would be disinvested from any manager which is not considered to be in line with the agreed strategy.
25. 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.
26. For example, as mentioned above in para 4, the Committee decided to add an ESG focused equity fund to the Trust's self-select range. A particular fund was considered for inclusion and ESG metrics were provided for that fund. ESG issues were clearly very significant in the selection of this fund and contributed to the subsequent decision not to invest. An alternative fund has been selected, after the ESG metrics were reviewed, and is expected to be available later in 2022.
27. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy.
28. The Investment Committee does not at present take account of non-financially material factors when making investment decisions on behalf of members but makes two funds available which aim to satisfy certain sets of beliefs (Sharia principles and a particular ethical approach).

### Engagement and stewardship

29. The Trustee is supportive of the UN Principles for Responsible Investing the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders is a PRI signatory and were rated A+ by the PRI in 2019 for the fifth year for its overall strategy and governance in relation to sustainable investment. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.



30. 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. 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.
31. Despite the lack of contractual relationship, working with our 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.
32. 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 that way. 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.
33. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.<sup>6</sup> Both equity managers show meaningful engagement practices.

## Conclusion

34. 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.

**Sir Derek Morris**  
Chair, Cheviot Trustees Limited  
July 2022

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<sup>6</sup> Information based on data available from Mobius.



## 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 2021. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have voting data to be considered. The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	LGIM North America Equity Index	16.6%
	LGIM North America Equity Index (GBP Hedged)	16.3%
	LGIM Europe ex UK Equity Index (GBP Hedged)	4.6%
	LGIM UK Equity Index	3.4%
	LGIM Japan Equity Index – (GBP Hedged)	3.0%
	BlackRock European Equity Index Fund	4.5%
	BlackRock Emerging Market Index Funds	10.5%
Bonds	BNY Mellon Efficient US High Yield Beta Fund (GBP Hedged)	8.6%
	BlackRock Aquila Connect Corporate Bond Index Fund All Stocks	6.2%
	BlackRock Aquila Connect Over 15 Year UK Gilt	2.6%
	LGIM All Stocks Gilts	4.3%
Cash	LGIM All Stocks Index Linked Gilts	4.4%
	BlackRock Institutional Sterling Liquidity Fund	5.4%

Over the year to 31 December 2021, 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.

### 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 2021, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections 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.



.LGIM Passive Funds 31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index	330	2361	100%	74%	26%	0%
Europe (ex-UK) Equity Index - GBP Currency Hedged	504	8502	100%	84%	16%	0%
Japan Equity Index - GBP Currency Hedged	448	5366	100%	86%	14%	0%
North America Equity Index - GBP Currency Hedged	625	7766	100%	71%	29%	0%
North America Equity Index – Unhedged	625	7766	100%	71%	29%	0%
UK Equity Index	598	8169	100%	92%	8%	0%

### LGIM's Most Significant Engagement Examples

#### Amazon.com, Inc:

LGIM voted against a high-profile resolution where the company proposed to re-elect current CEO and Director Jeffrey P. Bezos as Chair of the Board.

The rationale for the voting decision was:

- LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they are voting against all combined board chair/CEO roles.
- LGIM have published a guide for boards on the separation of the roles of chair and CEO, and have reinforced their position on leadership structures across their stewardship activities – e.g., via individual corporate engagements and director conferences.

Around 95% of shareholders supported the resolution. The meeting result shows evidence on LGIM's greater emphasis on the topic of corporate governance. LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

#### SoftBank Corp:

LGIM voted against a high-profile resolution where the company proposed a change in articles to allow virtual-only AGMs beyond the temporary regulatory relief effective for 2 years from June 2021. The voting decision was communicated directly to the company before the Annual General Meeting ("AGM").

The rationale for the voting decision was:

- Japanese companies remain able to hold virtual meetings using temporary regulatory relief (without amending articles) for two years, but the passage of this proposal would authorize the company to hold virtual meetings permanently, without further need to consult shareholders, even after the current health crisis is resolved.
- The proposed language fails to specify situations under which virtual meetings will be held, raising concerns that meaningful exchange between the company and shareholders could be hindered, especially in controversial situations such as when shareholder proposals are submitted, a proxy fight is waged, or a corporate scandal occurs. LGIM voted against resolution 1 to signal its concerns.

About 94% of shareholders supported the resolution.

LGIM considers this vote significant as it highlights the challenges of factoring in the impact of the COVID situation into the corporate governance practices going forwards.



## 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 our 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.

The statistics for Blackrock demonstrate its level of engagement and voting policies, including voting against management where considered appropriate. Blackrock provided meaningful and helpful examples of key votes and examples of engagement, focused on climate related risks and opportunities.

<b>Blackrock Passive Funds</b> 31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	3841	33497	100%	89%	10%	2%
European Equity Index Fund	443	6924	99%	85%	14%	1%

## Most significant vote(s) and examples of Engagement

### Huadian Power International:

BlackRock voted against a high profile resolution where the company proposed an acquisition of three coal-fired power projects.

The rationale for this voting decision was:

- Because the company trades at a significant discount to its net asset value, the acquisition of the three coal-fired power plants was priced at a 36% premium to the net asset value (NAV) of the assets themselves. This was a striking contrast to the market valuation of the company itself.
- The deep discount of the company's valuation in relation to its NAV may reflect mounting investor concerns regarding the quality and environmental impact of coal-fired power assets in China. These concerns include declining thermal utilisation hours, government policies that aim to reduce coal consumption and, expected rising operating expenses due to the launch of the national emissions trading scheme (ETS) in July 2021, among other factors. However, such considerations do not appear to have been reflected in the pricing of the transaction.

BlackRock considers this vote significant as it highlights the risks involved in the transition to low carbon economies and the potential financial implications to companies that do not recognise this.

### Total SE (Total):

Blackrock voted for a high-profile resolution approving the company's sustainable development and energy transition plan.

The rationale for this voting decision was:

- The resolution met BlackRock's expectations that companies have clear policies and action plans to manage climate risk, this resolution provided a roadmap toward the company's stated climate ambitions and targets.
- Total's 2050 net zero targets appear to be consistent with the goals of the Paris Agreement, and BlackRock believes that the strategy strikes a reasonable balance between ambition and pragmatism as it relates to the global energy transition.

## Bond managers

### BNY Mellon - Efficient US High Yield Beta Fund (GBP Hedged)

No significant votes or examples were reported during the year.

### BlackRock – Aquila Connect Corporate Bond Index Fund All Stocks

No significant votes or examples were reported during the year.

### BlackRock – Aquila Connect Over 15 Year UK Gilt



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No significant votes or examples were reported during the year.

### **Legal and General Investment Management (LGIM) – Over 15 Year Index-Linked Gilts Index**

No significant votes or examples were reported during the year.

## Cash manager

### **BlackRock Institutional Sterling Liquidity Fund**

Due to the nature of this Fund's investments, it does not utilise vote proxies.