Purmo Group UK Pension Scheme – Implementation Statement

June 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address https://www.myson.co.uk/static_files/my/media/downloads/Statement%20of%20Investment%20Principles%20SIP%2007.09.2020.pdf. Changes to the SIP are detailed on the following pages.

Implementation Statement

This Implementation Statement is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. It covers both the Defined Benefit ("DB") Section and also the Defined Contribution ("DC") Section of the Scheme. This report details:

- actions the Trustees have taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with fund managers on managing ESG risks
- the extent to which the Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 30 June 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme reporting year

- Within the DB Section of the Scheme, the Scheme increased its level of hedging in late 2018 to better protect the Scheme against interest rate and inflation risk.

- The Scheme carried out a review of the updated ESG policy as part of the SIP and IID update in September 2019.

Implementation Statement

This report demonstrates that the Purmo Group UK Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions

Defined Benefit ("DB") Section

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks with the use of Liability Driven Investment.	The Scheme increased its level of hedging to better protect the Scheme against interest rate and inflation risk. **These changes to the asset allocation were reflected in the SIP and IID, which were updated in September 2019.**
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).	There have been no changes to the policy over the reporting year.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where practicable.	There have been no changes to the policy over the reporting year. The Trustees regularly review the performance of the managers and have concluded the allocation remains appropriate.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To select investment managers on the platform who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	There have been no changes to the policy over the reporting year.

Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.	ESG actions undertaken: • A more comprehensive ESG policy was introduced by the Trustees as part of the SIP and IID update in September 2019. • More details of the ESG policy and how it was implemented are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk.	There have been no changes to the policy over the reporting year.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	There have been no changes to the policy over the reporting year.

Defined Contribution ("DC") Section

Risk / Policy	Definition	Policy	Actions
Interest rates	The potential for adverse interest rate movements to have an impact on the Scheme's bond investments.	Members are offered a range of funds to invest in and the default invests in a diverse range of assets to mitigate this risk.	There have been no changes to the policy over the reporting year.
Inflation	The potential that the Scheme's investments will not keep pace with inflation.	The Scheme offers a number of funds which are expected to outperform inflation, including the default.	There have been no changes to the policy over the reporting year.
Liquidity	The potential that investments cannot be encashed when required.	The funds offered through the Scheme invest predominantly in assets which are readily tradable.	There have been no changes to the policy over the reporting year.
Market	The potential for losses due to factors that affect the overall performance of financial markets.	Members are offered a range of funds to invest in and the default invests in a diverse range of assets to mitigate this risk. However the Trustees are aware that in falling markets members may suffer losses.	There have been no changes to the policy over the reporting year.
Credit	The potential for losses due to a holding in a bond fund defaulting on their obligations.	The Scheme's bond funds invest in a range of bonds to minimise the impact of any default.	There have been no changes to the policy over the reporting year.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting	ESG actions undertaken: • A more comprehensive ESG policy was introduced by the Trustees as part of the SIP and IID update in September 2019. • More details of the ESG policy and how it was implemented

		rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.	are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The funds which the Scheme invest in are Sterling denominated, however members will still be exposed to currency risk where assets are held overseas on an unhedged basis.	There have been no changes to the policy over the reporting year.
Shortfall / pension conversion risk	The potential that a member has not saved sufficiently for retirement, or suffers an investment loss close to retirement leading to a pension shortfall	The Scheme's default and alternative lifestyle options automatically de-risk members as they approach retirement and allow them to target specific retirement outcomes.	There have been no changes to the policy over the reporting year.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	There have been no changes to the policy over the reporting year.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2019	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	DB Section: • As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. DC Section: • As the Scheme offers members pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies and members specific requirements. • However, the Trustees have selected the default investment option and the funds offered to members with regard to the demographics of Scheme members.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	DB Section: • The Trustees review the investment managers' performance relative to medium and long-term objectives. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance. DC Section: • The Trustees review fund performance relative to their objectives on an annual basis. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	DB Section: • The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.

	DC Section: • The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate fund performance over a range of both shorter-term and longer-term periods. • Fund charges are reviewed annually to ensure these represent value for members.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	DB Section: • The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. DC Section: • The Trustees monitor turnover costs as part of the annual Chair's Statement in the Trustee Report & Accounts.
The duration of the Scheme's arrangements with the investment managers	DB Section: • The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. • For open-ended funds, the holding periods are flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held. DC Section: • The duration of the arrangements are flexible and the Trustees will from time-to-time consider the appropriateness of the funds and whether they should continue to be offered.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy in relation to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• Through the manager selection process ESG considerations will form part of the evaluation criteria • The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Voting & Engagement	6. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

ESG summary and engagement with the investment managers

The Scheme has not yet carried out an Impact Assessment.

Engagement

As the Scheme invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 18 months to 30 June 2020.

