

# The Mouchel Business Services Limited Pension Scheme Money Purchase Section

## Implementation Statement

### **1. Introduction**

The Trustee is required to make publicly available online a statement (“the Implementation Statement”) covering the Mouchel Business Services Limited Pension Scheme Money Purchase Section (the “Scheme”).

This Implementation Statement covers the Scheme Year from 1 April 2020 to 31 March 2021. It sets out:

- Details of any review of and/or changes made to the DC Section Statement of Investment Principles (“SIP”);
- How, including the extent to which in the opinion of the Trustee, the Scheme’s SIP has been followed over the year;
- How, including the extent to which, the Trustee’s policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustee, including the most significant votes cast and any use of a proxy.

**The Trustee believes that it has acted in accordance with and followed the policies set out in the SIP over the Scheme Year.**

### **2. Review of the SIP and subsequent changes during the Scheme Year 1/4/2020 - 31/3/2021**

The Trustee reviewed the SIP during the year to 31 March 2021, with an updated version coming into effect during September 2020. The SIP had last been updated in September 2019, so reviewing the SIP in 2020 fulfilled the Trustee’s obligations under Regulation 2 (1) of the Occupational Pension Schemes (Investment) Regulations 2005.

The key updates made as part of these reviews were to:

- Develop further the Trustee’s policy on corporate governance and stewardship. To help form these policies, the Trustee received training from its adviser covering responsible investment, the financial materiality of Environmental, Social and Governance (“ESG”) factors and stewardship. The policies set out in the SIP were formed following subsequent discussions. The Trustee has added policies to the Scheme’s SIP to cover the following stewardship points:
  - how the Trustee incentivises managers to align their investment strategy with the Trustee’s own;
  - how they incentivise the manager to assess investee companies’ medium to long-term financial and non-financial performance, and engage accordingly;
  - how the method and time horizon for evaluating the manager’s performance, and the basis of its remuneration, are aligned with the Trustee’s other investment policies;
  - how the Trustee monitors portfolio turnover costs incurred;
  - the duration of their management arrangement.

### **3. Implementation of the Trustee's policies during the Scheme Year**

The tables below set out the actions taken by the Trustee over the year to 31 March 2021 in order to follow various policies within the SIPs.

#### **SIP policies relating to the Scheme which the Trustee considered the most material in the Scheme Year.**

| Policy   | Trustee actions over the Scheme Year   |
|--|--|
| <p><b>Investment governance</b></p>  | <p>The Trustee has governed the Scheme in line with the SIP.</p> <p>The SIP sets out that the Trustee will hold regular Investment meetings each year – these meetings provide an opportunity for the Trustee to maintain sufficient involvement in the investment process to discharge its responsibilities appropriately. These were held through this Scheme Year.</p> <p>Over the Scheme Year, the Trustee received quarterly information on the performance of the investment strategy from its Investment adviser. This information was formally reviewed by the Trustee and discussed with the adviser. During these discussions the Trustee ensured it was clear what the key portfolio activity was over the reporting period as well as the key contributors and detractors to investment performance.</p> <p>The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the adviser. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees.</p> <p>The Trustee is required to review the SIP at least every three years or without delay after any significant change in the Trustee's investment policy, and this was undertaken in September 2020 with changes as described elsewhere in this Implementation Statement.</p> <p>The Trustee is comfortable the investment strategy performed as expected during the Scheme Year given wider economic conditions, in particular the equity market falls caused by the coronavirus pandemic.</p> |
| <p><b>Corporate Governance and Stewardship</b></p>                             | <p>The SIP sets out that the Trustee will periodically review the overall performance and value-for-money of using the Investment Adviser (as specified in the Scheme's Investment Consultant objectives) and Investment Managers. The Trustee believes that the specific policies set out in the SIP have been complied with this year based on the below.</p> <p>The Scheme's investments are generally made via pooled investment funds. As such, direct control of the process of engaging with the companies that issue these securities (whether equities, bonds, etc.) is delegated to the underlying Investment Managers.</p> <p>The Trustee and Investment Adviser undertake regular reviews of the Investment Managers. These reviews incorporate benchmarking of performance and fees as well as performance reviews (including understanding key drivers of performance). The Investment Adviser and Trustee review the governance structures of the Investment Manager, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.</p>   |
| <p><b>Financially material factors specifically ESG and climate change</b></p> | <p>The SIP was updated in 2019 and 2020 to reflect new regulatory requirements relating to financially material factors (including ESG and climate change). The Trustee is satisfied it has complied with the SIP as set out below.</p> <p>The Trustee delegates the day-to-day consideration of financially material factors to the Investment Managers who consider these when constructing their portfolios. The Investment manager, who takes investment decisions on behalf of the Trustee, is expected to follow the Trustee's SIP in respect of financially material factors, specifically ESG and climate change.</p> <p>ESG factors and stewardship are considered in the context of long-term performance, by the Trustee as part of the Investment Manager selection criteria. This review occurs before Investment Managers are approved for investment in the portfolio. Once an Investment Manager is appointed, the Investment Adviser and Trustee will monitor the Investment Manager for ongoing compliance with the expected standards at appointment and with other factors, such as stewardship, as a part of overall governance and engagement.</p>   |

