



the Cheviot **trust**

Implementation Statement With Profits Section

July 2021

Implementation statement 2020 - With Profits 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, focusing on 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 Investment Principles ("SIP"). The Trustee agreed changes to the With Profits Section SIP in September 2020.¹ 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 With Profits Section, with advice from the investment and legal advisers. A consultation exercise with the employers was completed. The only substantive change to the strategy and policies described in the Statement related to the new ESG requirements.
3. The SIP is available on the both the corporate and member focused Cheviot websites.²

Ongoing investment governance

4. Investment governance is delegated to the Investment Committee including the provision of key documents such as this implementation statement.
5. 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.
6. The Cheviot pension accounts include details of the underlying investments and how they were assessed and valued for the accounts, together with investment performance information. There is one illiquid investment which is currently unwinding and is expected to unwind completely during 2021.³ 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 2020 and early 2021 against the detailed objectives set for them in late 2019.
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.

¹ The revised SIP was signed on 1 October 2020.

² www.cheviottrust.com/www.mycheviotpension.com

³ A Term Asset-Backed Securities Loan Facility Investment with Mackay Shields

Implementation statement 2020 - With Profits Section

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.

Risks

10. 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 were 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

11. The Trustee invests most return seeking 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.⁴
12. The Scheme's investment adviser 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 due diligence exercise to interrogate the platforms processes and procedures by the investment adviser.⁵ 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.

Environmental, social and governance factors

13. 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. The Investment Committee does not take account of non-financially material factors.
14. 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.
15. 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.
16. The Mackay Shields TALF fund was considered from an ESG perspective, but the scope of the review was limited to the manager's general approach to ESG. This is because the investment was being made in a new fund.⁶

⁴ 45.23% are held off platform.

⁵ The Investment Advisers use Mobius for their fiduciary appointments so are very familiar with the processes.

⁶ The strategic weight is 5.0% of the With Profits Investment Fund

Implementation statement 2020 - With Profits Section

17. The Investment Committee implemented two new EDOS⁷ arrangements in early 2020. These are derivative based structures managed by River and Mercantile and implemented with counterparty banks. The choice of counterparty (both in terms of the counterparties chosen to be part of the transaction and the choice of which counterparty of these to use when entering into derivative transactions) was driven by a number of factors including credit ratings which take into account ESG factors. ESG scores for counterparties were regularly monitored by River and Mercantile.
18. A long-term approach is taken to setting risk and return targets and when assessing manager performance against 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.
19. 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).
20. 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

21. The Trustee is supportive of the UN Principles for Responsible Investing (PRI) and 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.
22. 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 investors), the Trustee's consideration of ESG and stewardship is delegated to the managers as part of their investment process. The performance of each manager is included in the governance report as well as commentary on any issues which have arisen.
23. 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.
24. The platform provider 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 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 Trustee are satisfied that the level of engagement demonstrated by Mobius is appropriate.
25. 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.

⁷ Equity derivative overlap strategies which access equities market but provide some downside protection in return for a cap on the upside performance.

Implementation statement 2020 - With Profits Section

Conclusion

26. 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

Appendix

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 equity managers showed strong and meaningful engagement practices making use of proxy voting so that they can participate in as close to 100% of votes as possible.

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. As there are multiple underlying funds used in the Cheviot funds, the analysis includes allocations which are c.2.5% of assets or higher as at 31 December 2020 and for those funds for which voting is applicable.

The funds considered are set out below.

Asset class	Fund name	Investment Fund
Equity	LGIM North America Equity Index (GBP Hedged)	4.1%
	BlackRock Aquila Connect Emerging Market Equity	3.8%
Alternatives	Marshall Wace Liquid Alpha	8.4%

Equity

Legal and General Investment Management (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.⁸

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 its approach to climate change in separate independent reviews by NGOs ShareAction and InfluenceMap.
- Continued and increased its progressive stance on income inequality, diversity and board independence - LGIM opposed 208 directors globally due to concerns about Board diversity.

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

Voting statistics

	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%

⁸ [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)

Appendix

Most significant vote(s) and examples of Engagement

Votes in relation to Medtronic plc, Amazon, ExxonMobil and Proctor&Gamble Company were cited as the most significant for this fund over the year.

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"). It makes use of several proxy advisory services e.g., 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 were considered appropriate. Blackrock provided meaningful and helpful examples of key votes and examples of engagement.

BlackRock Aquila Connect Emerging Market Equity

Voting Statistics

	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.

Euras 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 is 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.

Alternatives

Marshall Wace Liquid Alpha

	Number of votes for	Number of votes against	Number of abstains
31/12/2019 – 31/12/2020	613	90	10

Most significant vote(s) and examples of Engagement

There were no significant votes made in relation to the securities held by this fund during the reporting period. Marshall Wace use Glass Lewis proxy voting services.