the Cheviot trust

Implementation Statement With Profits Section

June 2022

Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles (the Statement) has been followed during the Scheme year ending 31 December 2021, focusing on 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 With Profits Section, with advice from the investment and legal advisers. The Statement was updated in May 2022 to reflect the triennial valuation undertaken as at December 2020. A consultation exercise with employers was completed before the Statement was signed.

3. The current Statement is available on the both the corporate and member focused Cheviot websites.[1]

Ongoing investment governance

4. Investment governance is delegated to the Investment Committee including the provision of key documents such as this implementation statement.

5. 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.[2] This information was formally reported to each quarterly Trustee meeting.

6. The Cheviot pension accounts include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets were held in the With Profits Section at the year end. 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.

7. 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 2022 against detailed objectives. An external advisor provided a review of performance in April 2022.

8. 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.

9. ESG training was provided by the investment advisers as 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).

10. 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

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[1] www.cheviottrust.com/www.mycheviotpension.com
[2] Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.

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

11. During the Scheme year, risks were measured and managed as part of regular investment strategy 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 fund remained in line with the agreed risk objectives.

12. 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.

Investment Platform provider

13. The Trustee invests 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.

14. The Scheme's investment adviser 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.

Environmental, social and governance factors

15. 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.

16. 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.

17. 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.

18. 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.

19. 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. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy.

Engagement and stewardship

20. 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.

21. Since the underlying return seeking investment funds used in the With Profits 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.

22. Despite the lack of contractual relationship, working with our investment advisers, the Trustee has reviewed those funds with more than 2.5% of the With Profits Section's assets and asked the investment platform provider for information about their voting activity.

23. The platform provider (Mobius Life) did not vote on behalf of the Trustee. 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 Trustee is satisfied that the level of engagement demonstrated by Mobius is appropriate.

24. 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.

Conclusion

25. 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
June 2022

Appendix 1

Voting and Engagement Summary

This Statement includes information on the underlying investment managers investing in securities with voting rights attached in which the holding is significant (greater than 2.5% of the total assets). Where proxy voting agents have been used, this has been included in the voting information. 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
Equity	LGIM Passive Funds	12.6%
	Blackrock Emerging Market Index Fund	4.2%
Hedge Fund	Marshall Wace Liquid Alpha Fund	6.2%

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.

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%

<u>Most significant vote(s) and examples of Engagement</u>

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.

Hedge Fund

31/12/2020 – 30/09/2021	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Marshall Wace Liquid Alpha	120	958	98%	82%	15%	2%

Although Marshall Wace have not provided any specific examples, the Manager has a Stewardship policy that has been in place since 2010 (revised in 2012). The aim of the code is to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. It sets out a number of areas of good practice to which it believes institutional investors should aspire. It also describes steps asset owners can take to protect and enhance the value that accrues to the ultimate beneficiary. The full code can be found here: https://www.mwam.com/stewardship-code-disclosure

In particular it is worth noting principle 5: "[The Manager] will consider acting with other investors (including overseas investors), particularly on those occasions where we feel that bilateral discussions with a company are not achieving adequate progress, or the matters are of such gravity that a collective approach seems the best means to focus the attention of a company's directors on those concerns."