| Policy   | Trustee actions over the Scheme Year   |
|--|--|
| <b>Monitoring</b>  | <p>The Trustee is satisfied it has complied with the SIP as set out below.</p> <p>Over the year, the Trustee has monitored the Investment Managers on a quarterly basis against the objectives set by the Trustee. As a result of the volatile market conditions experienced over 2020, the Trustee, with the assistance of its Investment adviser, monitored the underlying managers' performances and aspects of their investment strategies in detail throughout the year.</p> <p>The Trustee is required to review the SIP at least every three years and this was undertaken in September 2020 with changes made as described elsewhere in this document.</p>   |
| <b>Risk management</b>                                   | <p>This section of the SIP sets out how risks are monitored and managed within the Scheme. Many of these aspects are also covered in various other parts of the SIP so in this section, there may be some repetition from other parts of the Implementation Statement. The Trustee is satisfied that risks are monitored in line with the SIP on the basis set out below.</p> <p>The default arrangement's risk characteristics (volatility of returns) were within tolerances monitored by the Investment Adviser.</p> <p>The self-select funds comprise active and passively managed funds. The Value for members report prepared by the Investment Adviser assessed the fund performance over the 12 months to 31 March 2021. For the active funds, the assessment was based on 3-year rolling periods and compared net performance against their objectives and cash. For each fund, performance was ahead of its objective and cash on over 90% of the periods assessed; the only exception was the Standard Life Global Absolute Return Strategies ("GARS") fund, which underperformed its objective over every period assessed. For the passive funds, the assessment was based on 3-year rolling periods and compared the funds' performances against their objectives and positive absolute gross returns. They tracked their benchmarks as per their objectives and generated positive gross returns on over 99% of periods assessed.</p> <p>The Investment Adviser carried out a review of the Scheme's default lifestyle in 2019 and proposed replacing Standard Life ("SL") Global Absolute Return Strategies with the Legal and General Investment Management ("LGIM") Multi Asset Fund. This change is due to be implemented in 2021.</p> |
| <b>Non-financially material factors</b>                  | <p>In line with the SIP, the Trustee does not at present consider non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.</p>  |
| <b>Default Investment Strategy and self-select range</b> | <p>The Trustee's investment objectives set out in the SIP are to:</p> <ul style="list-style-type: none"> <li>▪ Provide a default investment strategy that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default strategy is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement; and</li> <li>▪ Provide an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement.</li> </ul> <p>During the 2020/21 Scheme Year, the Trustee did not formally review or make changes to the investment strategy.</p> <p>The last Scheme review was carried out in 2019 where the Investment Adviser proposed replacing SL GARS with the LGIM Multi Asset Fund. This change is due to be implemented in 2021.</p>  |
| <b>Strategy implementation</b>                           | <p>The Trustee has chosen to incorporate active management within the default arrangement, through its Investment Adviser. This is aligned with the Trustee's investment belief that active management can add value by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement's funds.</p> <p>The Trustee has chosen to incorporate passive management funds within the self-select fund range. The Trustee believes passive management offers low cost, effective access to the core range of asset classes offered within the range, for those members actively choosing to access those asset classes.</p> <p>The policies set out above were unchanged during the Scheme Year.</p>   |

| Policy | Trustee actions over the Scheme Year   |
|--------|--|
|        | <p>The Trustee receives quarterly reports from the administrator that enable it to monitor the administration service and, in particular, if agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.</p> <p>Further detail regarding the processing of core financial transactions over the year is set out in the Governance statement (“Chair’s statement”).</p> <p>The Trustee is required to assess the extent to which member-borne charges and ongoing transaction costs represent good value for members. The Trustee has reviewed this in respect of the Scheme Year and concluded good value for members is demonstrated by the Scheme. This review accounted for investment performance (including risk management characteristics of the strategy) after the impact of costs and charges, a comparison of fund charges against similar funds in the industry and the service levels provided to members through the Scheme. Further information regarding the Trustee’s assessment of value for members is set out in the Governance Statement (“Chair’s statement”).</p> |

#### **4. Background to voting practices and procedures**

The Trustee’s investment advice is provided by River and Mercantile Investments Limited, a division of the River and Mercantile Group. The River and Mercantile Group is a PRI signatory and were rated A+ by PRI for their Strategy and Governance.

The Scheme’s investments are made via pooled investment funds via the Platform Manager, Fidelity, in which the Scheme’s investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, monitoring and voting, whether for corporate governance purposes or other financially material considerations, is delegated to the underlying Investment Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to their underlying Manager holdings to Fidelity, which implements its fund voting policy. The Trustee is satisfied that Fidelity has implemented its voting policy as outlined below.

At the fund manager level, Fidelity hold voting rights and at the underlying company/stock level, the underlying fund manager holds the voting and engagement rights.

To ensure all relevant voting and engagement is covered, this statement includes information on Fidelity’s voting and engagement record (with respect to the Scheme and voting on at the fund manager level) as well as those of the underlying managers. Both Standard Life and Legal and General use Institutional Shareholder Services, a proxy voting company, to electronically vote clients’ shares.

