

# Hewland Engineering Limited 1972 Pension and Life Assurance Scheme

## 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 16 September 2019 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period from 1 October 2021 to 30 September 2022.

### Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Developed equities	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged	10.0%
Global emerging market equities	LGIM World Emerging Markets Equity Index Fund	5.0%
Risk-controlled multi-asset fund	LGIM Dynamic Diversified Fund	27.5%
Risk-controlled multi-asset fund	Insight Broad Opportunities Fund	27.5%
Liability Driven Investment (LDI) funds	Insight LDI Enhanced Selection Funds	30.0%
<b>Total</b>		<b>100.0%</b>

### Strategy Review

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

During the year, the Trustees reviewed the investment strategy of the Scheme and considered alternative strategies to reduce the investment risk taken by the Scheme given a deterioration in the strength of the Employer Covenant.

The Trustees agreed to adopt a strategy that reduced the allocation to growth assets from 70% to 30% with the remainder invested in protection assets. Within the protection assets, the strategy added an allocation to corporate bonds to be held on a buy and maintain basis, whilst also introducing an allocation to asset-backed securities to act as a collateral pool for the LDI funds.

The implementation of the agreed strategy had not commenced at year-end.

### 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 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 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 are currently under review by the Trustees. The Trustees last reviewed these objectives in November 2019.

There were no changes to the investment management agreements with LGIM and Insight 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 updated investment regulations and the switch from ASI to LGIM.

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

<b>Trustees' Policy:</b>	<p><b><i>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 be expected to 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 the associated assets.</i></b></p> <p><b><i>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 issues.</i></b></p> <p><b><i>With regard to the specific risk to the performance of the Scheme's investments 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 Scheme's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with their investment adviser.</i></b></p>
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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.

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
Global equities	Passive	The Trustees acknowledge that the investment managers must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustees do expect the investment managers to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
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 their investment managers to engage with the underlying investee companies, where possible, although they appreciate that fixed income assets within the portfolio do not typically attract voting rights.
LDI solution	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:**

***Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to their 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 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 Insight on an annual basis.

Within the current investment arrangements, the following funds contain equity holdings: the LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged, the LGIM World Emerging Markets Equity Index Fund, the LGIM Dynamic Diversified Fund and the Insight Broad Opportunities Fund. Therefore, these funds have voting rights attached to these underlying equities.

LGIM sets their own voting policy and will often engage with investee companies directly. Insight use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third party proxy voters used are confirmed in the table below.

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

A summary of the votes made for each fund by the investment managers from 1 October 2021 to 30 September 2022 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.

Fund	Third Party Proxy Voter	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged	Not used – in house	40,944	82%	18%	-
LGIM World Emerging Markets Equity Index Fund	Not used – in house	35,277	79%	19%	2%
LGIM Dynamic Diversified Fund	Not used – in house	98,004	78%	21%	1%
Insight Broad Opportunities Fund	Minerva	172	100%	-	-

The Trustees have requested details of the significant votes made on behalf of the Trustees (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 managers. 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:

- **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.
- **Insight** engaged with a company managing water and power projects in South Asia in the first quarter of 2022. Insight initiated discussions with the company on the execution of its capital expenditure plan, and to engage on governance and disclosure issues. The engagement was instructive, highlighting that the company has no independent board members, is transitioning towards compliance with international accounting standards, and that governance safeguards are in place. Insight were encouraged by the open discussion and are committed to continued engagement with the company.

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 the investment managers' 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 LGIM and Insight, together with performance reports from Broadstone on a semi-annual basis to ensure the investment objectives set out in their SIP are being met.

**Signed:** \_\_\_\_\_ For PSGS Trust Corporation Limited

**Date:** 28 April 2023

**On behalf of the Trustees of the Hewland Engineering Limited 1972 Pension and Life Assurance Scheme**