Fund name	Engagement summary	Commentary
Defined Benefit Section		
BlackRock Dynamic Diversified Growth Fund	Total Engagements: 1,009 Environmental: 375 Social: 328 Governance: 949 Human Capital: 258 *Engagement breakdown has been given at a fund level. We are working with BlackRock to enable them to provide this breakdown at a client level in the future.*	BlackRock advise that their Investment Stewardship team engages with companies to provide feedback on their practices and inform their voting, including focusing on ESG considerations where there may be a long-term impact for these companies. While BlackRock consider ESG in their engagements and make use of key performance indicators (KPIs) there is no evidence of how these are quantified. Examples of significant engagement include: ExxonMobil – BlackRock have expressed to Exxon that there continues to be a gap in the company's disclosure and action with regard to its climate risk management. BlackRock voted against directors to express their disapproval, while also voting in favour of a shareholder proposal around governance changes. This reflects BlackRock's view that the board has not been responsive to shareholder feedback and concerns regarding climate risk management.
M&G Total Return Credit Fund	Total Engagements: 29 Environmental: 11 Social: 4 Governance: 19	M&G's activities are consistent with their ESG policies and they have a systematic approach around engagements in which specific objectives are outlined in advance and measured based on the outcomes from the engagements. Analysts are expected to have a more granular awareness of key ESG risks that impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G's CF&S Team, allowing them to leverage their expertise in sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this on a central system. Examples of significant engagement include: Experian – In light of a security breach at a competitor, M&G were interested in learning what measures the company had put in place to avoid a similar outcome. Experian provided

		details around data security protocols and measures they continue to take. M&G were satisfied with these answers.
BMO LDI Funds	Total Engagements: 63 Environmental: 29 Social: 11 Governance: 12	BMO are committed to the good stewardship of their clients' investments though engagement, voting and public policy activities. Their primary purposes in engagement are to support long-term returns and to mitigate risk. They regularly engage companies before and after voting to explain their expectations and invite comment to encourage change. It is in BMO's policy to vote at all shareholder meetings on behalf of discretionary investment mandates for whom they provide voting services. In addition to this, BMO also pro-actively engage with all the counterparty banks on their approved list and can evidence this with their reporting. Examples of significant engagement include: Barclays / HSBC / Lloyds – BMO co-signed a letter to FTSE100 companies urging them to protect the mental health of their workforce during the unprecedented working environment caused by Covid-19. BMO requested companies consider developing a mental health action plan for all employees. This may include additional training for managers, increased job flexibility and clear guidance for reaching help, coupled with monitoring the use of assistance programmes to ensure the message is being heard.
BlackRock Leveraged Index-linked Gilt Funds	N/A BlackRock have not yet been able to provide this level of reporting for these funds. We are working with BlackRock to enable them to provide this in the future.	The Investment Stewardship team is responsible for encouraging sound corporate governance practices and encouraging companies to deliver long-term, sustainable growth and returns for clients through engagement. Blackrock have identified banks as being carbon-intensive through indirect emissions that occur in the value chain. Blackrock have started engaging with banks to ensure they improve their understanding of this.
BlackRock Life AQC Cash Fund	N/A BlackRock have not yet been able to provide this level of reporting for the fund. We are working with BlackRock to enable them to provide this in the future.	The Investment Stewardship team is responsible for encouraging sound corporate governance practices and encouraging companies to deliver long-term, sustainable growth and returns for clients through engagement. Blackrock have identified banks as being carbon-intensive through indirect emissions that occur in the value chain. Blackrock have started engaging with banks to ensure they improve their understanding of this.

Defined Contribution Section		
Standard Life Passive Plus IV Universal SLP	Total Companies engaged: 793 <u>Areas engaged:</u> Board Composition: 586 Oversight of strategy and risk: 534 Executive compensation: 432 Shareholder rights: 157	The default strategy for the DC Section of the Scheme is the Standard Life Passive Plus IV Universal SLP. This is a lifestyle strategy comprised of three blended funds managed by Standard Life. Due to the nature of these blended funds, there is no overall engagement or voting activity carried out by Standard Life for the funds. However, we have obtained engagement and voting information from Vanguard who is the principal investment manager of the main component funds within the default strategy. A summary of the engagement information is opposite, with further details provided in their Annual Investment Stewardship Report, which can be found here: https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2020_investment_stewardship_annual_report.pdf Vanguard do not provide engagement information at a fund level but are able to provide information on their engagements with portfolio companies at a firm level. Vanguard analyse companies on an individual level, engaging with the companies they invest to promote good corporate governance practices which integrate environmental and social risks. Vanguard were able to provides examples of engagement, such as supporting a shareholder proposal asking the board of Ovintiv to disclose ESG related risks the company was exposed to.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 30 June 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Defined Benefit Section			
BlackRock Dynamic Diversified Growth Fund	Meetings voted: 913 Votes cast: 11,864 Votes 'for' management: 11,096 Votes 'against' management: 665	**TransDigm** – BlackRock initially engaged with the company in 2019 on its lack of climate risk reporting. The company made no progress in resolving this in 2020 despite commitments to enhance disclosures. BlackRock voted for a shareholder proposal asking management to adopt quantitative greenhouse gas emissions goals and voted against the re-election of the board chair.	BlackRock use Institutional Shareholder Services' (ISS) electronic platform to execute vote instructions. BlackRock advised that they work with and closely review ISS' work however, aside from an annual due diligence and weekly review meetings, it is not evident how BlackRock monitor these processes.
Defined Contribution Section			
	Votes cast: 139,778 Votes 'for' management: 127,368 Votes 'against' management: 6,089	Vanguard are not yet in a position to provide details of significant votes at a fund level, however they do provide key votes at a firm level, which are provided on in their Annual Investment Stewardship Report. Vanguard have a dedicated investment stewardship team that evaluates proposals and casts the funds' votes in accordance with their voting guidelines (which are created by the Investment Stewardship Oversight Committee which is made up of senior officers of Vanguard). Vanguard have a track record of engaging with their portfolio companies. Vanguard believe that engagement allows them to go beyond proxy voting at a company's annual meeting and have deliberate, constructive, and results-oriented discussions with executives and directors. The level and frequency of discussions with management is influenced by the material impact to Vanguard's funds and the contentiousness of the issue at hand.	

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