This summary has been completed over the year to 31 March 2021 and where applicable, underlying managers have provided examples of engagement.

The key areas the Trustee notes from voting and engagement activity across their underlying managers over the year to 31 March 2021 are set out below. Voting activity is set out in the Appendix and engagement activity over the year has been collated separately with a summary provided here:

- As platform provider, Fidelity did not vote on behalf of the Trustee. This is due to their policy not to vote/engage at the fund level as they cannot represent all their underlying investors that way. This is common practice in the industry. However, we continue to challenge Fidelity on behalf of the Trustee on developing their engagement programme.
- Of the managers, the majority showed significant votes and engagement with underlying companies, particularly in respect of executive remuneration and climate change matters.

## **Appendix A**

The funds considered are set out below:

| Asset class | Fund name                | Maximum allocation within DC blended fund |
|-------------|--------------------------|---|
| Equity      | LGIM Global Equity 50/50 | 100%                                      |
| Multi-Asset | Standard Life GARS       | 100%                                      |
| Bonds       | LGIM Pre-Retirement      | 75%                                       |
| Cash        | LGIM Cash                | 25%                                       |

The Scheme's assets are held via the Fidelity investment platform and as such, Fidelity holds the voting rights for the Scheme's underlying pooled funds (at fund manager level, not the underlying companies in which that manager may invest).

Over the year to 31 March 2021, Fidelity did not undertake any voting activity in respect of the pooled funds held on its investment platform.

Voting and engagement activity undertaken by the underlying Investment Managers is set out in the following section.

## Equity

### Legal and General Investment Management (LGIM) – Global Equity 50/50

#### Voting Statistics

|                       | Number of meetings eligible to vote on | Total number of resolutions eligible to vote on | % of eligible resolutions voted on | % of resolutions voted with management | % of resolutions abstained from |
|-----------------------|--|---|------------------------------------|--|---------------------------------|
| 12 months to 31/03/21 | 3641                                   | 44680   | 99.97%                             | 83.56%                                 | 0.15%                           |

#### Most significant vote(s) and examples of Engagement

##### Whitehaven Coal

- The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone, three of Australia's main export markets for coal – Japan, South Korea and China, have announced targets for carbon neutrality by 2050.
- LGIM has publicly advocated for a 'managed decline' of fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.
- Although LGIM voted for the resolution, the resolution did not pass. However, the environmental profile of the company remains in the spotlight: in late 2020 the company pleaded guilty to 19 charges of breaching mining laws that resulted in 'significant environmental harm'. As the company is on LGIM's Future World Protection List of exclusions, many of their ESG-focused funds and select exchange-traded funds were not invested in the company.
- LGIM will continue to monitor this company.

##### Toshiba Corp.

- LGIM supported the resolution calling for the appointment of investigators to address doubts over the company's 2020 AGM conduct and vote tallying. LGIM believe the enquiry, which is unlikely to be a burden on the company, will be an important step in rebuilding trust between shareholders and the company's executive team and board.
- LGIM also supported the shareholder resolution mandating the company to present its strategic investment policy to a shareholder vote in order to send a clear message to the Toshiba Board and executive team: shareholders expect increased transparency and accountability.

##### The Procter & Gamble Company

- LGIM believe that Procter & Gamble lags its peers in terms of deforestation commitments and policies that monitor supplier actions. The company has been accused of contributing to the destruction of forests that have high wildlife and climate change value. The lack of information presents potential competitive and reputational risks to the company.
- As a result, LGIM voted for a shareholder proposal requesting the company report on efforts to eliminate deforestation. LGIM will continue to engage with the company to ensure that the lack of reporting is adequately addressed.

##### Tyson Foods

- In February 2021, a shareholder-led resolution requested that the company produces a report on Tyson's human rights due diligence process.

- LGIM believes that companies in which they invest should uphold their duty to ensure the health and safety of employees over profits. While the company has Health and Safety and Code of Conduct policies in place and may have introduced additional policies to protect employees during the pandemic, there was clearly more it could have done. This is indicated by the reported complaints and rates of infection among its employee population.
- LGIM believe that producing this report is a good opportunity for the board to re-examine the steps they have taken and assess any potential shortfalls in safety measures so that they can improve controls and be better prepared for any future pandemic or similar threat.
- LGIM voted against the proposal and will continue to monitor the company.

## Multi-Asset

### Standard Life – Global Absolute Return Strategies (“GARS”)

#### Voting Statistics

|                       | Number of meetings eligible to vote on | Total number of resolutions eligible to vote on | % of eligible resolutions voted on | % of resolutions voted with management | % of resolutions abstained from |
|-----------------------|--|---|------------------------------------|--|---------------------------------|
| 12 months to 31/03/21 | 22                                     | 296   | 100%                               | 87.16%                                 | 0.0%                            |

#### Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.

## Bonds

### Legal and General Investment Management (LGIM) – Pre-Retirement Fund

#### Most significant examples of Engagement

No significant votes or examples were reported during the year.

## Cash

### BlackRock Cash Fund

#### Most significant vote(s) and examples of Engagement

No significant votes or examples were reported during the year.