

# Fluorocarbon Company Limited (1974) Pension Fund Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated 30 September 2019 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period 6 April 2020 to 5 April 2021.

## Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Risk-controlled multi-asset	Invesco Perpetual Global Targeted Returns Fund	67% ± 10%
	LGIM Dynamic Diversified Fund	
	M&G Episode Allocation Fund	
Liability Driven Investment ('LDI')	LGIM Matching Core Funds	33% ± 10%
<b>Total</b>		<b>100%</b>

## Strategy Review

There have been no changes to the target asset allocation over the year.

## Scheme Governance

The Trustee board is responsible for making investment decisions, and seeks advice as appropriate from Broadstone, as the Trustees' investment consultant.

The Trustees do not actively obtain the views of the membership of the Scheme to help form their policies set out in the SIP as the Scheme is comprised of a diverse membership, which the Trustee expects to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

There were no changes to the objectives put in place for Broadstone which were last reviewed in October 2019. The Trustees are due to formally review these objectives by October 2022, or earlier.

There were no changes to the investment management agreements with Invesco, LGIM and M&G during the year.

## Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in September 2019, which was updated to take account of the revised investment strategy and updated investment regulation.

The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

### **Policy on financially and non-financially material considerations**

**Trustees' Policy:** *The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact in the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can and will have a material financial impact on the returns provided by those assets.*

*The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on its assets.*

*The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time.*

*The Trustees view climate change as less likely to be a material risk in the context of the short to medium term development of the Scheme's funding position than other risks, but continue to monitor developments in this area in conjunction with their adviser.*

*Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions.*

*Members' views are not sought on financial or non-financial matters in relation to the selection, retention and realisation of investments*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out below, and, in particular, with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the investment managers, and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers, given they are investing in pooled funds.

A summary of the Trustees’ views for each asset class in which the Scheme invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Risk-controlled multi-asset funds	Active	The Trustees expect the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk adjusted returns. The Trustees also expect the investment managers to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolios do not typically attract voting rights.
LDI	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

### Policy on the exercise of voting rights and engagement activities

**Trustees’ Policy:** *The Trustees delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustees believe that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, it must act as a responsible asset owner. The Trustees expects their investment managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame.*

There have been no changes to the Trustees’ policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme’s investments.

The Trustees currently invest in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager.

However, the Trustees periodically meet with their investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustees. As part of this, the Trustees will seek to challenge their investment managers on these matters where they think this is in the best interests of members.

To complement this monitoring, the Trustees receive stewardship and governance reports from LGIM on a quarterly basis, and Invesco and M&G on an annual basis.

Within the current investment arrangements, all the risk-controlled multi-asset funds contain equity holdings. Therefore, these funds have voting rights attached to these underlying equities.

Some of the investment managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third proxy voters used are confirmed in the table below.

The Trustees have delegated engagement activities to their investment managers, and each investment manager reports on how they have voted on behalf of the Trustees for the underlying holdings.

A summary of the votes made by the investment managers from 1 April 2020 to 31 March 2021 on behalf of the Trustees (where the investment owns equities) is provided in the table below. The analysis is based on the latest information available from each investment manager.

Manager	Third Party Proxy Voter	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
Invesco Perpetual Global Targeted Returns Fund	ISS	5,244	94%	6%	0%
LGIM Dynamic Diversified Fund	Not used – in house	83,179	84%	15%	1%
M&G Episode Allocation Fund	ISS	242	89%	11%	0%

The Trustee has requested details of the significant votes made on behalf of the Trustee (where voting rights are attached). Details of these significant votes are provided below, together with engagement activities where voting rights are not held by the investment manager. The notable engagement activities of the investment managers (as determined by the holding that has effected the most change in the manager’s opinion) are provided below:

- **Invesco** engaged with the Chairman of a technology company to discuss executive compensation, following the payment of a \$110 million retainment fee to the newly appointed CEO in 2021. The company described the competitive nature of the industry that they are in and the attractive vision for growth held by the new CEO. ESG metrics in executive compensation were discussed, as the company has been incorporating environmental sustainability as well as diversity and inclusion goals and targets into incentives. Following the dialogue, Invesco is continuing to vote against the proposal.
- **LGIM** put forward a proposal to Amazon emphasising the important role that worker representation plays in supporting companies. This is in direct response to accusations against Amazon concerning its interference with efforts by its workers to unionise. As a consequence of these actions, Amazon has launched its Global Human Rights Principles, which recognise the fundamental rights of workers to organise, and commissioned a human rights impact assessment (with an external consultant). LGIM is continuing to engage with the company to ensure that Amazon's commitments to upholding human rights are maintained.
- **M&G** engaged with the chair of Woodside Petroleum to discuss decarbonisation plans, following up with a letter to request an increase to their decarbonisation targets and for public disclosure. M&G were hoping to raise their 2030 target of a 30% reduction in scope 1 and 2 emissions, set a net zero scope 3 target for 2050, set a ‘flaring’ target for gas, and to

explicitly reflect these targets in executive remuneration. The feedback and suggestions from M&G were circulated with senior management, and M&G will continue to engage and monitor the situation, particularly the company's public disclosures in 2021, before determining next steps.

The Trustees are comfortable with each investment manager's approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The Trustees also consider an investment manager's policies on stewardship and engagement when selecting and reviewing investment managers.

### **Monitoring of Investment Arrangements**

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports on a quarterly basis from Invesco, LGIM, and M&G, to ensure the investment objectives set out in their SIP are being met.

Signed: Alex Davies \_\_\_\_\_

Date: 30 September 2021 \_\_\_\_\_

**On behalf of the Trustees of the Fluorocarbon Company Limited (1974) Pension Fund**