the Cheviot trust

# Implementation Statement Final Salary Schemes

July 2023

## Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles July 2022 ("SIP") has been followed during the Scheme year ending 31 December 2022, 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. The SIP is based on a generic document for Cheviot Final Salary Schemes, setting out the building blocks available, a Long Term Investment Fund, a Lower Risk Investment Fund, and a Credit Fund. The components of the strategy in use for each scheme is set out in a scheme specific appendix to the SIP.

3. No investments made in the year were inconsistent with the SIP. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the SIP annually. It agrees any changes in the context of the annual strategic review of the Final Salary Schemes, with advice from the investment and legal advisers.

4. The generic SIP is available on the corporate and member focused Cheviot websites.[1]

## Ongoing investment governance

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

6. The Investment Committee held 12 meetings during 2022. 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.

7. The individual Scheme accounts include details of the underlying investments and how they were assessed and valued for the accounts, together with investment performance information.[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.

8. 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 2022 against the detailed objectives. An external advisor provided a review of performance in April and October 2022.

9. 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

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[1] www.cheviottrust.com/www.mycheviotpension.com

[2]. Schroders Solutions

[3] Please contact ceo@cheviottrust.com for a copy of your Scheme's accounts or the SIP which show the specific funds invested in.

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.

10. 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 Investment Committee meetings during 2022 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).

11. The Investment 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. The investment beliefs was discussed in February 2022 and the Policy was discussed and agreed by the Trustee in September 2021.

## Risks

12. 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 could 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.

13. The Investment Committee continued to discuss the issues of Climate Change and TCFD in detail quarterly in 2022. As part of these sessions, it received further training on the risk and opportunities associated with climate change.

## Investment Platform provider

14. The Trustee invests most 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]

15. The Scheme's investment adviser is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months.

## Environmental, social and governance factors

16. 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.

[4] 11% of the Long Term Investment Fund and 15% of the Lower Risk Investment Fund were held off platform at the year end. The liability hedge is also off platform.

17. 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.

18. 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. No new managers were appointed during 2022.

19. 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.

20. 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 advisers' 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 no longer in alignment with the agreed approach to investment strategy.

## Engagement and stewardship

21. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) and 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 Investment Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.

22. Since the underlying investment funds used in the Final Salary Schemes 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.

23. The Trustee decided to adopt Climate and Governance as their stewardship priorities in the 2023 scheme year. Although these stewardship priorities had not been adopted in the 2022 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.

24. 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 Final Salary section (across both Long Term Investment Fund and Lower Risk fund) has a holding in a single stock of greater than 0.05% of total invested assets.

25. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.[5] Both equity managers show meaningful engagement practices.[6]

26. The performance of each manager is included in the governance report as well as commentary on any issues which have arisen.

27. Working with our investment advisers, the Trustee has reviewed those funds with more than 2.5% of the total assets held for Final Salary Schemes and asked the investment platform provider for information about their voting activity.

28. 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.

29. 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.

30. 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

31. 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*

**Sir Derek Morris**
Chair, Cheviot Trustees Limited
July 2023

[5] 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 used in the Credit and Matching Fund have been excluded as they do not have voting rights for their underlying holdings and thus do not have voting data to be considered.

As there are multiple underlying funds used, the analysis includes allocations which are c2.5% of assets or higher as at 31 December 2022 and those funds for which voting is applicable. The funds considered are set out below. Allocations shown below are given as a % of total assets, as at 31 December 2022.

| Asset class | Fund name | Long Term Investment Fund | Lower Risk Investment Fund |
|---|---|---|---|
| Equity | LGIM North America Equity Index (GBP Hedged) | 2.6% | 1.00% |
| | LGIM North America Equity Index | 1.6% | N/A |
| | LGIM Europe ex UK Equity Index (GBP Hedged) | 0.4% | 0.2% |
| | LGIM Europe ex UK Equity Index | 0.4% | N/A |
| | LGIM Japan Equity Index (GBP Hedged) | 0.3% | 0.1% |
| | LGIM Japan Equity Index | 0.3% | N/A |
| | LGIM Asia Pac (ex-Japan) Dev Equity Index Hedged | 0.1% | N/A |
| | LGIM UK Equity Index | 0.4% | 0.1% |
| | BlackRock Aquila Connect Emerging Market Equity | 1.8% | 0.2% |
| **Alternatives** | Marshall Wace Liquid Alpha | 1.6% | 1.3%% |
| | Marshall Wace ESG TOPS | 1.3% | N/A |

The Trustee (through its advisors) has included all of the information available in relation to the below voting activity. This has relied on the level of detail available 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.

## 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 2022, 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. The Trustee, on the advice of its advisors, determined that the voting behaviour of LGIM was aligned with the Scheme's stewardship priorities.

