



the Cheviot **trust**

Implementation Statement Final Salary Schemes

Report for 2023

July 2024



Implementation statement 2024 - Final Salary Schemes

Introduction

1. This statement sets out how the Scheme's Statement of Investment Principles February 2024 ("SIP") 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. 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 (IS) 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 six meetings during 2023. The Investment Committee received detailed information quarterly on the performance of the investment strategy against its long-term targets and risk measures and discussed it with the investment advisers.^[1] 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.^[2] 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 late 2023 against the detailed objectives.
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 a more detailed annual review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and

¹ www.cheviottrust.com/www.mycheviotpension.com

^[1] Schroders Solutions appointed February 2022

^[2] Please contact ceo@cheviottrust.com for a copy of your Scheme's accounts or the SIP which show the specific funds invested in.



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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. Sustainability is a standing item on the quarterly Investment Committee agenda.
11. 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

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.

Investment Platform provider

13. 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.²
14. 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

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

² Most LTIF Funds are now on the platform and all LRIF funds are now on platform. The liability hedge is off platform.



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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. No new managers were appointed during 2023.
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.
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 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

20. 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.
21. 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.
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 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.



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24. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1.³ Both equity managers show meaningful engagement practices.⁴
25. The performance of each manager is included in the governance report as well as commentary on any issues which have arisen.
26. 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.
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.
29. 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

30. 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
30 July 2024

³ 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 2023 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 2023.

Asset class	Fund name	Long Term Investment Fund	Lower Risk Investment Fund
Equity	LGIM North America Equity Index (GBP Hedged)	2.9%	1.2%
	LGIM North America Equity Index	2.1%	-
	LGIM Europe ex UK Equity Index (GBP Hedged)	0.0%	0.2%
	LGIM Europe ex UK Equity Index	0.8%	-
	LGIM Japan Equity Index (GBP Hedged)	0.6%	0.2%
	LGIM Japan Equity Index	0.3%	-
	LGIM Asia Pac (ex-Japan) Dev Equity Index (GBP Hedged)	0.2%	0.1%
	LGIM Asia Pac (ex-Japan) Dev Equity Index	0.0%	-
	LGIM UK Equity Index	0.4%	0.1%

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 2023, LGIM engaged with 2,050 companies globally, voted on 148,794 resolutions worldwide and opposed 52% of all management-proposed, pay-related proposals 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

31/12/2022 – 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 and unhedged	479	3,283	100%	74%	26%	0%
Europe (ex-UK) Equity Index - GBP Currency Hedged and Unhedged	567	9,955	100%	80%	19%	0%
Japan Equity Index - GBP Currency Hedged and Unhedged	513	6,098	100%	88%	12%	0%
North America Equity Index – GBP Currency Hedged and Unhedged	648	8,760	100%	66%	34%	0%
UK Equity Index	680	10,517	100%	94%	6%	0%

Most Significant Votes

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.

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.



Appendix 1

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 in 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	Investment stewardship & governance LGIM Institutional