

# 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 2021 to 5 April 2022.

### Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Fixed interest gilts	LGIM Over 15 Year Gilts Index Fund	10.4%
Liability Driven Investment ('LDI')	LGIM Matching Core Funds	27.7%
Cash	LGIM Sterling Liquidity Fund	61.9%
Total		100%

Before the end of the period, the Trustees had agreed that the updated strategy should be implemented to that shown above. The transfers to enact this strategy were started at the beginning of April, before the year end.

### Strategy Review

For the majority of the period under review, the Trustees’ investment strategy was to invest around 67% of the Fund’s assets in three risk-controlled multi-asset funds, held with Invesco Perpetual ('Invesco'), Legal & General Investment Management ('LGIM') and M&G Investments ('M&G'). The remaining assets were held in a Liability Driven Investment ('LDI') solution held with LGIM, with the aim to hedge 100% of the interest rate risk and inflation risk associated with the Fund’s funded liabilities.

Towards the end of the period, the Trustees advised that the Fund will be entering an assessment Period for entry into the Pension Protection Fund ('PPF') following the sponsoring employer entering into Administration. As a result, Tim Russell FIA issued a strategy recommendation dated 18 March 2022 recommending that the Fund should be significantly de-risked in order to protect members’ benefit coverage and compensation levels within the PPF. This strategy guidance recommended that in order to eliminate market risk and increase the levels of interest and inflation hedging, the three risk-controlled multi-asset funds held with LGIM, Invesco and M&G should be sold and instead invested in the LGIM Over 15 Year Gilts Index Fund and the LGIM Sterling Liquidity Fund.

This de-risking proposal was agreed in writing via email from the Trustees with the transitions taking place in April 2022 either side of the Fund’s year end.

## Fund 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 Fund to help form their policies set out in the SIP as the Fund is comprised of a diverse membership, which the Trustees expect 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 other than the termination of the agreements with Invesco and M&G due to the Fund's restructuring, and the addition of funds on to the policy with LGIM.

## 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.

A new SIP has been prepared to take account of the recent de-risking transitions and is currently being reviewed by the Trustees.

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 Fund 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 Fund's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated 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 receive information from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issuers.*

*With regard to the specific risk to the performance of the Fund's investment associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Fund's assets as a longer term risk and likely to be less likely to be less material in the context of the short to medium term development of the Fund's funding position than other risks. The Trustees will continue to monitor market developments in this area with its investment 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 Fund 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.

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 Fund invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Government Bonds	Passively	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.
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.
Cash	Passively	The Trustees believe there is no scope for the consideration of ESG issues due to the nature of the asset class

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

**Trustees' Policy:** *Responsibility for engagement with the issuers of the Fund's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.*

*The Investment Managers provide, on request, information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Managers.*

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 manager, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Fund's investments.

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

However, the Trustees periodically meet with their investment manager, 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 manager on these matters where they think this is in the best interests of members.

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.

To complement this monitoring, the Trustees receive stewardship and governance reports from LGIM on a quarterly basis, and during the year will have received these from M&G and Invesco on an annual basis, until these policies were terminated.

Within the current investment arrangements, none of the funds contain equity holdings, and therefore do not have any voting rights. However, LGIM sets their own voting policy and will often engage with investee companies directly at a company level.

LGIM reports quarterly to the Trustees on how they have voted across all funds they manage. A summary of the votes made by LGIM from 1 April 2021 to 31 March 2022 on behalf of all pension schemes who have assets invested with them is provided in the table below.

Manager	Pooled or Segregated?	Third Party Proxy Policy Used	Resolutions Voted On	Resolutions Voted:		
				For	Against	Abstained
LGIM	Pooled	No - in house but cast votes using ISS	67,271	80%	19%	1%

The Trustees have requested details of the significant votes made on behalf of the Trustees (where voting rights are attached) and engagements made on behalf of the Trustees (where the managers has the opportunity to engage with companies). Details of these significant votes and engagements are provided below:

- **Invesco** engaged with Origin Energy on matters such as indigenous relations and climate change. Multiple shareholder resolutions were filed at the company's 2021 Annual General Meeting and Invesco also participated in an investor roundtable leading to direct engagement with the company. In particular, Invesco supported the shareholder proposal which requested that Origin commit their capital expenditures in alignment with the Paris Climate Agreement. The shareholder proposals did not receive a majority, although they did receive substantial shareholder support. The company indicated that they would take this shareholder view on board and Invesco will monitor any development ahead of the 2022 Annual General Meeting.
- **LGIM** put forward a shareholder proposal to Moderna requesting that the company publicly disclose how its receipt of government financial support for the development and manufacture of a COVID-19 vaccine is being considered when making decisions that affect access to such products, such as setting prices. The company is contesting the inclusion of the proposal on its agenda at the 2022 Annual General Meeting and have indicated that they will publish such a report prior to the Annual General Meeting. LGIM are currently engaging with the company.
- **M&G** met with miner Rio Tinto on a number of occasions, as part of its ongoing work to support the company in developing its decarbonisation strategy and disclosure, both individually and through the Climate Action 100+ industry working group. One of the main focuses in these discussions has been around scope 3 carbon emission measurement and reporting, as part of an ambition to reduce carbon emissions and eventually get to 'net-zero'. As part of M&G's engagement with the company, M&G have been encouraging Rio Tinto's management to highlight the efforts they are making to reduce scope 1 and 2 carbon emissions and disclose the areas of scope 3 carbon emissions and developments which are possible at this stage. This includes details and metrics around partnerships with customers, the proportion of customers that have carbon emission reduction targets in place and outlining an engagement programme to broaden this out in the future.

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, the Trustees receive performance reports on a quarterly basis from LGIM to ensure the investment objectives set out in their SIP are being met.

Signed on behalf of the Trustees of the Fluorocarbon Company Limited (1974) Pension Fund:

---

Trustee

---

Trustee

Date: \_\_\_\_\_