## Appendix 1

| **LGIM Passive Funds** 31/12/2021 – 31/12/2022 | Eligible meetings | Eligible resolutions | Voted on | Voted with management | Voted against management | Abstentions |
|---|---|---|---|---|---|---|
| Asia Pacific (ex-Japan) Developed Equity Index | 503 | 3,592 | 100% | 72% | 28% | 0% |
| Europe (ex-UK) Equity Index - GBP Currency Hedged | 605 | 10,296 | 100% | 81% | 18% | 0% |
| Japan Equity Index - GBP Currency Hedged | 503 | 6,255 | 100% | 88% | 12% | 0% |
| North America Equity Index | 668 | 8,416 | 99% | 65% | 35% | 0% |
| UK Equity Index | 759 | 10,854 | 100% | 95% | 5% | 0% |

### Most Significant Votes

**Governance: Amazon**

In May 2022, LGIM voted against the resolution to elect direct Daniel P. Huttenlocher, because Mr Huttenlocher was a long standing member of the Leadership Development and Compensation Committee, which in LGIM's view was accountable for human capital management failings. LGIM pre-declared its vote intention for this resolution which in their view demonstrates its significance.

LGIM will continue to engage with their investee companies and publicly advocate their position on this issue and monitor company and market-level progress.

**Climate: Alphabet Inc.:**

LGIM voted in favour of a resolution requiring the company to report on the physical risks of climate change.

- The rationale of the voting decision was:
  - LGIM expects companies to be taking sufficient action on the key issue of climate change.

About 18% of shareholders supported the resolution.

LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

**Governance: Meta Platforms 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 17% 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.

**Governance: NVIDIA Corporation**

## Appendix 1

In June 2022, LGIM vote against the resolution to elect director Harvey C. Jones. This was because LGIM Expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. LGIM are targeting the largest companies as they believe that they should demonstrate leadership on this critical issue. LGIM also expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.

LGIM views diversity as a financially material issue, with implications for the assets they manage.

**Governance and Climate Change: Berkshire Hathaway**

In April 2022, LGIM withheld their vote for the resolution to elect direct Susan L. Decker. Their rationale was based on the fact that in their view, the company does not adequately disclose climate change-related risks and opportunities.

LGIM also expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure and background.

LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

### 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 their 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. The Trustee, on the advice of its advisors, determined that the voting behaviour of BlackRock was aligned with the Scheme's stewardship priorities.

| 31/12/2021 – 31/12/2022 | Eligible meetings | Eligible resolutions | Voted on | Voted with management | Voted against management | Abstentions |
|---|---|---|---|---|---|---|
| Emerging Market Index Fund | 2,767 | 24,892 | 98% | 88% | 11% | 3% |

Significant Votes

**Climate and Governance: Samsung**

Blackrock voted for the board recommendation of the proposed director elections based on the company's indication that it is in its final review stage of a revised climate strategy.

The rationale for this voting decision was:

- BlackRock believes that climate risk is an increasingly important factor in companies' long-term profitability. Samsung is South Korea's largest company in market capitalisation and one of the largest manufacturers of electronics across the globe. BlackRock has conducted multi-year engagements with the company across a range of topics. As one of the 1,000+ companies included in BlackRock's climate focus universe, their engagements tend to involve climate and energy transition risk.

- Based on Samsung's sustainability reporting and disclosures, the company has yet to state any carbon neutrality goals. Furthermore, its greenhouse gas (GHG) emissions target of 70% reduction from 5.17 tonnes of CO2e/KRW 100 million in 2008 expired in 2020 and has not been refreshed. BlackRock deems nomination of Dr. Wha-Jin Han – the former Secretary for the Environment to the President of South

Korea and founding member of the Korea Environment Institute – brings to the Samsung board deep expertise to better assess and provide oversight to ensure adequate management of climate-related risks and opportunities. understanding is that the company is in the final review stage of its renewed strategy, which would replace the strategy and commitments that expired in 2020.

- BlackRock emphasises that long-term investors, and the company itself, will benefit from greater transparency and clear disclosure of the company's environmental strategy and targets. Since BlackRock is a long-term investor on behalf of their clients, it is important that Samsung – South Korea's largest company and a global leader in its industry – takes the initiative to lead on this critical, multi-decade business transition.

Based on BlackRock's anticipation that this revised strategy will be announced in the coming months, expected by mid-year, they decided to support all director elections at this shareholder meeting.

## Alternative managers

### Summary for Marshall Wace

| 31/12/2021 – 31/12/2022 | Eligible meetings | Eligible resolutions | Voted on | Voted with management | Voted against management | Abstentions |
|---|---|---|---|---|---|---|
| Marshall Wace Liquid Alpha | 1194 | 10,268 | 97% | 85% | 9% | 1% |
| Marshall Wace ESG TOPS | 371 | 4023 | 91% | 82% | 8% | 1% |

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."

## Appendix 2

Links to the voting and engagement polices for the Underlying Investment Managers can be found here:

| Investment Manager & Underlying Investment Manager | Voting & Engagement Policy |
|---|---|
| BlackRock | Investment Stewardship \| BlackRock |
| LGIM | Investment stewardship & governance \| LGIM Institutional |
| Marshall Wace | MW_Sustainable_Investing_and_Stewardship.pdf (mwam.com) |