



the Cheviot **trust**

Implementation  
Statement  
Money Purchase Section

July 2021

# IMPLEMENTATION STATEMENT - Money Purchase Section

## Introduction

1. This statement sets out how the Scheme’s Statement of Investment Principles (“SIP”) has been followed during the Scheme year ending 31 December 2020 including a review of how the SIP was amended during the year.<sup>1</sup> It includes details of how the Cheviot Lifeplan (the default option) meets the needs of members and how the ESG 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 of Principles (“SIP”). The Trustee made changes to the Money Purchase Section’s Statement of Investment Principles (“SIP”) in June and September 2020.<sup>2</sup> The Investment Committee has delegated powers to consider investment issues and reviews the SIP annually and agrees any changes in the context of the annual strategic review of the Money Purchase Section, with advice from the investment and legal advisers. A consultation exercise with employers was completed in advance of each change.
3. The changes in June included some new self-select options, three equity only funds and two specialist funds which are designed to meet certain religious or ethical needs. The Trustee also took the opportunity to reflect comments from the Pensions Regulator on the previous version to make details of the Cheviot Lifeplan, the range of self-select options and alternative retirement strategies clearer.
4. The changes in September reflected the decision by the Investment Committee to slim down the SIP to remove any duplication with the Chair’s Statement and to reflect new legislative requirements. This resulted in a more succinct statement which the Trustee (which includes member representatives) considered to be easier for members to understand. The only substantive change to the strategy and policies described in the Statement related to the new ESG requirements.
5. The statements are available on the both the corporate and member focused Cheviot websites.<sup>3</sup>

## Investment objectives

6. The primary objectives of the Trustee for the Money Purchase Section as set out in the SIP are set out below with a description of how they were implemented during 2020.

Objective	Implementation
<b>To provide a default plan, called the Cheviot Lifeplan to provide members with an “adequate” retirement income<sup>4</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 is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2020 was completed in September 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 Investment Committee concluded that the Lifeplan continued to meet its objectives.

<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> The revised SIP was signed on 1 October 2020.

<sup>3</sup> [www.cheviottrust.com/www.mycheviotpension.com](http://www.cheviottrust.com/www.mycheviotpension.com)

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

## IMPLEMENTATION STATEMENT - Money Purchase Section

Objective	Implementation
<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>	An Islamic fund and an ethical equity fund were introduced early in 2020.
<b>To provide investment options for members who wish to invest in line with stock markets.</b>	Three equity only funds were introduced early in during 2020.
<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>	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.
<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>	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.
<b>As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.</b>	All options are able to deal daily. There was some disruption to daily dealing during the COVID-19 crisis due to the sudden transition to working from home.
<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>	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.

### Ongoing investment governance

7. Investment governance is delegated to the Investment Committee including the provision of key documents such as this implementation statement.
8. From mid-March to the end of June 2020, the Investment Committee met very regularly (often once a week) to review the investment strategy and to assess the level of risk in response to the COVID-19 crisis. Additional calls have been held since June to consider any specific issues or risks. 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. This information was formally reported to each quarterly Trustee meeting.
9. The primary investment objectives for the key 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 2020. The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with

## IMPLEMENTATION STATEMENT - Money Purchase Section

the investment advisers. The quarterly reviews of the other investment options confirmed that they achieved a return consistent with the stated objective.

10. 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.
11. 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 2020 and early 2021 against the detailed objectives set for them in late 2019.
12. 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.
13. 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.

### Risks

14. All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets in order 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.
15. During the Scheme year, risks were measured and managed as part of regular investment strategy governance, asset allocation reviews and investment strategy 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.
16. A risk relating to liquidity was introduced during 2020 in light of the COVID-19 crisis. Although the Money Purchase Section does not generally invest in illiquid assets, it was felt that the COVID-19 crisis could introduce liquidity risk unexpectedly, for example in relation to the cash fund.
17. An additional cash allocation was included in the Retirement Planning options at the beginning of the crisis to provide additional protection to members who were close to retirement. This allocation was unwound when markets stabilised in the autumn.
18. The risk and return tolerances were considered as part of the strategic review in September considering whether the target returns were still achievable.

## IMPLEMENTATION STATEMENT - Money Purchase Section

### Transitions

19. The changes made to the underlying asset allocation of the Retirement Planning option were implemented by the administration team, in conjunction with the investment platform provider and investment adviser.

### Investment Platform provider

20. 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.
21. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, each year. This review was reported in October and followed an extensive ordinary due diligence exercise to interrogate the platforms processes and procedures by the Investment advisers.<sup>5</sup> The report only highlighted one area of concern in relation to valuation and trading process where there had been some pricing errors. These errors did not impact Cheviot directly. The Investment advisers were confident that sufficient measures had been put in place to reduce the risk of future errors. The Investment Committee remain comfortable that the policies on the exercise of rights in relation to the investments and engagement activities have been followed.

### Value for members

22. The Trustee is required to assess the extent to which the Money Purchase Scheme provides value for members. The Investment Committee has reviewed this in respect of 2020 using an assessment from the investment advisers. The governance and management and administration and communication areas all provided average or better services for an average change. The investment charges are in line with the broader investment market but are slightly higher than the wider master trust market although sit within the range for master trusts of a similar management style.
23. Fees were reduced by 0.05% from April 2021 and the Investment Committee is implementing a further reduction of 0.05% from 1 July 2021.

### Environmental, social and governance factors

24. 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.
25. 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.
26. 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

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<sup>5</sup> The Investment Advisers use Mobius for their fiduciary appointments.

## IMPLEMENTATION STATEMENT - Money Purchase Section

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.

