



the Cheviot **trust**

# Implementation Statement With Profits Section

Report for 2023

July 2024



## 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 2023, 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 October 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.<sup>1</sup>

## 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 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.<sup>2</sup> 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 late 2023 against detailed objectives. An external advisor provided a review of 2023 performance in June 2024.
8. The investment advisor 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.<sup>3</sup>

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<sup>1</sup> [www.cheviottrust.com/www.mycheviotpension.com](http://www.cheviottrust.com/www.mycheviotpension.com)

<sup>2</sup> Schroders Solutions.



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 members in the future. Sustainability is a standing item on the quarterly Investment Committee agenda.
10. The Trustee's investment beliefs 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 includes 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

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.

### Investment Platform provider

12. 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.
13. The Scheme's investment adviser 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.

### Environmental, social and governance factors

14. 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.
15. 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.
16. 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.



17. 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.
18. 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. During the ongoing monitoring of managers during the Scheme year ending 31 December 2023, no decisions were taken to disinvest.
19. The Investment Committee did not take account of non-financially material factors when making investment decisions during the Scheme year.

### Engagement and stewardship

20. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) 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.
21. Since the underlying 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. 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.
22. 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.
23. 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 most material holdings) based on their specific knowledge of the circumstances around each vote; and
  - Where the With Profits section has a holding in a single stock of greater than 0.05% of total invested assets.



24. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.<sup>4</sup> Both equity managers show meaningful engagement practices.
25. 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.
26. 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.
27. 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.
28. Cheviot 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

29. 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 2024

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<sup>4</sup> Information based on data available from Mobius.



## 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. Allocations shown below are given as a % of total assets, as at 31 December 2023.

The funds reviewed are set out below.

Asset class	Fund name	Allocation
Equity	LGIM Asia Pac (ex-Japan) Dev Equity Index Hedged	0.2%
	LGIM Europe (ex UK) Equity Index Hedged	0.1%
	LGIM Japan Equity Index Hedged	0.3%
	LGIM North America Equity Index Hedged	2.1%
	LGIM UK Equity	0.2%

Voting and engagement activity undertaken by the underlying investment managers is set out in the following section. 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.<sup>5</sup>

### 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.

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.

#### LGIM Passive Funds

31/12/2022 – 31/12/2023	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index GBP Currency Hedged	479	3,283	100%	74%	26%	0%
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 GBP Currency Hedged	648	8,760	100%	66%	34%	0%
UK Equity Index	680	10,517	100%	94%	6%	0%

<sup>5</sup> The appointment of VLK Investment Management in early 2024 will facilitate better reporting of engagement in 2024.



### Most Significant Votes

#### **Alphabet Inc.:**

LGIM voted for (against Management recommendation) a resolution on approving a recapitalization plan for all stock to have one-vote per share.

- The rationale of the voting decision was:
  - LGIM expects companies to adopt a one-share-one-vote policy.

About 30% of shareholders supported the resolution. LGIM considers this vote significant due to the relatively high level of support received. LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.

#### **Berkshire Hathaway Inc.:**

LGIM voted in favour of a shareholder resolution requiring an independent board chair, which was against the management recommendation.

- 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.
  - LGIM have also published a guide for boards on the separation of the roles of chair and CEO, and they have reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.

Around 11% of shareholders supported the resolution. 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. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

#### **JPMorgan Chase and Co.:**

LGIM voted in favour of a shareholder resolution requiring a report on JPMorgan's climate transition plan, describing efforts to align financing activities with greenhouse gas emissions targets.

- The rationale for the voting decision was:
  - LGIM generally support resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published targets. LGIM believe that detailed information on how a company intends to achieve the 2030 targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company.

Around 35% of shareholders supported the resolution. LGIM considers this vote to be significant as they pre-declared their intention to support. LGIM continue to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met. LGIM will continue to engage with the company and monitor progress.

## 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
LGIM	<a href="#">Investment stewardship &amp; governance   LGIM Institutional</a>

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