27. Once a manager is appointed, the Trustee can monitor ongoing compliance with ESG and other factors like stewardship as a part of overall performance and use its Investment Adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate).
28. For example, the Investment Committee decided to change the fund underlying the Annuity Planning retirement option in September 2020, subject to a more detailed review of the fund profile and ESG analysis. This analysis was considered at the October meeting and showed that the ESG rates were moderate and slightly ahead of the benchmark. The ESG rating was also higher than the existing fund. The manager was then appointed.
29. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy.
30. 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

31. The Trustee is supportive of the UN Principles for Responsible Investing the UK Stewardship Code and considers whether managers and signatories adhere to them. River and Mercantile Group, of which the investment advisers are a division, is a PRI signatory and were rated A+ by the PRI in 2019 for their Strategy and Governance.
32. 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 managers is included in the governance report as well as commentary on any issues which have arisen.
33. 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.
34. The platform provider 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 does actively engage with asset managers and is in support of the UK Stewardship code. Mobius contact 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.
35. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1. Both equity managers show meaningful engagement practices.

## IMPLEMENTATION STATEMENT - Money Purchase Section

### Conclusion

36. 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.

*D. Morris*

**Sir Derek Morris**  
Chair, Cheviot Trustees Limited  
6 July 2021

# IMPLEMENTATION STATEMENT - Money Purchase Section

## 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, excluding gilt funds, as at 31 December 2020. The funds considered are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	LGIM North America Equity Index	18.8%
	LGIM North America Equity Index (GBP Hedged)	19.0%
	LGIM Europe ex UK Equity Index (GBP Hedged)	5.2%
	BlackRock Aquila Connect European Equity	5.3%
	BlackRock Aquila Connect Emerging Market Equity	15.3%
	BNY Mellon Efficient US High Yield Beta Fund (GBP Hedged)	11.7%
Bonds	BlackRock Aquila Connect Corporate Bond Index Fund All Stocks	23.6%
	BlackRock Aquila Connect Over 15 Year UK Gilt	8.2%
	LGIM Over 15 Year Index-Linked Gilts Index	5.9%
Cash	BlackRock Institutional Sterling Liquidity Fund	25.0%

Over the year to 31 December 2020, 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 vote by proxy through the Institutional Shareholder Services (ISS) voting platform 'ProxyExchange' but in line with LGIM's specific policy and LGIM control the decision. ISS recommendations are to augment LGIM view.<sup>6</sup>

During 2020, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections due to governance concerns. LGIM note the following as the key focus of 2020:

- Particular attention to the near-term dangers posed by COVID-19 – LGIM wrote to investee companies to encourage them to ensure employees and suppliers were retained. Also, they asked global pharmaceutical companies to work with governments across all levels of income to ensure equitable access to Covid vaccines including the sharing of intellectual capital and manufacturing capacity.
- Longer-term threat of climate change – LGIM is ranked first among asset managers for their approach to climate change in separate independent reviews by NGOs ShareAction and InfluenceMap.
- Continued and increased their progressive stance on income inequality, diversity and board independence - LGIM opposed 208 directors globally due to concerns about Board diversity.

<sup>6</sup> How LGIM uses proxy voting services. [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/active-ownership-report-2020.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2020.pdf)

## IMPLEMENTATION STATEMENT - Money Purchase Section

### Legal and General Investment Management (LGIM) – North America Equity Index

	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
31/12/2019 – 31/12/2020	854	10,174	99.9%	72.4%	27.5%	0.0%

No significant votes were made in relation to the securities held by this fund during the reporting period.

### Legal and General Investment Management (LGIM) – North America Equity Index (GBP Hedged)

	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
31/12/2019 – 31/12/2020	804	9,634	100.0%	72.3%	27.7%	0.0%

There were no significant votes made in relation to the securities held by this fund during the reporting period.

### Legal and General Investment Management (LGIM) – Europe ex UK Equity Index (GBP Hedged)

	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
31/12/2019 – 31/12/2020	635	10,402	99.9%	84.2%	15.5%	0.4%

There were no significant votes made in relation to the securities held by this fund during the reporting period.

#### Summary for Blackrock

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship (BIS) team, which consists of three regional teams - Americas, Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA"). They make use of several proxy advisory services eg ISS and Glass Lewis, to collate and analyse data, but not for informing Blackrock's voting views.

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.

#### **BlackRock – Aquila Connect European Equity**

	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
31/12/2019 – 31/12/2020	512	8,674	81.4%	71.3%	9.98%	1.0%

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

##### **Deutsche Lufthansa AG**

In May 2020, BlackRock voted against the approval of the supervisory board's actions for financial year 2019 and the approval of the remuneration system for members of the executive board due to concerns about progress on climate-related risks reporting and the structure of executive pay at the company.

##### **Volkswagen AG**

In September 2020, BlackRock voted against the discharge of a number of management board and supervisory board members. This is due to ongoing concerns with oversight in relation to the emissions scandal, the insufficient level of independence on the supervisory board and its sub-committees and the independence of the external auditor.

## IMPLEMENTATION STATEMENT - Money Purchase Section

### BlackRock – Aquila Connect Emerging Market Equity

	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
31/12/2019 – 31/12/2020	2,417	22,849	97.1%	88.6%	8.4%	3.0%

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

#### CEZ

In June 2020, BlackRock voted against the approval of the remuneration policy due to insufficient detail concerning incentives and performance-related elements alongside limited disclosure on award levels.

#### Evras plc

In June 2020, BlackRock voted against the re-election of Karl Gruber as director for the company's lack of progress on climate-related reporting. Evraz is not an official TCFD supporter and has made no public commitment regarding the alignment of its disclosures with the recommendations of the TCFD. BlackRock's concern are regarding the lack of progress in the climate-related disclosures towards Evraz aligning its reporting with TCFD recommendations and that the disclosures do not address some of the recommended disclosures of the TCFD framework.

### 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

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.